4-2016

Takeover defenses in the era of shareholder activism

Sa-Pyung Sean SHIN
Singapore Management University, sshin@smu.edu.sg

DOI: https://doi.org/10.2139/ssrn.2842695

Takeover Defenses in the Era of Shareholder Activism

Sa-Pyung Sean Shin

Harvard Business School

sshin@hbs.edu

April 29, 2016

Abstract:
This paper examines the interplay between takeover defenses and shareholder activism. Using a comprehensive sample of shareholder activism events between 2006 and 2014, I find a differential impact of takeover defense measures on the likelihood of being targeted for activism; a dual-class structure or a staggered board deters activism, whereas firms with a poison pill in place are more likely to become targets. Activists are more likely to demand removal of takeover defense measures and/or sale of the target firm if the firm has a staggered board or a poison pill in place, suggesting that when takeover defenses block the market for corporate control, activists promote changes through their interventions. I also find that target firms with takeover defenses are more likely to remove those defenses and more likely to be acquired following activism, which suggests that activism can act as an antidote to takeover defenses. Finally, while many target firms adopt a poison pill in response to activist approaches, I do not find evidence that it makes for an effective defense.

I am grateful to my dissertation committee, Paul M. Healy (chair), Suraj Srinivasan, and Ian D. Gow, for their invaluable guidance and support. I am also thankful to François Brochet, Akash Chattopadhyay, Carolyn Deller, Scott Hirst, Yosub Jung, Doyoon Kim, Seil Kim, Yinghua Li (discussant), Damien Park, Jihwon Park, Eugene Soltes, Charles Wang, and workshop participants at City University of Hong Kong, Harvard Business School, HEC Paris, Hong Kong Polytechnic University, Nanyang Technological University, National University of Singapore, Singapore Management University, University of Hong Kong, and University of Illinois at Chicago for their helpful comments and suggestions. I gratefully acknowledge financial support from Harvard Business School.

Takeover Defenses in the Era of Shareholder Activism

1. Introduction

This paper examines the interplay between takeover defense measures and shareholder activism. While defense measures have evolved to protect companies from the threat of hostile takeovers, they can potentially play an important role in shareholder activism campaigns led by hedge funds and other investors. Such campaigns have become a significant phenomenon in recent years. While shareholder activists attempt to bring about changes at target firms with their significant ownership and specific plans, boards and management often resist activist demands and seek to defend their strategies and existing governance mechanisms. In fact, many companies now adopt defense measures traditionally used to prevent hostile takeovers as protection from hedge fund activists. In this paper, I examine how these defense measures now play a role in shaping activism.

I focus on three defense mechanisms which are most relevant to shareholder activism: dual-class shares, staggered boards, and poison pills (Gill et al., 2014; Schulte, Roth, and Zabel, 2014).[1] In a multi-class (mostly dual-class) capital structure,[2] insiders can hold shares with majority voting power, making it almost impossible for minority shareholders, including activists, to win a proxy contest. A staggered board acts to prevent activists from gaining control of a board in a single election – historically, no activist or hostile bidder has ever won two consecutive elections (Gill et al., 2014). A poison pill is designed to limit activist influence over a firm by preventing the activists from acquiring more than a specified percentage of the shares.

[1] My interviews with legal and strategic advisors involved on the side of both activists and boards suggest that both sides consider takeover defenses in the context of their decision to target companies or how to prevent the company from being approached by activists, in deciding the tactics during the campaign and in the likelihood of success.
[2] I use the term "dual-class" for all multi-class capital structures.

Using a sample of 1,845 publicly disclosed activism events involving hedge fund activists and other major shareholders that commenced between 2006 and 2014, I examine the dynamics between takeover defenses and shareholder activism by answering the following questions: (1) What is the effect of each takeover defense on target selection? (2) What is the effect of takeover defenses on activist demands? (3) What is the effect of shareholder activism on a company's existing takeover defenses and takeover probabilities? (4) Do companies adopt a poison pill in response to activism and is it an effective defense against activists?

The first set of empirical tests examines how the three defense measures—dual-class shares, a staggered board, and a poison pill—are associated with activists' decisions to target companies. For activists, target selection is a function of (a) the extent of potential valuation gains arising from undervaluation, or opportunities for improvement in the target and (b) the probability of successfully bringing about desired changes in the target company. In this context, takeover defenses can have two opposing effects on activists' target selection. On one hand, prior research suggests that takeover defense measures are associated with management entrenchment, in itself a possible cause of the undervaluation. Activists are likely to consider how much improvement they can bring to a firm, and firms with entrenched managers hold the promise of higher returns. Activists can also use the presence of takeover defenses as a public relations tool, emphasizing the entrenchment of the board and management in order to convince other shareholders to take the activists' side in a proxy fight.

On the other hand, defense mechanisms can deter activism by lowering the probability of success and increasing the costs for activists. The activists' expected costs increase if the defense mechanisms lower their chances of success, thus reducing their expected returns. Therefore, just

as takeover defense measures deter takeover attempts, they can discourage attempts to engage in activism campaigns.

The effectiveness of the defense mechanisms against activism varies, given that they have distinct characteristics. A dual-class structure can block activist influence and a chance to win a proxy fight, as management or management-friendly shareholders own the majority of voting power in most cases. Since activists are likely to end up in a proxy contest that is practically impossible to win, a dual-class structure can provide an effective defense against activists. A staggered board can increase costs for activists by restricting the pool of directors that they can target to one third of the board. In addition, an activist is required to hold onto shares for at least two years to make a credible threat that it would control the board, which would be costlier and riskier for the activist.

While dual-class structures and staggered boards have characteristics that make activism more difficult, poison pills may be less effective at preventing activism. Most activists do not intend to take over the firm; rather they seek support from other shareholders in enacting their policies. Given that activists do not need to own a majority of voting rights by themselves, a poison pill that limits their ownership is unlikely to prevent them from gathering support from other shareholders. In summary, the presence of defense measures is likely to be a signal of undervaluation, but whether they limit the success of activism is an empirical question.

My first empirical analysis provides evidence that having a staggered board or dual-class shares is associated with a lower likelihood of being targeted for activism, while having a poison pill is associated with a higher likelihood of being approached by activists. This result is consistent with the differential effectiveness of each defense measure as a deterrent against shareholder activism.

Second, I examine the types of demands that activists make to boards of target firms with any one of the three defense measures in place. If an activist believes that a target is undervalued due to the presence of defense mechanisms, the activist will likely seek to remove such defense mechanisms and improve corporate governance. Furthermore, if an activist believes that a company is an attractive takeover target, but defense measures are blocking the market for corporate control, the activist will also demand that the board seek a potential acquirer. I find that, when defense mechanisms are in place, not only do activists ask for the removal of these defenses, but they also make demands consistent with the failure of the market for corporate control. Specifically, activists demand that the target firm sell itself as a whole or in parts, often referred to as exploring "strategic alternatives." This evidence is consistent with activism arising to address frictions in the market for corporate control associated with takeover defenses.

Third, I analyze whether activists succeed in repealing takeover defenses and removing frictions in the market for corporate control. While the previous results suggest that activists pursue removal of takeover defenses and sale of the target companies, it is not clear whether they are successful in realizing their demands. If activist campaigns are effective, we are likely to see removal of takeover defenses and sales of the target firms. My findings suggest that, even after controlling for the recent trend towards removing poison pills and staggered boards, an activism campaign is followed by a higher likelihood of removal of a poison pill and a staggered board within two years. In addition, I find an increase in the probability of takeover within two years for the sample of target firms, despite having a poison pill or a staggered board in place. I also find that financial leverage increases and capital expenditures decrease following activism, but do not find that the effect differs according to the existence of defense measures.

Lastly, I study defensive responses to activism by target firms and their effects on activism outcomes. I test how often boards adopt a poison pill in response to an activism announcement and how that response varies with the activist's equity stake and demands. I focus on poison pill adoption because, unlike the other defenses, a poison pill can easily be adopted without shareholder approval when a firm is faced with the threat of activism (Coates, 2000). I find that, controlling for other factors, the announcement of activism increases the likelihood of poison pill adoption by 6.2%. I also find that a board's decision to adopt a poison pill is positively related to the percentage of activist ownership, demand for board seats, and demand for sale of the target. However, I do not find evidence that these poison pills adopted in response to shareholder activism are a successful defense against activist demand. I observe that the likelihood of takeover or CEO turnover is no lower in cases where companies adopted a poison pill compared to ones where they did not.

This paper contributes to our understanding of defense mechanisms and their role in shareholder activism. There is a large stream of literature on takeover defenses that examines the effects of defense measures on firm performance, valuation, and the probability of takeover. There is also an emerging stream of research on shareholder activism that studies the determinants and consequences of this new phenomenon. However, these studies have neglected to consider the effects of defense measures on shareholder activism – and especially their effects on activist target selection. Brav et al. (2008) show that poor corporate governance is associated with a higher likelihood of being targeted for activism, but they do not examine which particular defenses matter most and whether the presence or absence of defense measures affects the interaction between the

target firms and activists. My results show that the effect of a poison pill differs from those of a staggered board and dual-class shares.[3]

This paper also contributes to the literature on the effect of institutional investors' direct intervention on corporate governance and firm outcomes (Edmans, 2013). It provides evidence that shareholder activism can function to reduce friction in the market for corporate control associated with takeover defenses that might otherwise entrench managers and boards altogether. While hostile takeovers have become rare due to the availability of poison pills and other defensive measures, activism has become a new force in the market for corporate control. Activists target firms that are undervalued, in part because their management is protected by the defense measures in place, and attempt to promote changes in the defense measures themselves and push for sale of the targets. Activism thus potentially improves corporate governance of the target firm and opens up the possibility of improving the market for corporate control.

The rest of the paper proceeds as follows: Section 2 describes the prior literature on shareholder activism and takeover defenses. Section 3 describes the data and offers descriptive statistics. Section 4 examines the role of takeover defenses on activist target selection. Section 5 examines the relation between defense measures and activist demands and outcomes. Section 6 examines the board adoption of a poison pill in response to activism and the effectiveness of adopting a poison pill as a defensive strategy. Section 7 concludes the analysis.

2. Prior research and institution setting

2.1. Shareholder activism

[3] Boyson and Pichler (2014) examine poison pill adoptions during activism, but do not examine a) the effect of having a poison pill on target selection or b) the two other defense measures covered in this paper.

It is common these days to see headlines about companies being targeted by shareholder activists. Activists, mainly driven by hedge funds, buy stakes in firms that they deem undervalued and push for improvement in performance and governance. Gantchev (2013) describes shareholder activism as a sequential process. Activists initially attempt friendly negotiation with management, as a hostile campaign is costly. However, when they cannot reach an agreement, they can end up in a proxy fight, in which the activists seek board representation and pass their proposals. In such circumstances, it is crucial for the activists to convince other shareholders to side with them.

Many recent studies have examined the new phenomenon of hedge fund activism. Brav et al. (2008), Klein and Zur (2009), and Gow et al. (2014b) identify several firm characteristics that are associated with the likelihood of being targeted for activism. In general, smaller firms (small market capitalization), undervalued firms (high book-to-market), poorly performing firms (low growth or low returns) and firms in which leverage or dividend payout is low are associated with a higher likelihood of being targeted for activism (Brav et al., 2010). The present analysis hypothesizes that another factor affecting this likelihood is the presence of one of the three defense measures.

Prior studies have generally found positive consequences of shareholder activism. Brav et al. (2008), Klein and Zur (2009), and Gow et al. (2014) find a positive and significant stock market reaction to announcements of activism campaigns. Studies have also investigated reasons for these positive returns. Klein and Zur (2009) find that activists' ability to transfer wealth from debtholders to stockholders generates positive returns as activists demand reductions in a target firm's cash holdings and increases in its leverage. Bebchuk et al. (2013) also find increases in operating performance, such as return on assets, both in the short and long run. Greenwood and Schor (2009) emphasize activists' ability to force target firms into takeovers as a source of shareholder gains. I

contribute to the literature by providing evidence that activists also bring changes to those firms with defense measures, such as the removal of the defense measures themselves and a drive towards more takeover activities.

2.2. Takeover defenses

Takeover defenses have been developed to protect companies from outside pressures, especially hostile takeover attempts by corporate raiders. Examples of takeover defenses include a dual-class capital structure, a staggered board, and a poison pill.

2.2.1. Dual-Class shares

A dual-class capital structure is a type of stock structure that involves two or more classes of stocks, such as Class A and B shares. These different classes of stocks have different voting rights; for example, the superior class might have ten votes per share, while the inferior class has one vote per share. The superior class with higher voting rights is owned by management or management-friendly investors, and is usually not publicly traded (Gompers et al., 2010). This structure limits the level of influence the non-management shareholders can have on the management or insiders. Gompers et al. (2010) find that insiders on average hold 60% of the voting rights compared to 40% of the cash-flow rights in dual-class firms. Even though the management does not actually own a majority of shares, it can still hold voting control with a majority of voting rights. This arrangement effectively prevents the management from losing any kind of proxy contest. Therefore, a corporate raider or even an activist would be reluctant to target these firms. The New York Stock Exchange (NYSE) and NASDAQ do not allow a dual-class capital structure to be introduced at a post-IPO stage.

2.2.2. Staggered Board

A staggered board is a type of board structure in which only a fraction (usually a third) of directors are elected each year. For example, if a board consists of nine directors, three directors would be elected for a term of three years. When a staggered board is in place, it takes at least two years for any hostile bidder or dissident to control the board. This structure thus effectively prevents a potential acquirer from taking control of the board and delays takeover attempts. Bebchuk et al. (2002) point out that neither a hostile bidder nor an activist has ever won two successive elections in a staggered board.

While it is not impossible, it is difficult to introduce a staggered board following a company's IPO. Doing so requires shareholder approval, and it is highly likely that institutional investors would disapprove the proposal. ISS and Glass Lewis also oppose proposals to stagger a board, while they support proposals to de-stagger a board.

2.2.3. Poison Pill

A poison pill, more formally called a shareholder rights plan, gives all current shareholders with the exception of a potential acquirer the right to buy an extra share at a discounted price. A poison pill is triggered when the potential acquirer holds more than the threshold level of stocks in a firm (typically 15-20%). It prevents a potential acquirer, or a corporate raider, from accumulating more than a threshold ownership level, since holding more than this level would dilute its ownership, typically by half. Historically, a poison pill has been the most powerful tool against any hostile takeover attempt (Catan and Kahan, 2015).

A special kind of poison pill has been developed recently in response to the popularity of hedge fund activism– *the 13D poison pill*. Such a poison pill is triggered if an activist shareholder, who files a Schedule 13D with the SEC, gains more than 10 percent ownership, while a passive shareholder, who files a Schedule 13G, can hold up to 20 percent before the poison pill is triggered.[4] The 13D pill is specifically designed to limit activists' influence, since their maximum ownership is limited to 10 percent. In this paper, I examine whether these poison pills are effective against activists.

Unlike a dual-class capital structure or a staggered board structure, a poison pill requires minimal effort to adopt or repeal. It does not need approval from shareholders; it can be instituted at a board meeting. More and more firms, therefore, are repealing their poison pill and instead waiting until a poison pill becomes necessary to adopt one, commonly called a "shadow pill" (Coates, 2000).

2.2.4. Takeover defenses and consequences

Ambrose and Megginson (1992) and Bebchuk et al. (2002) find that poison pills and staggered boards reduce the likelihood of a takeover. These defenses can be beneficial for shareholders if the board has adopted them to increase its bargaining power with potential acquirers, which would increase the control premium received by shareholders.

However, they can also be harmful to shareholders if they have been adopted to personally benefit the board or specific managers—for example, by allowing them to retain their positions as top executives (Ruback, 1988). Prior research suggests that these takeover defense measures are

[4] Under Rule 13D, an investor with ownership of stock over 5% of the company needs to file a Schedule 13D with the SEC. The information has to be disclosed within 10 days of the transaction. Schedule 13G, which is shorter than Schedule 13D, can be used if an investor's ownership of stock is over 5% of the company, but the owner does not intend to actively get involved with the management.

indeed associated with management entrenchment and firm undervaluation. Malatesta and Walking (1988) and Ryangaert (1988) find negative market reactions to announcements of poison pills, which the authors attribute primarily to management entrenchment.[5] Bebchuk and Cohen (2005) and Cohen and Wang (2013) find lower value associated with staggered boards while Masulis et al. (2007) find more value-destroying acquisitions by firms with staggered boards.[6] Gompers et al. (2010) find that firm value decreases with higher voting rights held by insiders in dual-class firms. While existing research has mainly focused on the effect of defense measures on takeover activities and valuation outcomes, this paper addresses the interplay between defense measures and shareholder activism, which can potentially affect each other.

Prior research has developed measures that, using multiple takeover defense provisions, can comprehensively capture the quality of corporate governance. Gompers et al. (2003) created the shareholder rights index, called the G-Index, based on 24 provisions. Bebchuk et al. (2009) created a sub-index of the G-Index, called the Entrenchment Index (E-Index), focusing on (a) supermajority voting requirements for charters, bylaws, and mergers, (b) classified boards, (c) poison pills, and (d) golden parachutes. However, these indices do not capture the effects of individual measures on the quality of corporate governance, and there is no single "best" measure of corporate governance since firms' circumstances vary (Bhagat et al., 2008). For this reason, Cremers and Ferrell (2014) look at the effects of individual takeover defenses in their examination of firm values.

[5] Brickley et al. (1994), however, show that "the average stock-market reaction to announcements of poison pills is positive when the board has a majority of outside directors and negative when it does not." Comment and Schwert (1995) also find that poison pills increase takeover premiums without decreasing takeover likelihood.

[6] On the other hand, other papers have found opposite results. Faleye (2007), for example, found higher bid premiums for firms with staggered boards and firms with poison pills.

Brav et al. (2008) include the G-index in one of their models of activist target selection so as to see how a firm's governance characteristics are associated with the likelihood of activism. While they find that a higher G-index (that is, lower governance quality) is associated with a higher likelihood of activism, the model sheds no light on which defenses matter in which direction in the context of shareholder activism. Instead of looking at an aggregated measure, I focus separately on the three specific provisions—dual-class capital structure, staggered board, and poison pill—which are most relevant to boards and activists during an activism campaign.[7]

2.3. Takeover defenses and shareholder activism

Activists investigate potential target companies and assess the probability of bringing about positive changes given the potential opposition from management, the board, and other investors. After careful assessment, they will engage in a campaign only if the expected returns outweigh the expected costs. Takeover defenses can have two opposing effects on this decision-making process. On one hand, as prior literature suggests, firms protected by takeover defenses are likely to be the very firms that are undervalued, and are thus more likely to be targeted by activists. If defense measures are a signal of entrenched management or weak governance, activists may be able to add value by negotiating changes such as replacing management or removing the defense mechanisms. Furthermore, the presence of takeover defenses can be a useful public relations tool against management. Proxy advisory services such as Institutional Shareholder Services (ISS) and Glass-

[7] There also exist shareholder-friendly mechanisms that can help activists. The ability to call a special meeting can be used by activists to initiate an activism campaign at any time they want instead of waiting for a regular shareholder meeting, which only happens once a year. Action by written consent can be used by activists to pass some shareholder proposals with a certain level of shareholder consent without holding a shareholder meeting. These mechanisms enable an activist to bring a surprise attack against the target firm. However, because I have found their effects to be insignificant, I do not discuss or report their results.

Lewis (GL) are generally against takeover defenses, and powerful takeover defense measures such as poison pills are often considered harmful to shareholders.

On the other hand, defense measures can deter activist approaches if they reduce activists' expected returns by increasing the cost and decreasing the probability of success. Activists need to invest resources and energy into each campaign when faced with opposition from management and the board (Gantchev, 2013), and if the probability of success decreases due to takeover defenses, their expected costs will be higher and expected return lower. Thus, just as takeover defense measures deter takeover attempts, they can also discourage attempts to engage in activism campaigns.

Each of the three takeover defense measures examined in this study has been effective against hostile takeover attempts by corporate raiders in different ways. However, despite their efficacy in preventing hostile takeovers, the effectiveness of the defense measures in the context of shareholder activism may differ. What might have been a powerful defense against corporate raiders may not be a strong defense against shareholder activists. With a dual-class capital structure, management or management-friendly shareholders often own the majority of voting rights. For this reason, if management or the board disagrees with an activist's thesis and plan, it would be practically impossible for the activist to win a proxy fight to force changes on management. This means that a dual-class voting structure is ex-ante likely to preclude an activist fund from engaging in a campaign, making it a powerful defense against shareholder activism.

A staggered board can also be an effective defense against shareholder activism. On a staggered board, only one-third of the directors are replaced in each election. This means that even the best possible outcome—winning one-third of the seats—would not give the activists enough leverage to take control of the firm. Also, a staggered board makes it harder for activists to replace

the directors they consider the weakest or poorest-performing, since those directors may not happen to be up for election that year. If the most talented and best-performing directors are up for election, it would be much more difficult to convince other shareholders to vote for the activists' candidates. It is therefore more difficult for an activist to make a credible threat to gain control of the board. Such a threat can itself be a powerful tool for an activist, as illustrated by Starboard's campaign against Darden Restaurants. Starboard waged a proxy fight against Darden and successfully replaced the entire board, winning all Darden's board seats. Had a staggered board been in place, Starboard would have been unable to make this change in a single year, and may not have even opted to initiate the campaign.

A poison pill, on the other hand, may not be an effective defense against shareholder activism. While a poison pill can limit the percentage of shares an activist can own in a target firm, it does not prevent an activist from winning a proxy contest. When management or the board disagrees with the activist's agenda, activists can convince other shareholders to side with them to win a proxy contest. The possibility of gaining support from other shareholders can therefore limit the effectiveness of a poison pill as a defense.

Overall, while all three measures are likely to be an indicator to an activist of potential value to be unlocked, the effectiveness of each defense measure is likely to be differentially associated with the probability that activists will achieve their objectives. This situation raises the empirical question of how each of the takeover defenses is differentially associated with the likelihood of activism. I examine the following aspects of this question about activism and defense measures: First, the effect of each takeover defense on target selection; second, the effect of takeover defenses on activist demands; third, the effect of shareholder activism on a company's

existing takeover defenses and takeover probabilities; and fourth, whether companies adopt a poison pill in response to activism and whether it can be an effective defense against activists.

3. Data and descriptive statistics

3.1. Activism events

My data on shareholder activism come from the FactSet SharkWatch database, which contains information on activism events—primarily in the United States—including the types of demand the activists made and whether they resulted in success. I include all publicly disclosed activism events that started in the period of 2006–2014 in the United States. I exclude corporate control contests initiated by another corporation and target firms that are investment trusts or mutual funds; I also exclude activism consisting only of routine shareholder proposals submitted under Rule 14a-8. The resulting sample consists of 1,845 activism events (see Table 1), primarily conducted by hedge fund activists or other major shareholders (i.e., Schedule 13D filers).

Panel A of Table 1 presents the number of activism events by year. While there are more activism events during the period of financial crisis, there is a consistent stream of events throughout the sample period (see Figure 1). Panel B of Table 1 presents the number of activism events by industry. 13% of the target firms were from the business-to-business service industry and 8% and 7% of the targets were from the banking and electronic equipment industry, respectively. The proportion is consistent with the percentage of firms found in each industry for the population of listed firms in the United States. Panel C of Table 1 presents the number of activism events by state of incorporation. While the largest percentage (i.e., 62%) of target firms were incorporated in Delaware, this is also consistent with the percentage of firms incorporated in Delaware in the population.

3.2. Defense measures

My data on defense measures come from the FactSet SharkRepellent database, which contains information on each firm's use of such measures as poison pills, staggered boards, and unequal voting structures. It also provides a detailed history of charter and bylaw changes and poison pill replacements and amendments.

Descriptive statistics on takeover defense measures by year (see Panel A of Table 2) show that two of the three defense measures that I focus on have been widely used: from 2006 to 2013, 52.5% of the firms in the sample had a staggered board and 23.0% had a poison pill. In contrast, only 8.2% of the firms had a multi-class capital structure. Figure 2 shows a decreasing trend of having a staggered board or a poison pill over the sample period; while 58.1% of the firms had a staggered board and 32.6% had a poison pill in 2006, those percentages had dropped to 42.6% and 15.6%, respectively, by 2013.[8] Panels B and C of Table 2 look at the activism and non-activism samples, respectively. Univariately, we see that fewer companies in the activism sample have a staggered board and more companies in the activism sample have a poison pill (See Figure 2).

3.3. Other variables

Consistent with prior literature (Brav et al., 2008; Gow et al., 2014), I control for the following variables when examining the relation between takeover defenses and shareholder activism: firm performance (*Size-adj. return, Return on assets, Sales growth*), firm size (*Market value*), book-to-market ratio (*Book-to-market*), leverage (*Leverage*), cash holdings (*Cash*),

[8] In the meantime, a Factiva search provides anecdotal evidence for the increasing use of poison pill against activism campaigns. While search result numbers decrease over time for the keyword "poison pill" by itself, the combined results for the keywords "poison pill" and "activism" increase year by year.

dividend payout ratio (*Dividend*), the number of analysts covering the firm (*Analyst*), institutional holdings (*Institutional holdings*), and history of the firm (*Firm age*). I also control for governance characteristics such as the board size (*Board size*) and the percentage of outside directors (*Outside directors*).

4. Takeover Defenses and Activist Target Selection

4.1. Empirical analysis

To examine how each of the takeover defense measures in place is differentially associated with the probability of being targeted for activism, I estimate the following specification for all firm-years in my sample:

$$\textit{Pr(Activism)} = F(\textit{Dual-class, Staggered board, Poison pill, Controls, Year fixed effects, Industry fixed effects}), \quad (1)$$

where the dependent variable, *Activism*, equals one if a firm was the target of an activist campaign during the year, and the main variables, *Dual-class, Staggered board, and Poison pill,* equal one if a firm had each defense measure in place at the beginning of each year.

Panel A of Table 3 presents the results from estimating Equation (1) as a linear probability model, in which the sample is all firms listed on both CRSP and Compustat between 2006 and 2014. The results are consistent when I run logistic regression models.[9] The dependent variable measures whether an activist targeted a given firm during each fiscal year. All control variables are measured at the fiscal year-end of the previous year so that I control for the effects of financial position, operating performance, and other governance characteristics in the previous year on the likelihood of activism in the year of interest. The status of each takeover defense is also measured

[9] For ease of interpretation of the regression results, I report only the results from using linear probability models. See Appendix Table A2 for the regression results using logistic models.

at the fiscal year-end of the previous year (i.e., at the beginning of the year). For example, if an activist filed Schedule 13D on May 12, 2012, I measure whether each takeover defense was in place as of December 31, 2011. Because a poison pill can be adopted without shareholder approval, boards can adopt one whenever there are suspicious stock-trading activities. If a board suspects that an activist is approaching the firm, it might preemptively adopt a poison pill, which can result in reverse causality; that is, adoption of a poison pill would not cause activism, but rather activism would cause the adoption of a poison pill. Therefore, I exclude observations in which a poison pill was adopted within the three months preceding the announcement of an activism event.

Columns (1) through (3) separately examine the effect of having a dual-class capital structure (*Dual-class*), a staggered board structure (*Staggered board*), and a poison pill (*Poison pill*), respectively, on the probability of being targeted for activism (*Activism*). The negative coefficients for *Dual-class* in Column (1) and *Staggered board* in Column (2) imply a decrease of 1.3 and 0.6 percentage points, respectively, in the likelihood that a firm with those defenses will be targeted for activism. On the other hand, the positive coefficient for *Poison pill* in Column (3) implies an increase of 1.3 percentage points in the likelihood that a firm with a poison pill will be targeted for activism.

Column (4) includes all three defense measures in one regression in order to control for the effect of each takeover defense on the others. The effects are consistent with those reported in Columns (1) through (3). Given that about 4.5% of the sample is targeted for activism, the existence of defense measures is not only statistically but also economically significantly associated with the probability of being targeted for shareholder activism. The estimates in Column (4) suggest that having a dual-class capital structure or a staggered board is associated with a 30% decrease or a 13% decrease in the likelihood of being targeted for activism, whereas having a

poison pill is associated with a 30% increase in the likelihood of being targeted for activism. These results suggest that the three defense measures have differential effectiveness on shareholder activism.

I also test whether the effectiveness estimates of the defense mechanisms are statistically distinguishable from each other. The estimate for *Poison pill* is statistically different from that for *Dual-class* as well as from *Staggered board* (F-stat of 16.43 and 15.39, respectively). However, while a difference in the coefficients is visible (0.57) between *Dual-class* and *Staggered board*, they are not statistically distinguishable from each other (F-stat = 0.86, p-value = 0.35).

Beyond the potential ineffectiveness of the poison pill as a defense device against activists, plausible explanations for the attraction effect of poison pills include its signaling of managerial entrenchment and its usefulness as a public relations tool against management during the activism campaign, especially given the current trend of repealing poison pills. Most companies with poison pills have been rescinding and putting them on the shelf (Coates, 2000), as we have seen in Figure 2. Unlike a dual-class structure or a staggered board, a poison pill is easily repealed, as doing so requires only board approval. Therefore, the presence of a poison pill is entirely dependent on the willingness of the board. Some boards, however, have not caught up on this trend and still retain poison pills from years ago. Activists are in the business of shaking up weak boards and correcting poor performance and/or undervaluation rooted in board and management entrenchment; a legacy poison pill gives a signal to activists that they might have found a good target.

Moreover, a poison pill can be a good public relations tool against the target firm. A poison pill is often portrayed as harmful to shareholders, and proxy advisory services such as Institutional Shareholder Services (ISS) and Glass-Lewis (GL) generally oppose the measure, especially when it lasts for more than a year without shareholder approval. Therefore, the presence of a poison pill

can help activists convince other investors to side with them against entrenched (and presumably underperforming) management if it comes to a proxy fight.

Additionally, the recent adoption of a poison pill can signal to activists that the firm may recently have been or is likely to be a takeover target and that there is an opportunity to push it into a takeover deal. As stated above, many companies still have a poison pill "on the shelf," which means that their boards can adopt it in the event of a threat. Therefore, if a board has recently adopted a poison pill, it probably experienced—or at least sensed—a takeover threat. I examine whether recently adopted poison pills are associated with the probability of activism because there is a high potential for future takeover attempts and management resistance to them. In Column (5) of Panel A of Table 3, I include an indicator for a poison pill adopted less than a year before the year-end. I find that the coefficient for *Pill adopted < 1 year* is positive and significant, suggesting that activists are more likely to target firms that have adopted a poison pill most recently. This, in turn, implies that activists might believe that other investors are interested in a takeover and therefore might intervene in order to seize the opportunity.[10]

The coefficients for the control variables are consistent with the results found in prior studies. Higher cash holdings, a higher number of analysts covering the firm, and higher institutional ownership are associated with a higher likelihood of activism, while higher market value and stock market performance are associated with a lower likelihood of activism.

I use a propensity score matching procedure to ensure that my results are not driven by significant differences between the firms with and without defense measures. Overall, the results in Panel B of Table 3 show once again that while a poison pill is associated with a higher likelihood of being targeted for activism, a staggered board is associated with a lower likelihood. In order to

[10] As discussed earlier, in order to control for a potential threat of activism, I do not include any poison pill that was adopted within three months prior to the activism announcement.

achieve better covariate balance, I impose a caliper (radius) of 0.0001 in Column (2); the differences in the control variables between the treatment and control samples are insignificant. The results are consistent, and I additionally find that a dual-class structure is also associated with a lower likelihood of being targeted.

4.2. Cross-sectional variation: size

I next examine the circumstances under which takeover defenses matter in activists' target selection. The importance of takeover defenses can vary depending on firm characteristics. I therefore use a cross-sectional test to examine the circumstances under which a given takeover defense would matter more in the context of target selection and in which direction.

I specifically investigate whether larger firms with takeover defenses are less likely than smaller firms with takeover defenses to be targeted for activism. An activist would have to acquire a large number of shares to become a threat to management. Activists hold onto shares for 2-3 years on average (Gow et al., 2014b), as it is very costly for them to hold a large amount of shares in one firm for a longer time. Holding onto shares is especially costly in the case of target firms with staggered boards, because it generally takes a long time for activists to gain a significant number of board seats. It costs them even more to hold onto significant ownership of stocks when the target firm is large. Therefore, the larger the firm, the more powerful the defense effect of a staggered board and the less likely it is to become a target. Consistent with this hypothesis, Column (1) and Column (4) of Panel C of Table 3 show that the coefficient for the interaction between *Market value* and *Staggered board* is negative and significant. The coefficient for *Market value* is negative and significant, suggesting that the size of the firm is negatively associated with the

likelihood of activism.[11] I do not, however, find significant interaction effects between *Market value* and *Dual-class* or *Poison pill*.

5. Takeover defenses and activist demand and outcomes

5.1. Activist demand

Having established the circumstances under which activists are likely to target companies, I now examine what types of demand activists are most likely to make when target firms have defense measures in place. In general, takeover defenses block the market for corporate control; firms that otherwise would be targets for takeover due to poor management performance are protected and the management is more likely to be entrenched. Firms with strong defense measures are therefore more likely than firms with weaker defense measures to receive demands to remove them so as to improve governance of the target and also improve its performance.

If takeover defenses have been blocking the function of the market for corporate control, activists would not only demand removal of those defenses but also directly demand the sale of the target. Indeed, Karpoff et al. (2015) find that staggered boards and unequal voting structures do deter takeovers, though they find mixed evidence for poison pills. It makes sense, then, for activists to demand a sale of the company, as they can then obtain their returns more quickly and reliably. Therefore, I predict that activists are more likely to demand that a target firm seek a potential acquirer if the firm has takeover defenses in place than otherwise.

I focus on the sample of activist target firms and examine what kinds of activist demand and future outcomes are associated with defense mechanisms in place prior to activism campaigns. The FactSet SharkWatch database provides data on the types of demand activists make for the

[11] Note that the positive and significant coefficients for *Staggered board* are due to the existence of interaction terms. The mean value of *Market value* is 2.8, so the average effect of *Staggered board* is still negative and significant.

majority of activism campaigns as well as whether those demands were successfully implemented. Table 4 describes the types of demand made in this sample. The most popular demand during the sample period is board representation (*Board seat)*, followed by looking for opportunities to sell the target (*Sale of target*) and finding strategic alternatives[12] (*Strategic alternatives).* The success rates for *Board seat*, *Strategic alternatives*, and *Sale of target* are 64%, 38%, and 23%, respectively. The rate of 23% represents a high degree of success, considering the low frequency of mergers in a given year.

Activists tailor their demands to the target firm's problems and consider whether existing takeover defenses are at least one of the causes of undervaluation. Therefore, I examine how the three takeover defenses, when already in place, relate to the types of demand activists make. Table 5 describes which of the demands is significantly associated with each defense measure. The results from estimating the reverse regression without an intercept [13] show that all three defense measures are significantly associated with demands for *Removal of takeover defense* and *Strategic alternatives*. Furthermore, *Poison* pill is associated with demand for *Sale of target*, which suggests that a poison pill might have been blocking the market for corporate control and that the activists want to remove the block. Also, *Dual class* is negatively associated with demand for *Board Seat*, which implies that dual-class structure is such a powerful mechanism that the activists do not think it would be possible to get a board seat. Overall, the results suggest that having defense mechanisms in place is associated with defense-related and takeover-related demands.

5.2. Activism outcomes

[12] The term "strategic alternatives" is commonly used by activists to broadly demand mergers, acquisitions or divestitures.
[13] I do not include an intercept so that all demands are present in the table of results.

5.2.1. Removal of defense measures

Having demanded removal of takeover defenses and sale of the target, do activists bring about real changes? Here I examine whether takeover defenses are more likely to be removed and whether the target is more likely to be taken over despite having defense measures following activist intervention.

Table 6 presents results from estimating the following equation:

Pr(Removal of takeover defense in year t+2) = F(Activism, Controls) (2)

where the dependent variable is an indicator for takeover defense measures in place in the two years following the activism event (t + 2). The sample for each analysis is a subsample of firms that has, respectively, a dual-class capital structure, a staggered board, and a poison pill. Coefficients for $Activism_t$ in Columns (1) and (2) are positive and significant, suggesting that activism is associated with a higher likelihood of removal of staggered boards and poison pills. Specifically, a staggered board is 11.3 percentage points more likely to be de-staggered and a poison pill is 5.5 percentage points more likely to be repealed in the following two years after a firm is the target of activism. In other words, shareholder activism is associated with removing the takeover defenses that have been documented to entrench managers and thus is associated with improvement in shareholder rights and bringing positive changes to corporate governance. In contrast, a dual-class structure seems rigid and is unlikely to change following activism campaigns.

5.2.2. Takeover probabilities

To test whether takeover probabilities increase after shareholder activism, I estimate the following model:

Pr(Sale of target by year t+2) =
F(Activism, Dual-class, Staggered board, Poison pill, Controls) (3)

where the dependent variable is an indicator for sale of the target within two years from the year-end. Control variables include performance variables that can affect both the probability of being targeted for activism and the probability of being taken over by another firm (Palepu, 1986; Ambrose and Megginson, 1992).

Table 7 presents the results from estimating the model above. The coefficients for $Activism_t$ in Columns (2) through (5) are positive and significant, suggesting that the firms targeted by activists are 11.6 to 13.1 percentage points more likely to be taken over in the two years following activism. In order to see whether activism has incremental effects for firms with a poison pill, a staggered board or a dual-class capital structure, I interact $Activism_t$ with each takeover defense indicator, but the interaction effects are not significant. I do not provide evidence that activism has any incremental effect on the takeover probability of firms with these three defenses. However, the F-tests for the poison pill sample with activism and the staggered board sample with activism suggest that firms with these defense mechanisms are still more likely to be taken over in the two years following activism despite having the defense in place. Consistent with Greenwood and Schor (2009), shareholder activism plays a role in improving the market for corporate control, and I find that these results apply even to those firms with a poison pill and/or a staggered board. In contrast, I do not find evidence that activism is associated with higher likelihood of takeover when a dual-class structure is in place, suggesting the power of a dual-class structure as a defense mechanism.

5.2.3. Financial policies

Table 8 examines changes in financial policies such as capital expenditure and leverage ratios. Prior literature has found that activism generally reduces agency costs as evidenced by

increased leverage and reduced capital expenditures (Brav et al., 2010; Klein and Zur, 2009), and that defense measures are associated with a higher probability of management entrenchment. If activists are successful at bringing about positive changes to the target firms, it is possible that the effects would be larger for the firms with defense mechanisms, as these firms are more likely to have entrenched managers with potentially more room for improvement in financial policies. However, it might be difficult to bring about these changes relatively quickly when there are defense mechanisms that protect management and the boards at the same time. Therefore, I examine the effect of activism on the financial policies of targeted firms and ask whether the effects of activism are greater or smaller depending upon existence of defense measures.

In Table 8, *Pre-activism, Activism* and *Post-activism* are indicators for the two years prior to, the year of, and the two years following the activism announcement, respectively. I divide these indicators into two by the existence of each defense measure.[14] Dependent variables are *Leverage* and *Capital expenditure*, respectively, for Panels A and B. The coefficients for these indicators show the level of dependent variable in each period compared to the control sample (i.e. non-activism years), and the F-test between *Pre-activism and Post-activism* shows the significance of the difference between periods before and after activist intervention. Lastly, the F-test between the activism sample with a takeover defense and the one without shows the difference in the effect of activism on the dependent variable between the activism sample with and without the defense measure.

In Panel A of Table 8, I find increases in leverage on average following activism. Leverage significantly increases by 2.9% for the sample with a staggered board, while target firms without a staggered board increase leverage by 5.1%. Similar effects are found with poison pill and dual-

[14] For instance, *Staggered board Pre-activism* is an indicator for firms with a staggered board during the two years prior to the activism announcement.

class structure firms. However, the increase in leverage is not significantly different between the subsamples (Poison pill vs. No poison pill, Staggered board vs. No staggered board, Dual class vs. No dual-class) except for the poison pill case; the increase in the leverage ratio following activism is significantly larger for the sample with a poison pill in place than for the sample without.

I find similar effects with capital expenditure, except for the opposite sign. Panel B of Table 8 reports that capital expenditure significantly decreases by 1.4% - 1.9% for each category of the activism sample. However, the reduction in capital expenditure is not significantly different between the subsamples with and without each defense measure.

6. Board response to shareholder activism

6.1. Poison pill adoption

In this last section, I study whether target firms without a poison pill adopt one in response to an activist approach. Many studies have focused on poison pills (with their more formal name "shareholder rights plans") since Marty Lipton of Wachtell, Lipton, Rosen & Katz invented the measure in 1982 in response to the wave of takeovers by corporate raiders. A poison pill makes it costly for a potential acquirer to own more than the threshold level that triggers the pill, which would typically dilute that acquirer's ownership by half. A flip-in poison pill, in particular, is so powerful that no company with one in place has ever been acquired (Catan and Kahan, 2015). This powerful defense tool is now being adopted by boards to thwart activists. For example, when Daniel Loeb of Third Point approached Sotheby's in 2013, asking for changes in strategy and leadership, Sotheby's responded by adopting a poison pill, limiting activist ownership to no more than 10 percent.[15] Here I statistically test whether such cases happen frequently.

[15] Despite this effort, Loeb eventually gained three seats on Sotheby's board.

For a sample of firms without a poison pill in place, I test whether having an activism event during the year is associated with adopting a poison pill. Column (1) of Table 9 shows the positive and significant coefficient for *Activism*; controlling for other factors, firms that are targeted by activists are 6.2 percentage points more likely to adopt a poison pill than firms that are not.

Although poison pills may not be a good defense mechanism against activism, as discussed, there are several reasons why boards still might want to adopt one in response to activism. First, even though activists do not typically intend to take over the company, a board may want to rule out the possibility, especially when activists are capable of such actions. It is also helpful to limit activists' influence through stock ownership in preparation for a potential proxy fight. Second, poison pills prevent multiple activists from forming a group (a method called "wolf-packing"[16]). Finally, poison pills that include derivative-based positions in the definition of the term "beneficial ownership" can prevent activists from using derivatives to accumulate ownership.[17]

Despite the poison pill's success against takeovers, however, it is not clear whether this method can successfully defend management against activists. As discussed earlier, most activists are not seeking control, unlike corporate raiders. Rather, they seek to change the management or the strategy of the target, often by obtaining seats on the board. The threat of diluting ownership does not necessarily prevent activists from achieving these goals. If activists can convince other shareholders to vote for their director nominees or to vote against management in shareholder elections, then a poison pill would not matter. Also, as powerful as the poison pill is in deterring hostile takeovers, shareholders do not universally welcome it. Sikes et al. (2014) show a significant negative market reaction to poison pill adoptions related to net

[16] This is when a number of hedge funds with relatively small stakes in the target corporation communicate informally and share strategies and goals for an activism campaign (Latham and Watkins, 2014).
[17] Activists do not have to disclose their derivative positions until their physical stock ownership crosses five percent, whereupon they must file a Schedule 13D (Latham and Watkins, 2014).

operating losses (NOLs). They find that investors appreciate a poison pill only when it is truly adopted to protect against NOLs and not to entrench management. The same logic seems applicable to activism, especially because activism brings more investor scrutiny and shareholder attention to board and management behavior; the board would adopt a poison pill only if it believed it necessary to protect legitimate shareholder value.

Therefore, I predict that a board is more likely to adopt a poison pill when it believes that the benefits outweigh the costs; for example, when activists make demands related to potential (hostile) takeovers and when activists are thought to be a real threat to the company due to their large ownership.

In the following regression model, I focus only on the activism sample and investigate the circumstances under which boards adopt poison pills to thwart activists.

Pr(Poison pill adoption) = F(Activist ownership, Activist demands, Controls) (4)

It does not make sense for a board to adopt a poison pill whenever activists approach the company. Doing so could worsen the situation if shareholders are opposed to such adoption. Rather, it will adopt the poison pill if it sees the activists as a real threat and believes that a poison pill would defend it from the threat. Column (2) of Table 9 shows that higher activist ownership is associated with a higher likelihood of poison pill adoption; boards see a greater threat of takeover and thus are more likely to consider the poison pill remedy. Activist demands to seek an acquirer or to remove defense measures are also positively associated with poison pill adoption. These demands are all directly associated with a takeover attempt and adopting a poison pill signals the board's resistance. A merger-related demand by an activist is associated with a 14 percentage-point increase in the likelihood of adopting a poison pill. Also, activist demand for executive turnover is associated with a 14.1 percentage-point increase in the probability of adopting a poison

pill. On the other hand, when activists want to block an acquisition, I find a negative association with the probability of adopting a poison pill.

6.2. Effectiveness of poison pill adoption

I also examine how poison pill adoption is associated with eventual outcomes for activism targets. If adoption thwarted activists, there would be less likelihood of takeover, CEO turnover, or board seats granted to activists. However, if it were not so effective, for the reasons mentioned in the previous section, its relation with such outcomes would not be significant. I also investigate shareholder perceptions of poison pill adoptions by examining shareholder support in director elections. Poison pill adoption does not have to be approved by shareholders, but if they disagree with the board, their dissatisfaction could be reflected in director elections.

To see if poison pill adoption is associated with changes in activism outcomes, I examine (1) whether a firm is less likely to be taken over, (2) whether a board seat is less likely to be granted or won, (3) whether CEO turnover is less likely, and (4) whether shareholder support during director elections is affected. The main variables of interest are *Pill adopted*, an indicator for a firm that adopted a poison pill after an activism announcement, and *Pill in force,* an indicator for a firm that already had a poison pill in place before an activism announcement. I estimate the following equation and the results are presented in Table 10.

Activism outcomes = F(Pill adopted, Takeover defenses, Controls) (5)

Columns (3) and (5) of Table 10 suggest that poison pill adoption (*Pill adopted*) is positively associated with gaining board seats and CEO turnover. However, as reported in Table 9, boards seem more likely to adopt a poison pill the greater the activists' ownership and the more

extensive their demands. Therefore, these positive coefficients might reflect the power that activists have over the target firm, which leads to the adoption of poison pills.

Column (7) of Table 10 shows that poison pill adoption is not welcomed by other shareholders. *Pill adopted* is associated with a 3.8% decrease in the average support for directors up for election. In Columns (2), (4), (6), and (8) of Table 10, I interact poison pill status with staggered board status (*Staggered board* × *Pill adopted* and *Staggered board* × *Pill in force*) and find that having a staggered board can weaken the effect of poison pill adoption, while poison pill adoption is associated with lower shareholder support for directors only if a staggered board is in place. This suggests that while a staggered board plays a powerful role in protecting management, shareholders become more sensitive to the likelihood of management entrenchment when a firm has both a staggered board and a poison pill in place when activists approach.

Overall, I do not find evidence that a poison pill adopted in response to activism is an effective defense mechanism. This is not surprising given my prior finding that a poison pill does not deter activists from targeting the firm. Together these findings imply that a poison pill does not serve a defensive purpose.

7. Conclusion

I have examined the interplay between takeover defense measures, which have existed for more than thirty years and have been at the core of the corporate governance environment, and shareholder activism, a new stimulus to the corporate governance environment. While one of the main goals of shareholder activism is to improve the corporate governance of a firm, takeover defense measures are important factors when choosing a target as well as important outcome measures to investigate.

I first examine how different defense measures are associated with activist target selection and find that a staggered board and a dual-class structure deter activists from targeting the company. I argue that the deterrent effect of a staggered board comes from the fact that it not only makes it more difficult for activists to control the board, but prevents them from targeting poorly performing directors for replacement during a proxy fight. On the other hand, I find that a poison pill that is already in force does not deter activists, but rather attracts them. I argue that this is because the poison pill signals poor board engagement and entrenched management, especially in this era of repealing poison pills. It can also be used as a public relations tool against management during an activism campaign. Furthermore, if a poison pill has been recently adopted, it also signals a potentially better takeover opportunity.

I next examine the types of demand activists make and the resulting outcomes in relation to defense measures. When defense measures are already in place, activists are more likely to demand their removal and push for a takeover in the case of a poison pill. This suggests that activists act as an antidote to poison pills and other defense measures and make efforts to strengthen the market for corporate control. Do activists achieve what they wanted to achieve? The outcome results suggest that targets with a staggered board and a poison pill are more likely to remove those measures following activism and are more likely to be taken over in the two years following activism than non-targeted firms with the same defenses. It is unclear whether the removal of takeover defenses and advocating a takeover are necessarily value-maximizing for companies or shareholders, but activism reduces managerial control and creates new options for investors and management. I also report an increase in leverage ratio and a decrease in capital expenditure following activism, but do not find significant difference between targets with and without defense measures in place.

In the last section, I find that the percentage of activist ownership and activist demands for merger- or takeover-defense-related demands are associated with a higher likelihood of poison pill adoption following activist engagement. However, it is not clear whether a poison pill provides a successful defense for such firms.

Takeover defenses are still important and relevant factors in the era of shareholder activism with differential effectiveness as a defense. Overall, I contribute to the literature on the effects of shareholder activism on corporate governance and firm performance by providing evidence that activists seek to improve corporate governance and revive the market for corporate control.

References

Bebchuk, L., 2005. The case for increasing shareholder power. Harvard Law Review. 118, 833–917.

Bebchuk, L., Cohen, A., 2005. The costs of entrenched boards. Journal of Financial Economics. 78, 409–433.

Bebchuk, L., Cohen, A., Ferrell, A., 2009. What matters in corporate governance. Review of Financial Studies. 22, 783–827.

Brav, A., Jiang, W., Partnoy, F., Thomas, R., 2008. Hedge Fund Activism, Corporate Governance, and Firm Performance. Journal of Finance. 63, 1729–1775.

Brav, A., Jiang, W., Kim, H., 2010. Hedge Fund Activism: A Review. Working Paper.

Brav, A., Jiang, W., Kim, H., 2015. Recent Advances in Research on Hedge Fund Activism: Value Creation and Identification. Annual Review of Financial Economics. 7, 579–595.

Brickley, J. a., Coles, J.L., Terry, R.L., 1994. Outside directors and the adoption of poison pills. Journal of Financial Economics. 35, 371–390.

Catan, E., Kahan, M., 2015. The Law and Finance of Anti-Takeover Statutes. Working Paper.

Coates, J., 2000. Takeover defenses in the shadow of the pill: a critique of the scientific evidence. Texas Law Review. 79, 271.

Coffee, J.C., Palia, D., 2014. The Impact of Hedge Fund Activism: Evidence and Implications. Working Paper.

Cohen, A., Wang, C., 2013. How do staggered boards affect shareholder value? Evidence from a natural experiment. Journal of Financial Economics. 110. 627–641.

Comment, R., Schwert, G.W., 1995. Poison or placebo? Evidence on the deterrence and wealth effects of modern antitakeover measures. Journal of Financial Economics. 39, 3–43.

Core, J.E., Guay, W.R., Rusticus, T.O., 2004. Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations. Journal of Finance 61, 655–687.

Cremers, M., Ferrell, A., 2014. Thirty Years of Shareholder Rights and Firm Value. Journal of Finance. 69, 1167–1196.

Cremers, K., Nair, V., 2005. Governance mechanisms and equity prices. Journal of Finance 60, 2859–2894.

Datta, S., Iskandar-Datta, M., 1996. Takeover defenses and wealth effects on security holders: The case of poison pill adoptions. Journal of Banking and Finance. 20, 1231–1250.

Edmans, A., 2014. Blockholders and Corporate Governance. Annual Review of Financial Economics. 6, 23–50.

Faleye, O., 2007. Classified boards, firm value, and managerial entrenchment. Journal of Financial Economics. 83, 501–529.

Gantchev, N., 2013. The costs of shareholder activism: Evidence from a sequential decision model. Journal of Financial Economics. 107, 610–631.

Gill, B.S.M., Liekefett, K.H.E., Wood, L., 2014. Structural defenses to shareholder activism. Review of Securities and Commodities Regulation. 47, 151–170.

Gompers, P., Ishii, J., Metrick, A., 2003. Corporate governance and equity prices. Quarterly Journal of Economics. 118, 107–155.

Gompers, P., Ishii, J., Metrick, A., 2010. Extreme Governance: An Analysis of Dual-Class Firms in the United States. Review of Financial Studies. 23-3, 1051–1088.

Gow, I., Shin, S-P., Srinivasan, S., 2014a. Consequences to directors of shareholder activism. Harvard Business School Working Paper, 14-071.

Gow, I., Shin, S-P., Srinivasan, S., 2014b. Activist directors: Determinants and consequences. Harvard Business School Working Paper, 14-120.

Greenwood, R., Schor, M., 2009. Investor activism and takeovers. Journal of Financial Economics. 92, 362–375.

Karpoff, J., Schonlau, R., Wehrly., E., 2015. Do takeover defenses deter takeovers? Working Paper.

Klein, A., Zur, E., 2009. Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors. Journal of Finance. 64, 187–229.

Malatesta, P.H., Walkling, R. a, 1988. Poison Pill Securities: Shareholder Wealth, Profitability, and Ownership Structure. Journal of Financial Economics. 20, 347–376.

Masulis, R.W., Wang, C., Xie, F., 2005. Corporate Governance and Acquirer Returns. Journal of Finance. 62, 1851–1889.

Palepu, K., 1987. Predicting Takeover Targets. Journal of Accounting and Economics. 8, 3–35.

Ruback, R., 1988. An Overview of Takeover Defenses and Mergers Acquisitions. In Mergers and Acquisitions, edited by A. Auerback. Chicago: University of Chicago Press.

Ryngaert, M., 1988. The effect of poison pill securities on shareholder wealth. Journal of Financial Economics. 20, 377–417.

Sikes, S.A., Tian, X., Wilson, R., 2014. Investors' reaction to the use of poison pills as a tax loss preservation tool. Journal of Accounting and Economics. 57, 132–148.

FIGURE 1. Activism events by year

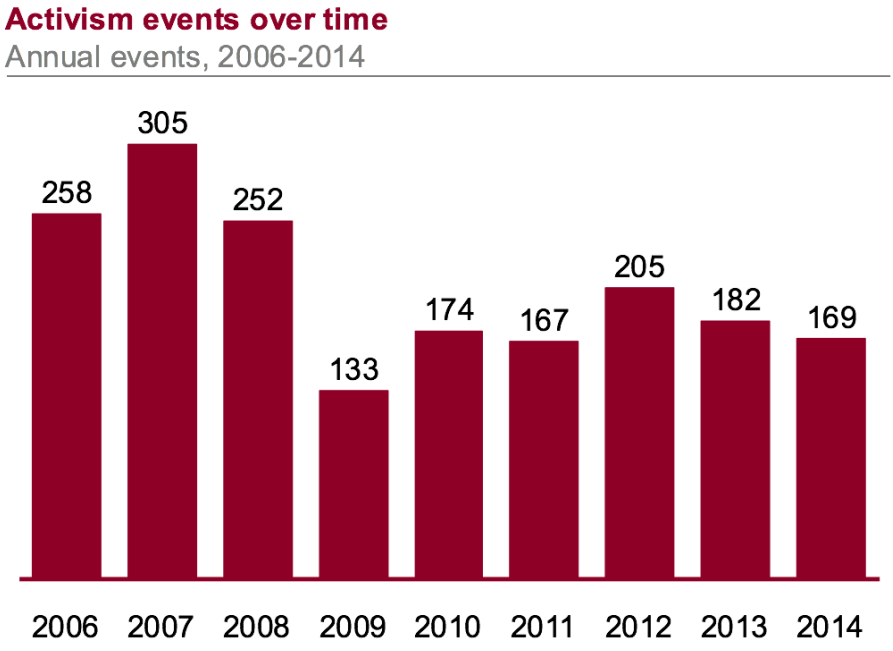
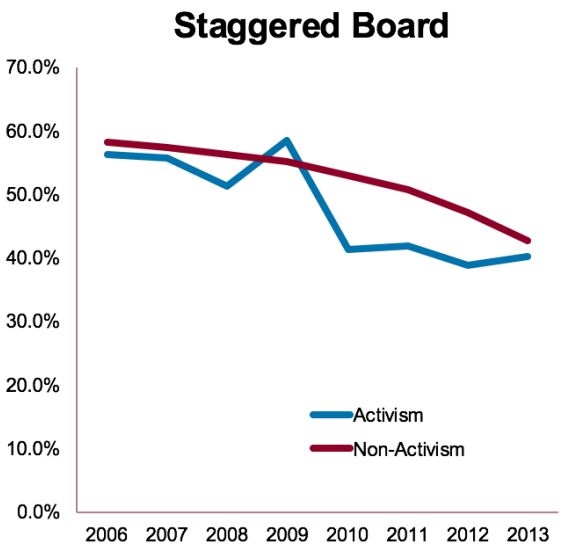


FIGURE 2. Takeover defenses by year

Companies with a Staggered Board

Percent, 2006-2013



Companies with a Poison Pill

Percent, 2006-2013

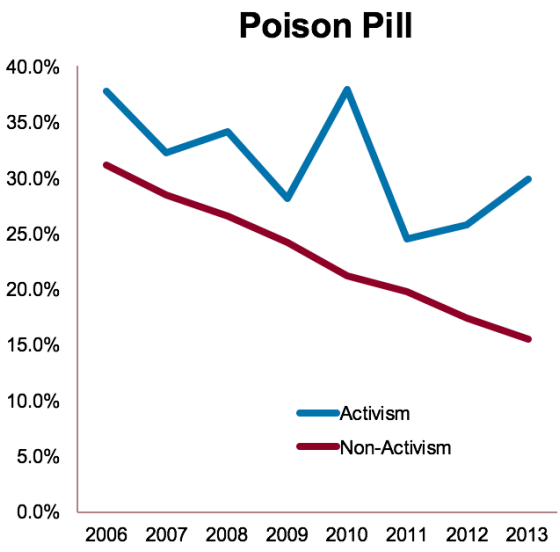


TABLE 1. Shareholder activism events

Panel A. Activism events by year

This panel presents the number of activism events by year (Source: FactSet SharkWatch).

Year	Events	Percent
2006	258	14%
2007	305	17%
2008	252	14%
2009	133	7%
2010	174	9%
2011	167	9%
2012	205	11%
2013	182	10%
2014	169	9%
Total	**1,845**	**100%**

Panel B. Activism events by industry

This panel presents the number of activism events by Fama-French 48 industry (Source: FactSet SharkWatch).

Industry	Events	Percent
Business Services	231	13%
Banking	145	8%
Electronic Equipment	121	7%
Retail	119	6%
Pharmaceutical Products	116	6%
Communication	81	4%
Computers	75	4%
Restaurants, Hotels, Motels	75	4%
Petroleum and Natural Gas	73	4%
Trading	68	4%
Medical Equipment	48	3%
Machinery	45	2%
Personal Services	44	2%
Consumer Goods	42	2%
Healthcare	39	2%
Insurance	38	2%
Wholesale	33	2%
Transportation	32	2%
Chemicals	29	2%
Entertainment	26	1%
Others	365	20%
Total	**1,845**	**100%**

Panel C. Activism events by state

This panel presents the number of activism events by state of incorporation (Source: FactSet SharkWatch).

State of incorporation	Events	Percent
Delaware	1144	62%
Maryland	79	4%
New York	50	3%
California	45	2%
Ohio	44	2%
Pennsylvania	41	2%
Indiana	40	2%
Nevada	37	2%
Washington	36	2%
Minnesota	36	2%
Florida	33	2%
Massachusetts	28	2%
New Jersey	25	1%
Virginia	22	1%
Wisconsin	19	1%
Texas	19	1%
Tennessee	17	1%
Oregon	16	1%
Georgia	15	1%
Michigan	14	1%
Others	85	5%
Total	**1,845**	**100%**

TABLE 2. Takeover defense measures

This table presents the number of firms with each takeover defense measure in place by year (source: FactSet SharkRepellent). The sample in Panel A contains all firm-years between 2006 and 2013. The sample in Panel B contains all firm-years with activism. The sample in Panel C contains all firm-years without activism.

Panel A: All firm-years

	Dual-class		Staggered board		Poison pill	
Year	Percent	Count	Percent	Count	Percent	Count
2006	7.7%	258	58.2%	2,272	32.6%	1,273
2007	7.5%	244	57.2%	2,169	28.9%	1,097
2008	7.8%	245	56.2%	2,018	26.5%	953
2009	7.9%	244	55.3%	1,923	23.8%	828
2010	8.2%	254	52.4%	1,778	21.2%	720
2011	8.6%	266	50.1%	1,666	19.6%	653
2012	8.8%	272	46.4%	1,518	17.6%	575
2013	9.1%	293	42.2%	1,400	15.7%	522
Total	**8.2%**	**2,076**	**52.5%**	**14,744**	**23.6%**	**6,621**

Panel B: Activism sample

	Dual-class		Staggered board		Poison pill	
Year	Percent	Count	Percent	Count	Percent	Count
2006	6.2%	13	56.3%	121	44.2%	95
2007	5.5%	9	58.0%	98	36.1%	61
2008	7.4%	7	53.6%	52	39.2%	38
2009	7.6%	8	56.9%	62	24.8%	27
2010	1.8%	2	43.8%	49	36.6%	41
2011	8.0%	12	38.8%	57	21.1%	31
2012	4.3%	6	40.3%	56	20.9%	29
2013	8.5%	11	46.2%	61	19.7%	26
Total	**6.2%**	**68**	**49.6%**	**556**	**31.1%**	**348**

Panel C: Non-activism sample

	Dual-class		Staggered board		Poison pill	
Year	Percent	Count	Percent	Count	Percent	Count
2006	7.8%	245	58.3%	2,151	31.9%	1,178
2007	7.6%	235	57.2%	2,071	28.6%	1,036
2008	7.8%	238	56.3%	1,966	26.2%	915
2009	7.9%	236	55.2%	1,861	23.8%	801
2010	8.5%	252	52.7%	1,729	20.7%	679
2011	8.7%	254	50.6%	1,609	19.6%	622
2012	9.0%	266	46.6%	1,462	17.4%	546
2013	9.1%	282	42.0%	1,339	15.6%	496
Total	**8.3%**	**2,008**	**52.6%**	**14,188**	**23.3%**	**6,273**

TABLE 3. Activist target selection

Panel A: Baseline regressions

This panel presents linear probabilities model results where the dependent variable is an indicator for being targeted for activism. The sample includes firm-years with and without activism. I calculate *Analyst*, the number of analyst forecasts for each firm-year, using data from I/B/E/S. I derive the proportion of the firm's outstanding stock held by institutions (*Institution*) using data from WhaleWisdom. Data for three-month stock market performance (*Size-adj. return*) come from CRSP. The following variables come from Compustat: *Market value*, the logged value of market capitalization; *Book-to-market*, market capitalization divided by the book value of common equity; *Leverage*, the sum of long-term debt and current liabilities divided by the sum of long-term debt, current liabilities, and the book value of common equity; *Payout*, the ratio of the sum of dividends and repurchases to earnings before interest, tax, depreciation, and amortization (EBITDA); *Return on assets*, EBITDA divided by the lagged total assets; and *Sales growth*, sales divided by lagged sales. I count the number of years the firm has been on CRSP for *Firm age*. From BoardEx and Equilar, I obtain the following variables: *Board size*, the number of directors on the board, and *Outside percent*, the percentage of outside directors. Values in parentheses are standard errors clustered by firm. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Activism	(2) Activism	(3) Activism	(4) Activism	(5) Activism
Dual-class	-1.336**			-1.338**	-1.331**
	(0.539)			(0.536)	(0.536)
Staggered board		-0.592*		-0.768**	-0.760**
		(0.309)		(0.309)	(0.309)
Poison pill			1.274***	1.351***	1.107***
			(0.412)	(0.414)	(0.425)
Pill adopted < 1 year					3.399**
					(1.483)
Cash	2.007*	2.050*	2.039*	2.044*	2.024*
	(1.069)	(1.066)	(1.066)	(1.067)	(1.063)
Analyst	0.081**	0.083**	0.083**	0.079**	0.081**
	(0.039)	(0.039)	(0.039)	(0.039)	(0.039)
Institutional holdings	2.516***	2.646***	2.451***	2.433***	2.442***
	(0.716)	(0.716)	(0.722)	(0.718)	(0.716)
Size-adj. return	-1.947***	-1.959***	-1.974***	-1.998***	-2.013***
	(0.623)	(0.623)	(0.630)	(0.629)	(0.631)
Market value	-1.766***	-1.854***	-1.726***	-1.713***	-1.806***
	(0.448)	(0.445)	(0.447)	(0.446)	(0.445)
Book-to-market	2.088***	2.048***	2.046***	2.052***	1.927***
	(0.432)	(0.432)	(0.430)	(0.430)	(0.417)
Leverage	1.609**	1.550**	1.550**	1.539**	1.534**
	(0.627)	(0.629)	(0.627)	(0.628)	(0.624)
Dividend	-0.969	-0.934	-0.851	-0.863	-0.856
	(0.737)	(0.735)	(0.735)	(0.737)	(0.734)
Return on assets	-0.653	-0.736	-0.681	-0.630	-0.311
	(0.921)	(0.923)	(0.923)	(0.921)	(0.835)
Sales growth	-0.216	-0.175	-0.159	-0.167	-0.119
	(0.428)	(0.428)	(0.428)	(0.428)	(0.413)
Firm age	0.056***	0.054***	0.054***	0.050***	0.051***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)

Board size	-0.047	-0.051	-0.057	-0.040	-0.027
	(0.081)	(0.080)	(0.080)	(0.080)	(0.087)
Outside directors	5.411***	6.111***	5.687***	5.219***	5.255***
	(1.695)	(1.696)	(1.693)	(1.695)	(1.790)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.016	0.016	0.016	0.017	0.017
Num. obs.	22,295	22,295	22,295	22,295	22,295

F-Test of Column (4)

	F-stat	**P-value**
Dual-class = Poison pill	16.43	0.000***
Staggered board = Poison pill	15.39	0.000***
Dual-class = Staggered board	0.86	0.354

TABLE 3. Activist target selection (continued)

Panel B: Propensity score matching

This panel presents results from analysis using propensity score matching. Coefficients represent the estimated effect on *Activism*, an indicator for shareholder activism during the year. One control firm was selected for each treated firm, using propensity scores in Column (1), while multiple control firms within a caliper of 0.0001 could be selected for each treatment firm via radius matching in Column (2). Propensity scores are estimated using a logistic regression in which the dependent variable is an indicator for takeover defenses and the independent variables are the controls reported in Panel A. *** (**, *) indicates significance at the 1% (5%, 10%) level. Standard errors are in parentheses.

	(1) **Activism**	**(2)** **Activism** **(radius matching:** **caliper = 0.0001)**
Dual-class	-0.988	-1.005*
	(0.741)	(0.565)
Num. obs. (Treatment)	1,923	1,509
Staggered board	-0.973***	-1.045***
	(0.403)	(0.337)
Num. obs. (Treatment)	10,998	10,180
Poison pill	1.194***	1.669***
	(0.498)	(0.415)
Num. obs. (Treatment)	5,443	4,918

TABLE 3. Activist target selection (continued)

Panel C: Defense measures and size

This panel presents a linear regression in which the dependent variable is an indicator for being targeted for activism. The sample includes firm-years with and without activism. *Market value* is the logged value of market capitalization. Other controls include the control variables reported in Panel A. Values in parentheses are standard errors clustered by firm. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Activism	(2) Activism	(3) Activism	(4) Activism
Dual-class	-3.847			-3.348
	(3.183)			(3.118)
Staggered board		2.875**		2.336*
		(1.379)		(1.370)
Poison pill			3.886**	3.306*
			(1.731)	(1.730)
Market value × Dual-class	0.847			0.687
	(1.062)			(1.041)
Market value × Staggered board		-1.221***		-1.093**
		(0.455)		(0.452)
Market value × Poison pill			-0.935	-0.699
			(0.576)	(0.576)
Market value	-1.932***	-1.419***	-1.563***	-1.212**
	(0.444)	(0.503)	(0.469)	(0.516)
Other controls	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Adj. R^2	0.016	0.016	0.016	0.017
Num. obs.	22,295	22,295	22,295	22,295

TABLE 4. Activist demands and success rates

This table presents the types of demand activists have made for 1,354 events (source: FactSet SharkWatch). Multiple demands can be made for each activism event. *Demand / Success* reports the probability of activist demand being met by the boards successfully.

	(1) Demand (N)	(2) Demand (%)	(3) Success (N)	(4) Demand / Success
Board seat	724	53%	462	64%
Sale of target	433	32%	98	23%
Strategic alternatives	336	25%	127	38%
Payout	226	17%	97	43%
Other governance	200	15%	75	38%
Divestiture	157	12%	68	43%
Remove defense	146	11%	44	30%
Compensation	133	10%	25	19%
Block sale of target	106	8%	59	56%
Add independent director	96	7%	40	42%
Leverage	74	5%	15	20%
Remove director	70	5%	26	37%
Remove officer	67	5%	27	40%
Block acquisition	15	1%	9	60%
Total activism events	**1,354**			

TABLE 5. Defense measures and activist demands

This table presents results from reverse regressions without an intercept, in which each takeover defense measure is regressed on types of activist demand. Dependent variables are indicators for existence of dual-class shares, staggered board, and poison pill, respectively, for columns (1) through (3).

	(1) Dual-class	(2) Staggered board	(3) Poison pill
Remove defense	0.050*	0.253***	0.334***
	(0.027)	(0.046)	(0.043)
Sale of target	-0.000	0.057	0.132***
	(0.016)	(0.038)	(0.035)
Strategic alternatives	0.051***	0.458***	0.223***
	(0.018)	(0.048)	(0.044)
Block sale of target	0.112**	0.024	-0.048
	(0.044)	(0.062)	(0.045)
Block acquisition	-0.089	-0.166	-0.041
	(0.086)	(0.135)	(0.124)
Divestiture	-0.011	-0.020	0.063
	(0.020)	(0.046)	(0.042)
Board seat	-0.041***	-0.010	0.004
	(0.014)	(0.030)	(0.025)
Payout	0.011	-0.027	-0.034
	(0.021)	(0.041)	(0.032)
Leverage	-0.005	0.059	-0.001
	(0.033)	(0.067)	(0.051)
Remove director	0.060	-0.044	-0.040
	(0.042)	(0.072)	(0.059)
Add independent director	0.020	-0.045	0.071
	(0.030)	(0.054)	(0.049)
Remove officer	-0.029	-0.057	0.028
	(0.028)	(0.069)	(0.060)
Compensation	-0.025	0.059	0.049
	(0.022)	(0.053)	(0.044)
Other governance	0.025	-0.047	-0.032
	(0.023)	(0.041)	(0.035)
Adj. R^2	0.081	0.476	0.352
Num. obs.	1,166	1,163	1,354

TABLE 6. Probability of removing defense measures

This table examines the likelihood of rescinding each of the three takeover defenses. The sample consists of firms with dual-class shares, a staggered board, and a poison pill in year *t* for columns (1), (2) and (3), respectively. The dependent variables are indicators for the particular takeover defense in place as of year *t* + 2. Controls include the control variables reported in Panel A of Table 3. Values in parentheses are standard errors clustered by firm. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) **Dual-class removal$_{t+2}$**	**(2)** **Staggered board removal$_{t+2}$**	**(3)** **Poison pill removal$_{t+2}$**
Activism	0.042	0.113***	0.055*
	(0.043)	(0.024)	(0.033)
Sample	Dual-class$_t$	Staggered board$_t$	Poison pill$_t$
Controls	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Adj. R^2	0.026	0.062	0.047
Num. obs.	1,572	10,436	4,963

TABLE 7. Probability of sale of the target

This table examines the likelihood of being taken over for firms with each of the three takeover defenses in place. Controls include the control variables reported in Panel A of Table 3. Values in parentheses are standard errors clustered by firm. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Takeover$_{(t, t+2)}$	(2) Takeover$_{(t, t+2)}$	(3) Takeover$_{(t, t+2)}$	(4) Takeover$_{(t, t+2)}$	(5) Takeover$_{(t, t+2)}$
Dual-class	-0.034***	-0.031***	-0.032***	-0.032***	-0.031***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Staggered board	-0.010**	-0.010**	-0.008*	-0.010**	-0.008*
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Poison pill	-0.000	-0.001	-0.001	-0.002	-0.001
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Pill adopted < 1 year	0.062***	0.058***	0.058***	0.058***	0.049***
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Activism		0.119***	0.131***	0.116***	0.131***
		(0.014)	(0.018)	(0.016)	(0.020)
Activism		-0.021			-0.025
× Dual-class		(0.049)			(0.050)
Activism			-0.029		-0.032
× Staggered board			(0.026)		(0.026)
Activism				0.005	-0.002
× Poison pill				(0.029)	(0.030)
Activism					0.109
× Pill adopted < 1 year					(0.087)
Controls	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.029	0.036	0.036	0.036	0.036
Num. obs.	22,338	22,338	22,338	22,338	22,338

F-Test of Column (5)

	F-stat	P-value
Activism + Dual-class + (Activism × Dual-class)	2.35	0.126
Activism + Staggered board + (Activism × Staggered board)	16.73	0.000***
Activism + Poison pill + (Activism × Poison pill)	17.42	0.000***

Table 8. Activism consequences by defense measure

Panel A: Leverage

This panel examines changes in leverage ratio at target firms. *Pre-activism, Activism* and *Post-activism* are indicators for the two years prior to, the year of, and the two years following activism announcement, respectively. I divide these indicators into two by the existence of each defense measure. F-tests (A) and (B) examine whether differences in coefficients between *Pre-activism and Post-activism* are statistically significant for each subsample with or without a takeover defense. F-test (C) examines whether there is difference in the effect of activism on the dependent variable between the activism sample with and without a defense measure. Values in parentheses are standard errors clustered by firm. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Leverage		(2) Leverage		(3) Leverage
Dual class		Staggered board		Poison pill	
Pre-activism	0.105*	Pre-activism	0.004	Pre-activism	-0.002
	(0.058)		(0.015)		(0.017)
Dual class		Staggered board		Poison pill	
Activism	0.077*	Activism	0.017	Activism	0.041**
	(0.046)		(0.015)		(0.019)
Dual class		Staggered board		Poison pill	
Post-activism	0.152**	Post-activism	0.033*	Post-activism	0.084***
	(0.064)		(0.017)		(0.020)
Non-dual class		Non-staggered board		No poison pill	
Pre-activism	-0.005	Pre-activism	0.000	Pre-activism	0.003
	(0.010)		(0.014)		(0.013)
Non-dual class		Non-staggered board		No poison pill	
Activism	0.019*	Activism	0.029**	Activism	0.014
	(0.010)		(0.013)		(0.012)
Non-dual class		Non-staggered board		No poison pill	
Post-activism	0.037***	Post-activism	0.051***	Post-activism	0.019
	(0.012)		(0.015)		(0.014)
Market value	0.027***	Market value	0.027***	Market value	0.027***
	(0.005)		(0.005)		(0.005)
Industry fixed effects	Yes	Industry fixed effects	Yes	Industry fixed effects	Yes
Year fixed effects	Yes	Year fixed effects	Yes	Year fixed effects	Yes
Adj. R^2	0.199	Adj. R^2	0.198	Adj. R^2	0.199
Num. obs.	22961	Num. obs.	22961	Num. obs.	22961

	ΔCoeff. (P-value)		ΔCoeff. (P-value)		ΔCoeff. (P-value)
(A) Dual class	0.047	(A) Staggered board	0.029*	(A) Poison pill	0.086***
Post – Pre	(0.352)	Post – Pre	(0.094)	Post – Pre	(0.000)
(B) Non-dual class	0.042***	(B) Non-staggered board	0.051***	(B)No poison pill	0.022
Post – Pre	(0.001)	Post – Pre	(0.002)	Post – Pre	(0.265)
(C) Dual class		(C) Staggered		(C) Poison	
vs. Non-dual class	0.005	vs. Non-staggered	-0.022	vs. No poison pill	0.064**
Post – Pre	(0.918)	Post – Pre	(0.367)	Post – Pre	(0.011)

Table 8. Activism consequences by defense mechanisms (continued)

Panel B: Capital expenditure

This panel examines changes in capital expenditure at target firms. *Pre-activism, Activism* and *Post-activism* are indicators for the two years prior to, the year of, and the two years following activism announcement, respectively. I divide these indicators into two by the existence of each defense measure. F-tests (A) and (B) examine whether differences in coefficients between *Pre-activism and Post-activism* are statistically significant for each subsample with or without a takeover defense. F-test (C) examines whether there is difference in the effect of activism on the dependent variable between the activism sample with and without a defense measure. Values in parentheses are standard errors clustered by firm. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Capex		**(2) Capex**		**(3) Capex**
Dual class		Staggered board		Poison pill	
Pre-activism	-0.004	Pre-activism	0.005	Pre-activism	0.001
	(0.010)		(0.004)		(0.005)
Dual class		Staggered board		Poison pill	
Activism	-0.007	Activism	-0.004	Activism	-0.005
	(0.011)		(0.004)		(0.005)
Dual class		Staggered board		Poison pill	
Post-activism	-0.022**	Post-activism	-0.010**	Post-activism	-0.013**
	(0.010)		(0.005)		(0.005)
Non-dual class		Non-staggered board		No poison pill	
Pre-activism	0.006*	Pre-activism	0.006	Pre-activism	0.008**
	(0.003)		(0.004)		(0.004)
Non-dual class		Non-staggered board		No poison pill	
Activism	-0.003	Activism	-0.003	Activism	-0.003
	(0.003)		(0.004)		(0.003)
Non-dual class		Non-staggered board		No poison pill	
Post-activism	-0.011***	Post-activism	-0.013***	Post-activism	-0.011***
	(0.003)		(0.004)		(0.004)
Market value	-0.018***	Market value	-0.018***	Market value	-0.018***
	(0.002)		(0.002)		(0.002)
Industry fixed effects	Yes	Industry fixed effects	Yes	Industry fixed effects	Yes
Year fixed effects	Yes	Year fixed effects	Yes	Year fixed effects	Yes
Adj. R^2	0.425	Adj. R^2	0.425	Adj. R^2	0.425
Num. obs.	23078	Num. obs.	23078	Num. obs.	23078
	ΔCoeff. (P-value)		**ΔCoeff. (P-value)**		**ΔCoeff. (P-value)**
(A) Dual class	-0.018**	(A) Staggered board	-0.015***	(A) Poison pill	-0.014*
Post – Pre	(0.016)	Post – Pre	(0.010)	Post – Pre	(0.051)
(B) Non-dual class	-0.017***	(B) Non-staggered board	-0.019***	(B)No poison pill	-0.019***
Post – Pre	(0.000)	Post – Pre	(0.000)	Post – Pre	(0.000)
(C) Dual class		(C) Staggered		(C) Poison	
vs. Non-dual class	-0.001	vs. Non-staggered	0.004	vs. No poison pill	0.005
Post – Pre	(0.906)	Post – Pre	(0.644)	Post – Pre	(0.587)

TABLE 9. Probability of poison pill adoption

This table presents results from regression analyses in which the dependent variable is an indicator for adoption of a poison pill. Column (1) looks at all firm-years; Column (2) looks at the activism sample. Controls include the control variables reported in Panel A of Table 3. Values in parentheses are standard errors clustered by firm in Column (1). *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Adoption of poison pill	(2) Adoption of poison pill (activism sample)
Activism	0.062***	
	(0.009)	
Dual-class	-0.004*	-0.070**
	(0.002)	(0.035)
Staggered board	0.000	0.004
	(0.001)	(0.022)
Activist ownership		0.006***
		(0.002)
Merger-related demand		0.140***
		(0.028)
Block-merger-related demand		0.046
		(0.035)
Block-acquisition-related demand		-0.111*
		(0.059)
Demand for divestiture		-0.014
		(0.033)
Demand for board seat		0.046**
		(0.023)
Demand to remove director		0.080
		(0.063)
Demand to remove officer		0.141**
		(0.071)
Demand to remove defense		0.221***
		(0.060)
Controls	Yes	Yes
Year fixed effects	Yes	Yes
Industry fixed effects	Yes	Yes
Adj. R^2	0.020	0.232
Num. obs.	20,035	611

TABLE 10. Poison pill adoption and activism consequences

This table presents results from regression analyses in which the sample consists of activism targets and the dependent variables are *Sale of the target*, an indicator for takeover within two years of activism, *Board seat granted*, an indicator for any board seat granted to activists, *CEO turnover*, an indicator for CEO turnover within two years of activism, and *Average votes (%)*, an average percentage of shareholder votes for directors in director elections. Controls include the control variables reported in Panel A of Table 3. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Sale of the target	(2) Sale of the target	(3) Board seat granted	(4) Board seat granted	(5) CEO turnover (t, t+2)	(6) CEO turnover (t, t+2)	(7) Average votes (%)	(8) Average votes (%)
Dual-class	-0.116***	-0.117***	-0.083*	-0.083*	-0.083	-0.097*	0.025	0.026
	(0.044)	(0.044)	(0.047)	(0.046)	(0.057)	(0.057)	(0.021)	(0.021)
Staggered board	-0.045*	-0.075**	-0.028	0.000	-0.003	-0.020	-0.028***	-0.030**
	(0.024)	(0.029)	(0.025)	(0.031)	(0.040)	(0.053)	(0.010)	(0.012)
Pill adopted	-0.012	-0.033	0.204***	0.323***	0.223**	0.304**	-0.038**	-0.003
	(0.044)	(0.061)	(0.054)	(0.071)	(0.097)	(0.117)	(0.018)	(0.020)
Pill in force	-0.030	-0.054	0.104***	0.090**	0.002	-0.072	-0.035***	-0.050***
	(0.027)	(0.036)	(0.030)	(0.039)	(0.052)	(0.070)	(0.012)	(0.015)
Pill in force < 1 year	0.095*		-0.142***		-0.135		-0.010	
	(0.054)		(0.055)		(0.082)		(0.024)	
Staggered board		0.048		-0.274**		-0.240		-0.067*
× Pill adopted		(0.088)		(0.107)		(0.200)		(0.036)
Staggered board		0.084*		-0.026		0.077		0.024
× Pill in force		(0.051)		(0.054)		(0.100)		(0.022)
Proxy fight							-0.042**	-0.042**
							(0.019)	(0.019)
Activist ownership							-0.022	-0.044
							(0.107)	(0.104)
Proxy fight							0.132	0.116
× Activist ownership							(0.197)	(0.195)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.078	0.077	0.070	0.070	0.297	0.295	0.091	0.095
Num. obs.	1,307	1,307	1,362	1,362	390	390	840	840

TABLE A1. Descriptive statistics by sample

This table presents the mean value of cash, analyst, institutional holdings, size-adjusted returns, market value, book-to-market ratio, leverage, dividend, return on assets, sales growth, firm age, board size, and percentage of outside directors for firms by the status of activism events and by existence of takeover defense measures (staggered board, poison pill, and dual-class structure).

	(1) Activism		(2) Dual-class		(3) Staggered board		(4) Poison pill	
	No	Yes	No	Yes	No	Yes	No	Yes
Cash	0.195	0.203	0.199	0.157	0.186	0.205	0.190	0.213
Analyst	7.192	7.100	7.176	7.308	7.737	6.623	7.407	6.510
Institutional holdings	0.621	0.648	0.626	0.590	0.628	0.617	0.619	0.634
Size-adj. return	0.007	-0.042	0.005	0.006	0.009	0.002	0.005	0.005
Market value	2.873	2.755	2.859	2.964	2.948	2.786	2.903	2.758
Book-to-market	0.610	0.695	0.614	0.607	0.613	0.615	0.613	0.617
Leverage	0.330	0.337	0.326	0.383	0.338	0.323	0.333	0.323
Dividend	0.104	0.081	0.102	0.110	0.108	0.099	0.112	0.076
Return on assets	0.094	0.088	0.089	0.136	0.103	0.083	0.098	0.077
Sales growth	1.131	1.111	1.132	1.101	1.117	1.143	1.132	1.124
Firm age	19.079	20.394	19.277	17.660	21.574	16.636	18.887	19.916
Board size	8.676	8.456	8.644	8.902	8.716	8.615	8.732	8.463
Outside percent	0.826	0.835	0.830	0.783	0.824	0.828	0.824	0.833
Num. obs.	21,299	996	20,372	1923	11,297	10998	16,852	5443

TABLE A2. Activist target selection - Logistic model

This table presents logistic regression results in which the dependent variable is an indicator for being targeted for activism. The sample includes firm-years with and without activism. Values in parentheses are standard errors clustered by firm. *** (**, *) indicates significance at the 1% (5%, 10%) level.

	(1) Activism	(2) Activism	(3) Activism	(4) Activism	(5) Activism
Dual-class	-0.359**			-0.353**	-0.348**
	(0.165)			(0.164)	(0.164)
Staggered board		-0.144*		-0.181**	-0.179**
		(0.074)		(0.074)	(0.074)
Poison pill			0.268***	0.284***	0.237***
			(0.085)	(0.085)	(0.089)
Pill adopted < 1 year					0.516***
					(0.194)
Cash	0.444*	0.462*	0.457*	0.453*	0.455*
	(0.240)	(0.238)	(0.240)	(0.240)	(0.239)
Analyst	0.019**	0.019**	0.019**	0.019**	0.019**
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Institutional holdings	0.653***	0.681***	0.642***	0.638***	0.644***
	(0.185)	(0.185)	(0.187)	(0.186)	(0.185)
Size-adj. return	-0.747***	-0.750***	-0.760***	-0.762***	-0.756***
	(0.178)	(0.178)	(0.178)	(0.178)	(0.178)
Market value	-0.435***	-0.456***	-0.423***	-0.424***	-0.425***
	(0.112)	(0.111)	(0.112)	(0.111)	(0.111)
Book-to-market	0.369***	0.361***	0.359***	0.360***	0.361***
	(0.077)	(0.077)	(0.076)	(0.076)	(0.076)
Leverage	0.341**	0.321**	0.321**	0.320**	0.318**
	(0.133)	(0.133)	(0.132)	(0.133)	(0.133)
Dividend	-0.303	-0.302	-0.284	-0.285	-0.284
	(0.234)	(0.233)	(0.233)	(0.233)	(0.233)
Return on assets	-0.051	-0.068	-0.058	-0.039	-0.028
	(0.219)	(0.219)	(0.221)	(0.220)	(0.219)
Sales growth	-0.054	-0.043	-0.042	-0.043	-0.043
	(0.113)	(0.112)	(0.113)	(0.112)	(0.112)
Firm age	0.013***	0.013***	0.013***	0.012***	0.012***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Board size	-0.005	-0.007	-0.008	-0.003	-0.004
	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)
Outside directors	1.295***	1.480***	1.396***	1.238***	1.238***
	(0.468)	(0.465)	(0.466)	(0.467)	(0.467)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Pseudo-R^2	0.051	0.050	0.051	0.053	0.050
Num. obs.	22,069	22,069	22,069	22,069	22,069