Active Governance in the Age of Passive Institutions

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Abstract. Hedge fund activism has become a central market-based mechanism for disciplining public-company managers as equity ownership shifts toward passive institutions that rarely initiate engagement. We review two decades of evidence through a cost-benefit framework that organizes which firms get targeted, when campaigns escalate, and how campaign costs shape activist returns. Activism produces durable shareholder gains and real operating improvements, supported by a coalition in which passive investors prove reliable supporters of campaigns launched by others. Crucially, the discipline extends to firms never targeted. Policy evaluations that count only direct effects at targeted firms systematically understate the cost of constraining activism.

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Introduction: Who watches the watchers?

Hedge fund activism has become a routine feature of public-company life. Roughly one in five S&P 500 companies has a known activist holding more than 1% of its outstanding shares, and the fifty largest activists collectively manage more than $200 billion in equity capital (Neff et al., 2025). The view of activism as a fringe tactic deployed by a small set of confrontational outsiders no longer fits the data. A more accurate description is that activism has become one of the principal market-based mechanisms for holding public-company managers accountable in the United States and, increasingly, abroad.

That development matters because alternative mechanisms are not working. The classical theory of corporate governance held that the separation of ownership and control (Berle and Means, 1932) would be solved by ownership concentration: a shareholder large enough to internalize a meaningful share of the gains from monitoring would be willing to bear the costs of doing so (Shleifer and Vishny, 1986). Over the past four decades, equity ownership has indeed concentrated dramatically in institutional hands.[1] Yet that concentration has not produced the engagement the classical theory predicted. Traditional active institutions — pension funds, mutual funds, and insurance companies — engage only sporadically with portfolio firms on contested governance matters, even where their stakes would justify it. The rapid growth of passive index funds has widened the gap rather than closed it, by adding to the shareholder base a class of owner that is largely unable to exit, has limited stewardship resources, and faces incentives that systematically discourage substantive intervention.

Who, in practice, disciplines managers when traditional active institutions are constrained and an ever-larger share of the equity is held by index funds with no apparent capacity or incentive to engage? On the empirical record, the answer is hedge fund activists, and the policy stakes of that answer are substantial. The risk is not whether any single activist campaign succeeds or fails. The risk is that one of the few credible market-based mechanisms for disciplining corporate managers in an era of rising passive ownership now operates under regulatory pressure — sometimes from precisely the quarters most concerned about the governance failures activism exists to address. Our central argument is that the cost-benefit case for restraining activism,

[1] On the long-run growth of institutional ownership of U.S. equity, including the more recent rise of indexed assets, see Brav, Lund, and Zhao (2026).

evaluated honestly, is weaker than the policy debate has tended to assume, because that debate has focused on direct effects at targeted firms while ignoring a larger and well-documented disciplinary spillover to firms that are never themselves targeted. None of this implies that activism is costless: the shareholder gains come mixed with redistribution — from bondholders, some workers, and pension beneficiaries — which Section 4 documents rather than minimizes. The net economic effect is nonetheless positive, and it is that net effect the case for constraining activism has understated.

Two themes run through what follows. The first is the role hedge fund activists play in corporate governance: who they are, why they have emerged as the dominant vehicle for direct engagement, how they operate, and what the empirical evidence says about whether their interventions create value. The second is the relationship between activists and other institutional investors. Activists are minority shareholders by design, typically holding 5–10% stakes, and every meaningful campaign outcome depends on the support of a coalition of fellow shareholders that the activist must persuade. The growth of passive ownership matters for both themes at once: it deepens the governance gap that activists exist to fill, and it strengthens the institutional conditions under which their campaigns can succeed. Much of what follows turns on that duality.

The argument rests on two kinds of evidence, and the distinction is worth stating plainly. The direct evidence — what activism does at the firms it targets, in returns, operating performance, productivity, innovation, and M&A outcomes (Section 4) — is measured where the intervention is visible. The broader claim that discipline reaches firms never targeted (Section 6) is necessarily indirect: the effect shows up at firms with no campaign to point to, so isolating it demands more of the research design. That work has been done, and the threat-channel estimates are well identified; it is this evidence that carries the paper's central policy point.

The paper proceeds in seven short sections. Section 2 documents the governance gap. Section 3 explains why hedge funds in particular have become the market's response to that gap, and works through the cost-benefit calculus that organizes which firms get targeted and when campaigns escalate. Section 4 examines what activism actually does at target firms. Section 5 turns to the supporting institutional coalition. Section 6 documents the spillover effects to non-targets and draws the historical parallel with the suppressed hostile-takeover threat of the 1980s.

Section 7 engages the leading critiques, applies the framework to specific regulatory questions, and offers an outlook on adjacent forms of activism beyond the equity-long channel. An online appendix presents an annotated guide to the underlying literature, organized to track the section structure of the paper itself.

2. The governance gap

The classical theory made two bets: that ownership would concentrate, and that concentrated owners would engage. The first bet paid off. Institutional ownership did concentrate, and at scale. The share of U.S. equity held by institutions has grown from a single-digit percentage in 1950 to about two-thirds today. At the firm level, the same shift shows up as a rise in average institutional ownership from 38% two decades ago to close to 60% (Brav, Lund, and Zhao, 2026). Concentrated positions have grown in parallel — virtually all U.S. public firms now have at least one blockholder above 5%, and most have several (Hadlock and Schwartz-Ziv, 2019). This is the ownership structure the theory asked for.

The theory's logic was straightforward. Under dispersed ownership, no single shareholder has enough at stake to bear the cost of monitoring management, and the rational response is to free-ride on whatever monitoring other shareholders happen to do (Berle and Means, 1932). The answer is concentration: a shareholder who owns enough stock to internalize a meaningful share of the gains from any value improvement should be willing to bear the costs of bringing it about (Shleifer and Vishny, 1986). Over four decades, the math has obliged. The behavior has not.

The barriers were laid out cleanly more than three decades ago. Black (1990) organized them into three categories. Collective action: the gains from any successful monitoring effort are shared by every shareholder while the costs are not, so even institutions with stakes large enough to justify intervention have private incentives to do less of it than is socially optimal. Regulatory constraints: mutual funds and pension funds operate under disclosure, diversification, and concentration rules that make some intervention strategies costly and others impossible. Conflicts of interest: institutions doing business with the corporations they invest in are reluctant to vote against the management of those corporations, and the empirical record bears that out.[2]

[2] The conflict-of-interest channel has direct empirical support. Mutual fund families with business ties to a portfolio company are more likely to vote with management on contested proposals at that company (Cvijanović, Dasgupta, and Zachariadis, 2016), and families with more business ties overall vote with management at higher rates across their portfolios (Davis and Kim, 2007).

None of this has changed materially in the intervening decades, and the survey literature reaches the same conclusion — traditional active institutions produce modest stock-price and operating effects, and most of their successes are confined to procedural governance changes rather than substantive intervention.[3]

The growth of passive index funds has widened the gap rather than closed it, and the agency-cost argument is the clearest statement of why. Bebchuk and Hirst (2019) make it directly: index fund managers are compensated on assets under management and tracking error relative to a benchmark, not on the value of the firms in the portfolio. The private cost of stewardship falls entirely on the manager. The benefits accrue to every investor in the fund and, more pointedly, to every competing fund tracking the same index. The prediction is systematic underinvestment in substantive engagement and excessive deference to corporate management. Two forces reinforce it: the same business-tie conflicts that constrain mutual funds and pension funds, and the political and regulatory backlash that index fund managers (not without reason) fear if they are perceived as too aggressive. The empirical record confirms the prediction: index funds vote against management roughly 10 percentage points less often than active funds on contested items, show no evidence of effective public or private engagement, and tend to be associated with weaker board independence and lower pay-performance sensitivity at the firms in which they hold the largest stakes.[4]

The agency-cost diagnosis is not the whole story: passive investors are not entirely passive. Higher passive ownership has been associated with greater board independence, the removal of poison pills, and reduced restrictions on shareholders' ability to call special meetings.[5] The right distinction is between primary monitoring — initiating engagement on contested matters, where activists are the natural candidates — and secondary monitoring, where the question is whether a passive fund will support, abstain, or oppose a campaign that somebody else is already running.

[3] See Gillan and Starks (2007) for the canonical survey of decades of institutional shareholder activism, and Denes, Karpoff, and McWilliams (2017) for an update covering 73 empirical studies across three decades. McCahery, Sautner, and Starks (2016) find that institutional investors name free-rider problems and 'acting in concert' legal concerns as the chief impediments to engagement.

[4] The voting-gap finding is from Heath, Macciocchi, Michaely, and Ringgenberg (2022), who compare passive- and active-fund voting within the same firm-meeting; the same paper uses Russell 1000/2000 reconstitutions to link higher index ownership to weaker board independence and pay-performance sensitivity. The dissident-support gap in contested proxy elections is corroborated in Brav, Jiang, Li, and Pinnington (2024). Earlier evidence reaches a similar conclusion through different identification: Schmidt and Fahlenbrach (2017) document that increases in passive ownership are associated with weaker boards and lower-quality M&A.

[5] On procedural support from passive investors, see Appel, Gormley, and Keim (2016). On the voting-bloc structure of mutual funds, and the management-deferential stance of the Big Three, see Bubb and Catan (2022).

Passive investors are weak primary monitors. As we discuss later, they are reliable secondary supporters. The implication here is narrower: as the share of the float held by index funds grows, the pool of capital willing to initiate engagement shrinks. That is the governance gap.

Hedge fund activism is the market's response to that gap.

3. Why hedge funds, and how they make the math work

Calling hedge fund activism the market's response to the governance gap raises an obvious question: why hedge funds, and not some other class of institutional investor? The answer has two parts — a set of structural features that align with the costs and timeline of monitoring, and a microeconomic logic that makes the activist's costly arbitrage work in the first place.

Hedge fund activism is the latest in a long sequence of market-based governance mechanisms — the conglomerate merger wave of the 1960s and 1970s, the hostile takeovers, leveraged buyouts and corporate raids of the 1980s, the blockholder activism of the late 1980s and 1990s. Hedge fund activism itself emerged in the early 1990s and accelerated through the 2000s. The conceptual ancestor is Manne's (1965) market for corporate control: the threat of takeover disciplines management even at firms that are not actually bid for. By the late 1980s, however, the proliferation of takeover defenses — poison pills, staggered boards, second-generation antitakeover statutes — had largely suppressed that market. What is genuinely new about hedge fund activism is that it survived the build-out of defenses precisely because it does not require change of control.[6]

Why hedge funds in particular, rather than mutual funds, pension funds, or insurance companies? Four features, identified in the seminal large-sample study by Brav, Jiang, Partnoy, and Thomas (2008). First, hedge fund managers are compensated on portfolio returns rather than assets under management, so the gains from a successful campaign accrue directly to the manager. Second, lock-up provisions allow hedge funds to commit capital for the multi-year horizons that activist campaigns require — mutual funds, which must provide daily liquidity, cannot. Third, hedge funds face fewer regulatory constraints on concentration and trading strategies than mutual funds

[6] The closest empirical predecessor to hedge fund activism is Bethel, Liebeskind, and Opler (1998), who document that activist blockholders targeting underperforming firms in the 1980s produced operating and financial improvements without seeking control. Jensen and Ruback (1983) document that the takeover market created value at target firms. Cheffins and Armour (2011) place hedge fund activism within this longer arc, framing it as a "market for corporate influence" that complements Manne's (1965) "market for corporate control."

and pension funds do. And fourth, hedge funds are largely free from the business-tie conflicts that constrain other institutions: they do not run corporate 401(k) plans, do not depend on retaining the business of the firms they engage with, and do not face the political pressures bearing on public pension funds. These four features add up to one thing: hedge funds can afford to bear the private costs of monitoring because their structure aligns the gains with the costs.[7]

Hedge fund activists are not corporate raiders. They typically take 5–10% stakes, well below any control threshold, and rarely seek board majorities. They operate by persuasion — formulating a value-improvement thesis, building a coalition of supportive shareholders, and applying pressure that ranges from private engagement to public proxy fights. Brav et al. (2008) describe this as a hybrid internal–external role. Compared with internal blockholders, hedge fund activists are more flexible, more incentivized, and more independent. Compared with external corporate raiders, they take smaller stakes, often cooperate with management rather than displace it, and depend on support from fellow shareholders to make the campaign work.

The structural features explain who can engage in activism, but not when engagement pays. That is a question of microeconomic logic, and it begins with a free-rider problem: activism is a public good produced by a private actor — the activist pays to monitor, but the value improvement raises every shareholder's price pro rata. The classical statement of the problem comes from Grossman and Hart (1980): under dispersed ownership, individually rational shareholders refuse to tender at any price below post-acquisition value, depriving a value-improving bidder of the gains from their improvements. The same logic applies to monitoring more generally. Maug (1998) provides the resolution. A large shareholder can profitably monitor when stock liquidity allows them to acquire additional shares cheaply, before the monitoring benefits are reflected in the price. Liquidity is what makes the activist's arbitrage work — the trading gains from uninformed sellers supplement the pro-rata gains from the initial holding.[8]

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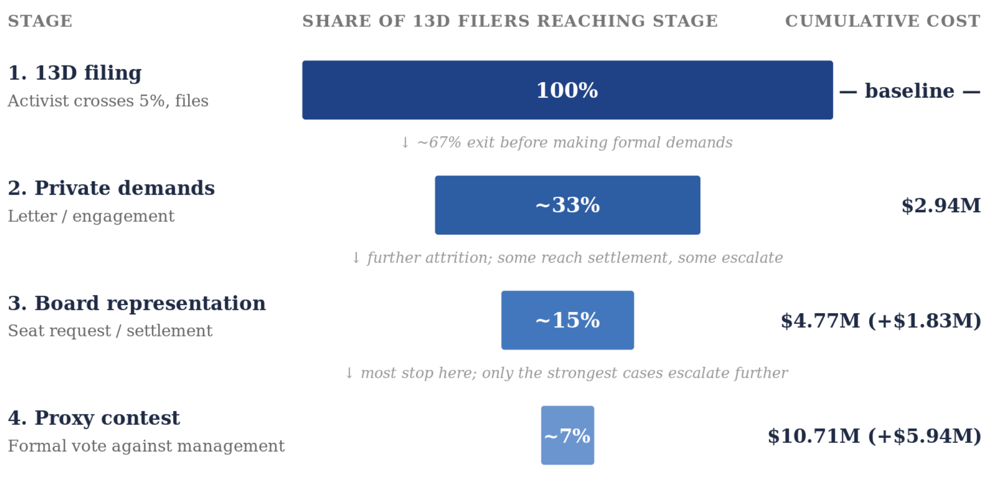
[7] The legal-institutional case for hedge funds as activists is made in parallel by Kahan and Rock (2007) and Partnoy and Thomas (2007), emphasizing regulatory flexibility and the governance gap-filling role of hedge funds relative to mutual funds and private equity. Independent samples confirm the tactical and structural picture in Bratton (2007), Klein and Zur (2009), Clifford (2008), and Boyson and Mooradian (2011).

[8] Subsequent theoretical work refines the conditions under which a blockholder will engage in monitoring rather than trade on private information (Kahn and Winton, 1998), how multiple blockholders divide governance roles (Edmans and Manso, 2011), how risk-sharing interacts with monitoring incentives (Admati, Pfleiderer, and Zechner, 1994), and how a firm's internal governance interacts with external activist monitoring (Cohn and Rajan, 2013). The liquidity-activism link is established empirically in Gantchev and Jotikasthira (2018), Edmans, Fang, and Zur (2013), and Norli, Ostergaard, and Schindele (2015). On the broader implications for market efficiency and pre-disclosure price formation, see Collin-Dufresne and Fos (2015).

Once a stake is built, a campaign unfolds as a series of escalation choices – whether to press demands privately, whether to seek board representation, and ultimately whether to wage a proxy contest. At each stage, the activist continues only if the expected gain from escalation exceeds the marginal cost of escalating. Gantchev (2013) estimates each stage's cost from observed exit decisions — roughly $2.9 million for demand negotiations, an additional $1.8 million for board representation, and an additional $5.9 million for a proxy contest, or about $10.7 million total for a campaign that escalates all the way (Figure 1). Subtracting these costs reduces mean abnormal activist returns from a gross 4–8% to net returns close to zero on average, though the top quartile still earns substantial net returns. The framework explains the empirical pattern. More than two-thirds of 13D filers exit before making formal demands and only about 7% reach a proxy fight. At every stage, most campaigns face costs that exceed expected continuation benefits.[9]

Figure 1. The escalation funnel: most campaigns end early, and at a cost

Share of 13D filers reaching each stage (bars) and cumulative campaign cost (right margin)



Source: Stage costs from Gantchev (2013).

The cost-benefit calculus integrates targeting, stake-building, tactical escalation, and the distribution of activist returns into a single idea: activism is a costly arbitrage that solves a free-rider problem. Whether the calculus produces a campaign at a particular firm depends on stock

[9] Becht, Franks, Mayer, and Rossi (2009), in a clinical study of the Hermes U.K. Focus Fund, find that activism is executed predominantly through private interventions that public-data studies cannot observe, with the fund's abnormal returns driven by engagement rather than stock-picking. Boyson and Pichler (2019) add a relational dimension: hostile target resistance worsens campaign outcomes unless the activist counter-resists through proxy fights, lawsuits, or unsolicited tender offers – escalation that raises total campaign costs.

liquidity and on what other institutional holders are doing. Whether the campaign escalates depends on the marginal math at each stage. What activism actually does at the firms it targets — and through what mechanism — is the empirical question we turn to next.

4. What activism does at target firms

The cost-benefit logic of Section 3 explains when activists choose to engage. The next question is what happens at the firms with which they engage. The empirical record over the past two decades is voluminous and remarkably consistent — positive announcement returns that do not reverse, real operating improvements, M&A activity that produces value rather than destroying it, productivity gains at target plants, innovation that becomes more efficient, and a wholesale reshaping of boards and capital allocation. What looks at first like a long list of separate findings is, we will argue, one underlying mechanism showing up in different forms at different targets — governance discipline applied to whatever the binding constraint at the firm happens to be.

The empirical baseline is again Brav, Jiang, Partnoy, and Thomas (2008): an approximately 7% announcement-period abnormal return at target firms with no reversal during the subsequent year, alongside increases in payout, operating performance, and CEO turnover.[10] The more contested question is whether the announcement gain represents genuine value creation or a short-term price spike later reversed at the expense of long-term value. Bebchuk, Brav, and Jiang (2015) provide the most thorough examination. Looking at a five-year window following activist interventions, they find no evidence that the initial price spike is reversed, no evidence of pump-and-dump patterns, and no evidence that interventions are followed by short-term gains at the expense of long-term performance. The combination of positive announcement returns and stable-to-improving long-term performance is the empirical refutation of the short-termism critique.

Hedge fund activists target firms across virtually the entire economy and apply a common diagnosis — governance failure — rather than industry-specific operating expertise. The

[10] Independent samples confirm the announcement-return finding using different methodologies and time periods (Klein and Zur, 2009; Clifford, 2008; Greenwood and Schor, 2009; Boyson and Mooradian, 2011), the pattern generalizes internationally across 23 countries (Becht, Franks, Grant, and Wagner, 2017), and a recent comprehensive survey confirms its robustness across samples and time periods (Brav, Jiang, and Li, 2022). Cremers, Giambona, Sepe, and Wang (2020) provide the most rigorous matched-sample challenge, but subsequent identification-driven evidence has tended to support substantial treatment effects; a structural decomposition by Albuquerque, Fos, and Schroth (2022) attributes about three-quarters of activist announcement returns to treatment rather than stock-picking or selection.

objective distribution across 4,657 activist events from 1994 to 2018 (Brav, Jiang, and Li, 2022) is informative. Because a single campaign can pursue more than one objective, the specific categories overlap: corporate governance demands appear in 35.5% of campaigns, business strategy demands (operational efficiency, restructuring, M&A) in 18.5%, sale-of-target demands in 18.5%, and capital structure demands in 13.1%. Even the 47% labeled "general undervaluation" – the residual category for campaigns with no specific demands – typically rests on the activist's argument that management is failing to maximize value. Each of these categories, looked at carefully, is governance-adjacent. The unifying story is not a portfolio of industry-specific bets. It is one diagnosis, applied at scale.

The direct evidence on governance reform is now substantial. Settlements — negotiated agreements in which the target grants the activist concessions, typically board representation, in exchange for the activist ending the campaign — are followed by CEO turnover, increased payouts, and improved operating performance, with positive stock-price reactions and no evidence of rent extraction at other shareholders' expense. Even non-confrontational engagements produce real governance change.[11]

The cleanest evidence that a single mechanism underlies these varied outcomes comes from the M&A channel. Boyson, Gantchev, and Shivdasani (2017) document that activist interventions substantially increase the probability of a takeover offer, and third-party bids for activist targets achieve higher target announcement returns, higher acquisition premia, and higher completion rates than non-activism mergers. Decisively, failed takeover bids at activism targets nevertheless produce real improvements in operating performance, financial policy, and long-term abnormal returns — exactly the pattern predicted if governance reform is the underlying mechanism and M&A is one of several possible visible outcomes.[12]

[11] Settlements rose from 3% of campaigns in 2000 to 21% in 2013, adding about 1.8 new directors on average (Bebchuk, Brav, Jiang, and Keusch, 2020). Activist-appointed independent directors act as substantive monitors rather than cosmetic appointments, curbing overinvestment – lower capital expenditures, R&D, and acquisitions – and enhancing value in high-agency-problem firms, especially when they hold monitoring-committee seats (Kang, Kim, Kim, and Low, 2022). Wu and Chung (2022) attribute the post-activism improvement in M&A decisions, including fewer acquisitions that the market receives more favorably, to better governance such as CEO and director turnover.

[12] Activist returns are concentrated in campaigns that result in M&A (Greenwood and Schor, 2009), and activists, unlike conflicted bidders, can credibly pressure entrenched boards into value-increasing sales (Corum and Levit, 2019). Activists also engage after deals are announced to push for better terms (Jiang, Li, and Mei, 2018), and activism reshapes the broader corporate asset market (Hege and Zhang, 2022). Gantchev, Sevilir, and Shivdasani (2020) document that activists target firms with empire-building track records and reshape acquisition and divestiture strategy through three governance channels — removal of empire-building CEOs, compensation incentives, and new board appointments.

Where the binding constraint is operational slack rather than capital misallocation, the same governance mechanism shows up as productivity improvement. Brav, Jiang, and Kim (2015) use U.S. Census plant-level data to document that total factor productivity at target plants rises by 5.2 to 11.8% of a standard deviation over the three years post-intervention. Crucially, productivity rises in non-primary industry segments of diversified target firms, where activist industry-specific selection cannot explain the result. Where the binding constraint is misallocated R&D, governance reform shows up as innovation reallocation. Brav, Jiang, Ma, and Tian (2018) document that R&D expenditures tighten post-activism while patent counts and citation-weighted patent quality both increase. The pattern across the M&A, productivity, and innovation findings is consistent — the visible channel varies, but the mechanism is the same.

An honest discussion has to acknowledge a distributional fact alongside the value-creation one. Some of the shareholder gain at activism targets is genuine value creation — governance discipline that improves how the firm uses its resources — and some of it is redistribution from non-shareholder stakeholders to shareholders. In the same plant-level data that establishes the productivity gains, Brav, Jiang, and Kim (2015) document that white-collar wages decline by 5.0% at target plants while labor productivity rises 8.4 to 9.2%, implying a transfer of labor rents from white-collar workers to shareholders. Blue-collar wages remain relatively flat, partly reflecting union countervailing power.[13] The net economic effect is still positive, but the distributional concerns are real, they matter for the policy discussion in Section 7, and we should not paper over them.

Taken together, the evidence suggests that hedge fund activists are generalists. They target firms across the economy on the basis of a common diagnosis and apply a common mechanism – governance discipline – that takes firm-specific forms depending on each target's binding constraint. The market reaction is positive and persistent. The effects on operating performance, productivity, and innovation are real. Whether and how that mechanism delivers value at any particular firm, however, depends on something we have not yet discussed: the institutional coalition the activist needs to build around the campaign. That is what we turn to next.

[13] On bondholder losses at activism targets, see Klein and Zur (2011); on pension underfunding and reduced retirement-plan contributions at target firms – a partial wealth transfer from employees – see Agrawal and Lim (2022).

5. Activism is not a solo enterprise: the supporting coalition

The activists described in the previous section are minority shareholders by design. The 5–10% stakes that the structural logic of Section 3 makes feasible are deliberately well below any control threshold, and that means every meaningful campaign outcome — proxy votes, negotiated settlements, asset sales, board changes — depends on support from holders the activist did not bring with them. Three pieces of the resulting coalition matter most. Passive funds supply the bulk of the votes. A sub-population of activism-friendly institutions supplies a predictable base of support. And other activists sometimes coordinate, forming wolf packs that amplify both the effective stake and the credibility of the campaign.

Section 2 established that passive investors are weak primary monitors of contested governance matters. The activism literature establishes a complementary fact: the presence of passive investors at a target actually increases activists' willingness to engage in costly forms of activism. Appel, Gormley, and Keim (2019) document that activists are more likely to seek board representation when a larger share of the target's stock is held by passively managed mutual funds, and higher passive ownership is also associated with greater use of proxy fights, settlements, and a higher likelihood that the activist achieves board representation or sale of the company.[14] The structural features that make passive funds weak primary monitors — concentration, inability to exit, limited stewardship resources — are precisely what make them reliable secondary supporters. Their votes are stable, predictable, and reachable by an activist who can build a credible case. The activist supplies the campaign infrastructure and the persuasion; the passive funds supply the votes — an arrangement whose durability Section 7 revisits in light of the recent shift toward pass-through voting.

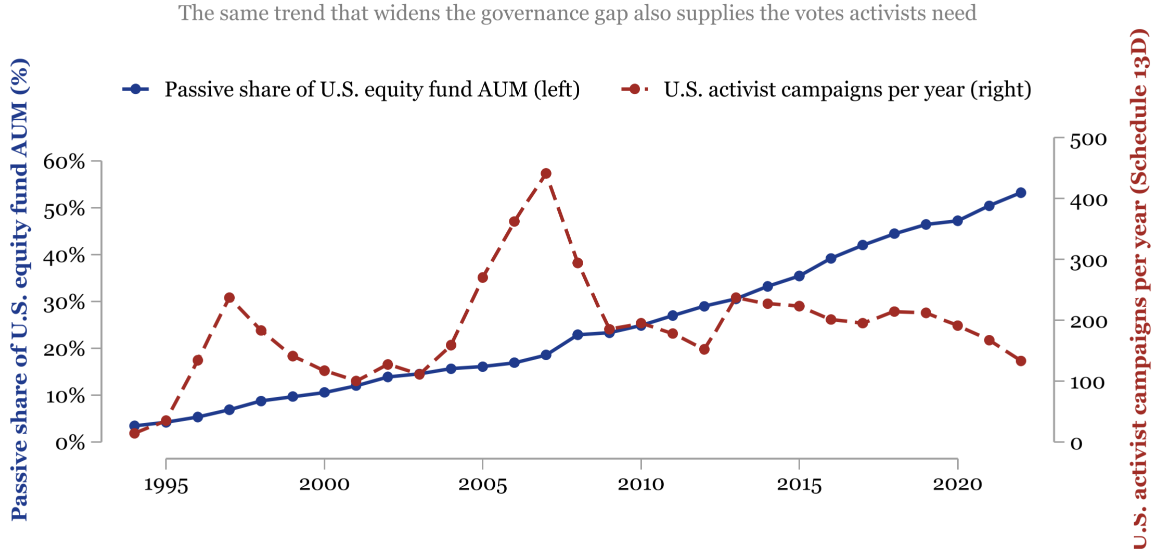
The duality is what makes the broader picture coherent. The growth of passive ownership has reshaped the institutional environment in two ways at once — deepening the governance gap, because the share of equity held by owners with no incentive to initiate substantive engagement has grown, and strengthening the conditions under which activism can succeed where it does occur, because the same investors who will not initiate are, in practice, willing to support. Figure 2 shows the two trends side by side: passive ownership and U.S. activist campaign volume have

[14] Bebchuk and Hirst (2019), already discussed in Section 2, supply the weak-primary-monitor half of the picture; Appel, Gormley, and Keim (2019) supply the secondary-supporter half. The two are different roles played by the same investors, not competing claims.

moved together for three decades, not in opposition. The co-movement is the institutional ecosystem adjusting to who is willing to initiate and who is willing to support. The slight decline in campaign volume toward the end of the sample is consistent with discipline shifting toward the threat channel (Section 6) or behind the scenes, though it is too early to identify the precise mechanism, which may also reflect recent regulatory changes (Section 7).

Figure 2. Passive ownership and activist campaign volume, 1994–2022

The same trend that widens the governance gap also supplies the votes activists need



Sources. ICI Investment Company Fact Book 2026; data provided by Gantchev, collected from SEC Schedule 13D filings.

Passive funds support campaigns when persuaded; a second group of institutions does not wait to be asked. These activism-friendly investors tilt their portfolios toward firms where activism is likely. They hold positions longer than their non-friendly counterparts, maintain their holdings through campaigns, and support activist-sponsored proposals at meaningfully higher rates; where campaigns do occur, their presence predicts higher long-term returns and stronger operating performance.[15] The activist running a campaign is not running it alone — there is a network of institutional supporters whose existence shapes both who gets targeted in the first place and what outcomes are achievable once a campaign is launched.

The final piece of the coalition is coordination among activists themselves. Wolf packs — multiple activist hedge funds engaging the same target, sometimes with explicit communication

[15] Kedia, Starks, and Wang (2021) identify activism-friendly institutions through three measures — past votes against the target's own management, past votes against management at other activist-targeted firms, and ownership increases at past activist targets — and document that their presence is associated with higher probability of being targeted, higher long-term stock returns, and higher operating performance post-campaign.

and sometimes simply because the same opportunity attracts multiple activists who recognize it independently — produce dramatically better outcomes than stand-alone engagements. In the international evidence of Becht, Franks, Grant, and Wagner (2017), more than one in five activist engagements involves multiple activists with disclosed stakes. Disclosure-period returns for wolf-pack engagements run roughly double those for stand-alone engagements (about 14% versus 6%), with substantially higher rates of achieving any outcome (78% vs. 46%) and board outcomes (32% vs. 12%). The aggregate stake of a wolf pack is larger than that of a stand-alone activist, but not by enough to fully explain the higher returns; the residual is the value of coordination itself, which both signals to fellow shareholders that the case has independent confirmation and distributes the per-activist campaign cost across multiple funds. Recent theory explains why parallel engagement is sustainable even among funds with small individual stakes: competition for investor flows gives delegated managers an incentive to bear engagement costs despite limited skin in the game.[16]

Hedge fund activism is not a solo enterprise. The composition of the coalition shapes which firms get targeted, which campaigns escalate, and which outcomes are achievable. The duality flagged in Section 2 — passive growth widening the gap while at the same time strengthening the conditions under which activism can succeed — finds its empirical expression here. What activism does outside the firms it directly targets, through the threat channel and the historical parallel with the suppressed hostile-takeover market, is what we turn to next.

6. Beyond the target: the threat channel and the takeover parallel

The previous two sections covered activism's direct effects and the coalition that produces them. The largest part of the story, however, plays out at firms it never directly engages — through the threat channel, through competitive spillovers to rivals, and through activism's role as the modern substitute for the suppressed hostile-takeover market. Two of these three channels point the same direction (more discipline, broader). One cuts the other way (competitive harm to

[16] Brav, Dasgupta, and Mathews (2022) provide a theoretical foundation: a model of multiple delegated asset managers engaging the same target in parallel. Delegation lowers each fund's skin in the game, which on its own would discourage costly engagement, but competition for investor flows restores and can amplify the incentive — explaining when and where wolf packs form and why funds with small stakes take part. The legal questions raised by coordination among activists — including the definition of "group" under Section 13(d) — are addressed in Coffee and Palia (2016).

rivals). The net is positive, but seeing why requires looking outside the firms that show up in the activism data.

Firms not directly targeted change their behavior in response to elevated activism in their industry. Managers and boards at firms that resemble recent targets perceive themselves as next in line and preemptively make the kinds of changes activists typically demand — increasing leverage and payouts, reducing excess cash and capital expenditures, and strengthening operational discipline. The cleanest empirical statement comes from Gantchev, Gredil, and Jotikasthira (2019), who use a difference-in-differences design that interacts industry-level activism intensity with firm-level threat perception. The estimated magnitudes are striking. Firms with high threat perception adjust policies in exactly the directions activists demand, with effects that amount to roughly 35–80% of those observed at directly targeted firms; their return on assets and asset turnover improve by about a quarter to half of the gains observed at targets. The valuations of high-threat firms improve, and their probability of being targeted subsequently declines — closing the disciplinary feedback loop.[17]

Not all spillovers are positive, however. When an activist campaign produces operational improvements at the target, those improvements can erode the competitive position of rivals. Aslan and Kumar (2016) document that rivals of activist targets see their price-cost markups and operating returns decline. The effects are weaker when rivals respond with efficiency improvements, and stronger in less concentrated industries. The effect on rival market shares is muted — target firms improve efficiency rather than expanding scale. The net spillover effect across non-targets is still positive, but the gross figure conceals a redistribution: part of what the threat channel adds at firms that preemptively shape up is offset by what competition takes from the rivals of improved targets.

The threat-of-activism story has a historical parallel worth flagging because it sharpens the policy stakes. Before the 1990s, the primary external disciplinary force on public-company managers was the threat of a hostile takeover, and the empirical record from that era documented

[17] The threat-perception measure in Gantchev, Gredil, and Jotikasthira (2019) is built from directors' educational network connections (school ties) to recent activist targets in other industries, picking up personal-cost considerations of threat that are orthogonal to the firm's own industry conditions. High-threat-perception firms increase leverage by 0.8% and payouts by 0.4%, cut capital expenditures by 0.4% and cash holdings by 0.6%, and improve ROA and asset turnover. The threat mechanism generalizes internationally — Maffett, Nakhmurina, and Skinner (2022) document similar effects across nearly 7,000 campaigns in 56 countries, with effects most pronounced in countries with weak minority shareholder rights.

preemptive policy responses at non-targets conceptually identical to the activism threat effects today.[18] By the late 1980s and through the 1990s, takeover defenses — poison pills, staggered boards, second-generation antitakeover statutes — had largely suppressed that market. Bertrand and Mullainathan (2003) provide the empirical evidence that this suppression raised agency costs: managers under weakened external discipline "enjoy the quiet life," with reduced firm performance and increased managerial slack the visible result. Hedge fund activism emerged as the substitute. Fos (2017) documents the substitution directly — as the hostile-takeover threat declined through the 1990s, proxy-contest activism rose to fill the disciplinary role, and the threat of a proxy contest shapes corporate policy even at firms that never face an actual contest. The mechanisms differ from the takeover era — hedge fund activism rarely produces full change of control — but the economic role is the same: an external market-based mechanism that holds managers accountable when internal governance fails.

Governance discipline radiates outward from targets, with threat-channel effects at non-targets that are a meaningful fraction of those at directly targeted firms and that generalize across jurisdictions. The net social effect is positive. The pattern is the modern continuation of the disciplinary role formerly played by the hostile-takeover threat — a role invisible in the activism dataset because, by construction, the firms that respond to the threat never become campaign targets. The same blind spot applies to engagements resolved quietly. A meaningful share of activist influence is exercised through private negotiation that is settled before — or instead of — a public campaign (Becht, Franks, Mayer, and Rossi, 2009), and behind-the-scenes engagement is pervasive among institutional investors more generally (McCahery, Sautner, and Starks, 2016). Preemptive response to the threat and privately resolved engagement both leave the public campaign count an understatement of activism's reach. The policy implication follows directly: constraints on activism evaluated only against direct effects at targeted firms systematically understate the social cost, because they ignore the threat-channel discipline that activism, in equilibrium, also provides. The levers that matter are the ones the framework identifies: the cost of building a stake, the share of gains an activist can internalize, the cost of

[18] The pre-1990s takeover-threat literature documented effects conceptually identical to the activism threat effects today. Song and Walkling (2000) develop the Acquisition Probability Hypothesis — rivals of acquisition targets earn positive abnormal returns because of the increased probability that they will be targets themselves. Servaes and Tamayo (2014) document that industry peers respond to a hostile takeover by cutting capital spending, free cash flows, and cash holdings and by increasing leverage and payouts: the same disciplinary policy responses we attribute to activism, but driven by takeover threat.

tactical escalation, and the freedom to coordinate. Section 7 engages the leading critiques of activism and then takes each lever in turn.

7. Critiques, policy, and what is next

Before turning to how potential policy constraints look through a cost-benefit framework, a serious discussion has to engage the strongest critiques of activism on their own terms. They deserve a direct response, not dismissal.

The most common practitioner criticism — that activists pressure firms toward short-term financial engineering at the expense of long-term value — does not survive the long-horizon evidence (Section 4). The most rigorous skeptical claim, that activist returns reflect stock-picking rather than genuine treatment effects (Cremers, Giambona, Sepe, and Wang, 2020), has not held up either: subsequent identification work attributes most of the announcement return to treatment. A more nuanced critique accepts the shareholder gains but argues that some come at the expense of other stakeholders — bondholders, white-collar workers, pension beneficiaries. That critique is correct on the facts; Section 4 documents the transfers. The reasonable conclusion is that activism produces a mix of value creation and redistribution: the net economic effect is positive, but the distributional concerns are real and likely to drive future regulatory attention.

The most analytically interesting critique comes from Bebchuk and Hirst (2019): even with activism filling part of the governance gap, the system is incomplete because index funds do not fully support what activists do. Here the critics are right: the activist-plus-passive coalition is partial and conditional, and the equilibrium level of governance discipline depends on how that conditional support evolves. A final critique, from Coffee and Palia (2016), is that wolf-pack coordination operates in legal gray areas under Section 13(d) that may warrant regulatory tightening. The empirical case for wolf packs is strong; whether the legal definition of "group" should be tightened is a legitimate policy question that the framework below addresses on its own terms.

The cost-benefit framework from Section 3, combined with the threat-channel evidence from Section 6, gives one unified way to think about regulatory intervention. Anything that raises an activist's stake-building cost, caps the share of gains an activist can internalize, raises the tactical cost of escalation, or constrains coordination among activists would reduce activism at the margin — and through the threat channel, the discipline activism would otherwise provide to firms that are never directly targeted. Table 1 applies the framework to five specific interventions currently in motion or recently enacted.

Table 1. The cost-benefit framework applied to five specific interventions

Policy intervention	Channel affected	Predicted direction of effect on activism
Accelerated 13D disclosure window (10 calendar days → 5 business days; 2023 SEC rule, effective 2024)	Stake-building cost	**Reduced**. Less camouflage from institutional liquidity selling raises effective stake-building cost.
Low-trigger poison pills (5–10%)	Gain internalization	**Reduced**. Capping the maximum stake reduces the share of gains an activist can internalize, with larger effects where governance reform requires substantial stakes.
Advance-notice bylaws	Tactical cost (proxy contests)	**Reduced**. tilts the equilibrium tactical mix toward negotiated settlements rather than contested elections.
Universal proxy cards (2022 SEC rule)	Tactical cost (proxy contests)	**Increased**. Lowering the cost of running a contested election should produce more contested elections at the margin.
Cash-settled equity derivatives disclosed on Schedule 13D (2023 SEC guidance; broader Rule 10B-1 withdrawn 2025)	Stake-building cost	**Modestly reduced**. Requiring derivative exposure to be disclosed on a 13D limits hidden stake-building.

Note: The final column reports a directional prediction — whether each intervention raises or lowers activism through the channel it affects — not a welfare judgment about the policy. Whether a given effect is desirable turns on the weight placed on the threat-channel discipline it strengthens or erodes, and for the tactical-cost and disclosure rules (universal proxy, advance-notice bylaws, derivatives disclosure) on implementation details still being settled.

The point is not that every intervention listed in Table 1 is necessarily wrong. The universal-proxy rule, for example, lowers the tactical cost of running a proxy fight and should increase activism at the margin — a result some readers will welcome and others will not. The point is narrower. A complete cost-benefit calculus must count the threat-channel discipline that each intervention would strengthen or erode, and counting it requires looking beyond directly targeted firms to the much larger set that responds to the threat.

Activism is an equilibrium phenomenon rather than a fixed feature of the corporate landscape. The level observed today is the equilibrium response to current institutional ownership patterns, legal protections, capital availability, and targeting opportunities — and changes in any of these will shift it over time. The continued growth of passive ownership in particular has the dual effect we have described, and both halves of it point in the same direction: activism's role in the governance system is more likely to grow than to shrink.

This conclusion comes with one caveat that has become hard to ignore. The secondary-supporter role described in Section 5 rests on a specific arrangement — a small number of large managers with centralized stewardship teams whose votes an activist could anticipate and court — and that arrangement is now being unwound. Under political and public pressure, the largest managers have begun to hand voting decisions back to underlying investors through "voting choice" programs, and have moved to split their centralized stewardship functions (Brav, Li, Lund, and Pan, 2025). The effect on activism cuts both ways. Fragmenting a few predictable voting blocs into smaller, independent ones could weaken the coalition activists depend on; alternatively, the investors and fund managers newly empowered to vote have so far leaned more against management than the centralized teams they replace, which would enlarge the pool of activist-friendly votes.[19] Which force dominates is unresolved, but it is the development most likely to reshape the activist-passive coalition in the coming years.

The structural features that make hedge funds effective equity activists (Section 3) also make them effective interveners across the capital structure. Two parallel forms deserve flagging. Activist short selling — funds that take short positions and publish detailed research documenting weak disclosure or accounting fraud — has grown substantially in the past two decades. Aggregate valuation effects from short campaigns are similar in magnitude to the gains from long activism, and roughly 80% of short campaigns are undertaken by funds that also pursue long-side activism.[20] Debt and Chapter 11 activism is the other adjacent form: hedge fund involvement in Chapter 11 cases is associated with higher debt recovery, a greater likelihood of

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[19] The theoretical consequences of this fragmentation are ambiguous: Malenko, Malenko, and Tsoy (2026) show that delegating votes to individual fund managers need not weaken oversight, but that pass-through voting — adopted under competitive pressure rather than investor demand for governance — dilutes monitoring relative to coordinated block voting; they also note that the concentrated ownership of the large managers has itself facilitated shareholder activism. Empirically, Herrmann, McInnis, Monsen, and Starks (2025) exploit Vanguard's decentralization of voting authority and find that the newly enfranchised fund managers oppose management and support shareholder proposals at significantly higher rates than the centralized stewardship group.

[20] Appel and Fos (2024) document that the number of activist short campaigns has grown dramatically over the past two decades, with nearly 80% undertaken by activist hedge funds — especially those that employ hostile tactics in their long campaigns. Short campaigns produce average abnormal returns of about −7%, and aggregate valuation effects are similar in magnitude to the gains from long activism campaigns. Public communication is a critical component of short campaigns, in contrast to long campaigns where private engagement dominates.

emergence from bankruptcy, and more balanced bargaining between debtors and secured creditors.[21] The cost-benefit calculus from Section 3 generalizes naturally to both. The practical implication is that policy interventions that constrain equity activism may simply shift activity to these adjacent channels rather than reduce the underlying disciplinary function.

Hedge fund activism is best understood not as a phenomenon in isolation but as one component of a broader market-based governance system — alongside the supporting institutional ecosystem of fellow shareholders and the threat-channel discipline that radiates to non-targets. The policy question worth asking is not whether activism is too aggressive in any particular campaign. The question is whether the corporate governance system can do without the function activism performs in an era of rising passive ownership. The evidence assembled in this paper suggests it cannot. Constraints on activism, evaluated honestly, should be measured against that question — not against the direct-effect ledger that has dominated the policy debate.

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[21] Jiang, Li, and Wang (2012) show that hedge funds in Chapter 11, especially as unsecured creditors, help balance power between the debtor and secured creditors; their presence is associated with higher debt recovery and a higher likelihood of emergence, consistent with efficiency gains rather than value extraction.

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Online Appendix — Annotated Literature Map

This appendix supplements the body of the paper with an annotated guide to the underlying research record. Each appendix section tracks the corresponding section of the main text and, within each section, groups papers by sub-theme with a one- or two-sentence description of what each paper does and why it matters for the argument in the body. Readers, researchers, and students who want to engage the underlying literature in depth should find this useful as a starting point. Papers discussed in the body are listed in the *References* section preceding this appendix. The appendix also draws on a number of foundational and background works that are not cited in the body; full bibliographic details for these appear at the end of the appendix, under *Additional Appendix References*.

A.1 The Governance Gap (Section 2)

Foundational theory of ownership, control, and agency

Berle and Means (1932). The classic statement of the separation of ownership and control in the modern corporation. The starting point for the governance literature.

Jensen and Meckling (1976). Develops the agency theory of the firm, framing the manager–shareholder relationship as a principal–agent problem subject to monitoring and bonding costs.

Jensen (1986). The free-cash-flow theory: managers of firms with significant free cash flow have private incentives to overinvest rather than return capital to shareholders. The diagnosis behind a large share of activist campaigns.

Shleifer and Vishny (1986). The classic theoretical case that a large outside shareholder can overcome the free-rider problem in monitoring by acquiring a stake big enough to internalize a meaningful share of the gains from intervention.

Burkart, Gromb, and Panunzi (1997). Models the control-versus-managerial-initiative trade-off: tighter monitoring by a large shareholder reduces agency costs but also weakens the manager's incentive to exert effort and undertake firm-specific initiatives.

Edmans and Holderness (2017). A comprehensive survey of blockholder theory and evidence.

Trends in institutional and blockholder ownership

Brav, Lund, and Zhao (2026). Documents the rise of institutional ownership of U.S. equity, with average firm-level institutional ownership rising from 38% in 2000–2004 to about 59% in 2020–2022.

Hadlock and Schwartz-Ziv (2019). Documents trends in blockholder ownership in U.S. public firms from 2001 to 2014, with the share of firms with multiple blockholders rising from 62% to 81%.

Active institutions and the limits of engagement

Black (1990). The foundational legal statement of the institutional-passivity argument: collective-action problems, regulatory constraints, and conflicts of interest combine to make traditional active institutions reluctant to confront management even when their stakes would justify it.

Coffee (1991). Articulates the liquidity-versus-control trade-off: an institution's preference for portfolio liquidity discourages it from taking the large, illiquid stakes that effective monitoring requires. An early statement that the activism literature later builds on.

Rock (1991). Examines the limits and logic of institutional shareholder activism in the early 1990s.

Romano (1993, 2001). Critical assessments of public pension fund activism and the conditions under which institutional activism can be an effective governance mechanism.

Smith (1996). Empirical evidence on CalPERS targeting in the early 1990s: governance changes achieved at most targeted firms and small positive wealth effects for settling firms, but no significant operating-performance improvement.

Wahal (1996). Pension fund activism and firm performance: another early empirical assessment of institutional activism's limits.

Carleton, Nelson, and Weisbach (1998). Documents the influence of TIAA-CREF on corporate governance through private negotiations.

Del Guercio and Hawkins (1999). Motivation and impact of pension fund activism; finds that pension funds have modest direct impact on portfolio firm value.

Gillan and Starks (2000). Corporate governance proposals and the role of institutional investors in shareholder activism.

Gillan and Starks (2007). The canonical survey of decades of institutional shareholder activism. The reference for the conclusion that traditional active institutions produce modest effects largely confined to procedural governance.

Karpoff (2001). Earlier comprehensive survey of empirical findings on shareholder activism's effects on target companies.

Denes, Karpoff, and McWilliams (2017). Survey of 73 empirical studies of shareholder activism across three decades. Concludes that activism involving ownership-block formation (which hedge fund activism does) is more value-increasing than activism without blocks.

McCahery, Sautner, and Starks (2016). Survey of institutional investors providing direct evidence that engagement is conducted extensively behind the scenes — privately with management and, often, with boards — and that voice and governance-motivated exit function as complements, with private intervention typically preceding exit. Long-horizon investors and those less concerned about liquidity engage most intensively.

Exit as a governance mechanism

Edmans (2009). Develops the theory that blockholder trading on private information (exit) can serve as a governance mechanism even without direct intervention.

Admati and Pfleiderer (2009). The "Wall Street walk" model of exit as a form of voice — the threat that an informed institution may sell can discipline managers even without direct engagement.

The conflict-of-interest channel at traditional active institutions

Davis and Kim (2007). The first systematic empirical evidence that fund families with more business ties vote with management more often across their portfolios.

Cvijanović, Dasgupta, and Zachariadis (2016). Establishes the firm-specific client-favoritism effect: mutual fund families with business ties to a portfolio company are more likely to vote with management on contested proposals at that company.

Index funds and the agency-cost diagnosis

Bebchuk and Hirst (2019). The seminal statement of the agency-cost theory of index fund stewardship. Index fund managers are compensated on AUM and tracking error rather than on portfolio firm value, predicting systematic underinvestment in substantive engagement.

Bebchuk, Cohen, and Hirst (2017). Earlier framing of the agency problems of institutional investors as a whole.

Heath, Macciocchi, Michaely, and Ringgenberg (2022). Index funds vote against management roughly 10 percentage points less often than active funds on contentious items; using Russell 1000/2000 reconstitutions, higher index ownership is associated with weaker board independence and pay-performance sensitivity.

Brav, Jiang, Li, and Pinnington (2024). Comprehensive study of mutual fund voting in proxy contests using hand-collected regulatory filings. Documents that passive funds are about 10 percentage points less likely than active funds to support dissidents.

Schmidt and Fahlenbrach (2017). Uses index thresholds to document that increases in passive institutional ownership are associated with weaker corporate governance and lower-quality M&A.

Lund (2018). Legal-academic case against passive shareholder voting.

Coates (2018). "The Problem of Twelve": the concentration of effective control over most public companies in a small number of large asset managers — the "twelve."

Gilson and Gordon (2013). "The Agency Costs of Agency Capitalism": activist investors as the response to the agency costs of intermediated ownership.

The counterview: passive funds and procedural governance improvements

Appel, Gormley, and Keim (2016). "Passive Investors, Not Passive Owners": higher passive ownership is associated with greater board independence, removal of poison pills, and reduced restrictions on shareholders' ability to call special meetings.

Bubb and Catan (2022). Using cluster analysis of mutual fund votes, shows that funds sort into three voting "parties," with the Big Three forming the largest and most management-deferential bloc (the "Traditional Governance Party").

Crane, Michenaud, and Weston (2016). Effect of institutional ownership on payout policy, identified through index inclusion thresholds.

Boone and White (2015). Effect of institutional ownership on firm transparency and information production.

Fisch, Hamdani, and Solomon (2019). A theoretical framework for passive investors as governance actors.

A.2 Why Hedge Funds, and How They Make the Math Work (Section 3)

Historical arc: from the market for corporate control to hedge fund activism

Manne (1965). The classic statement of the market-for-corporate-control hypothesis: takeover threats discipline management even without actually changing control. The conceptual ancestor for the "market for corporate influence" framing later applied to hedge fund activism.

Jensen and Ruback (1983). Documents that the market for corporate control created value at target firms.

Bethel, Liebeskind, and Opler (1998). The closest empirical predecessor to hedge fund activism: activist blockholders in the 1980s producing operating and financial improvements without seeking control.

Cheffins and Armour (2011). An influential law-and-economics analysis tracing the rise of hedge fund activism and coining the framing of activists as creating a "market for corporate influence" complementary to Manne's "market for corporate control."

Structural features of hedge funds as governance interveners

Brav, Jiang, Partnoy, and Thomas (2008). The seminal large-sample empirical study of hedge fund activism. Identifies the four structural features that align hedge funds with the costs and timeline of activism (compensation, lockups, regulatory flexibility, freedom from business-tie conflicts). The empirical anchor for most of what follows in the literature.

Kahan and Rock (2007). A foundational legal-economic account of why hedge funds are uniquely positioned to engage in activism, emphasizing regulatory flexibility, incentive structure, and ability to take concentrated positions.

Bratton (2007). Early empirical survey of 130 hedge fund activist targets (2002-2006), documenting the funds' demands, tactics, and their high rate of success in getting targets to accede through the proxy system.

Partnoy and Thomas (2007). Casts hedge fund activism as a "gap-filling" innovation that exploits the limits of mutual funds, private equity, and regulators alike.

Klein and Zur (2009). Independent sample corroborating the basic tactical patterns documented by Brav, Jiang, Partnoy, and Thomas (2008).

Clifford (2008). Shows that intent matters as much as size: activist (13D) blocks held by hedge funds earn significantly larger announcement returns and greater operating improvements than passive (13G) blocks held by the same funds.

Boyson and Mooradian (2011). Independent empirical assessment of corporate governance and hedge fund activism.

Boyson and Pichler (2019). Documents that target management resists hedge fund activists in 43% of campaigns, and that hostile resistance reduces target value unless the activist counter-resists.

The free-rider problem and the liquidity resolution

Grossman and Hart (1980). The classic statement of the free-rider problem in takeovers and shareholder monitoring.

Maug (1998). Provides the canonical theoretical answer that liquidity facilitates rather than impedes monitoring, because it allows the activist to accumulate shares at prices that do not yet reflect the gains from intervention.

Kahn and Winton (1998). Theoretical analysis of when a blockholder will engage in monitoring rather than trade on private information.

Edmans and Manso (2011). Models governance through trading and intervention in a setting with multiple blockholders.

Admati, Pfleiderer, and Zechner (1994). Theoretical analysis of large shareholder activism, risk sharing, and financial market equilibrium.

Cohn and Rajan (2013). Models a board arbitrating between an activist and a manager; internal and external governance are substitutes when external governance is weak and complements when it is strong.

Empirical evidence on liquidity, stake-building, and market efficiency

Gantchev and Jotikasthira (2018). Documents that institutional net selling is a key catalyst for hedge fund campaigns; a one-standard-deviation decrease in institutional net volume reduces time to targeting by 2.4 years.

Edmans, Fang, and Zur (2013). Uses decimalization as an exogenous shock to liquidity and shows that stock liquidity has a positive unconditional effect on blockholder governance through both voice and exit.

Norli, Ostergaard, and Schindele (2015). Confirms the liquidity–activism link in a sample of 385 events: liquidity has a statistically significant positive effect on the probability of activism.

Collin-Dufresne and Fos (2015). Shows that standard measures of price impact and adverse selection are lower – even negative – on days activists accumulate shares, because activists time their purchases to high-liquidity periods and use limit orders, allowing them to build stakes without revealing their informed trading.

Tactical escalation and campaign costs

Gantchev (2013). Models hedge fund activism as a sequential decision and estimates each stage's cost. Per-stage costs are $2.94M for demand negotiations, $1.83M additional for board representation, and $5.94M additional for a proxy contest — about $10.7M total for a full escalation.

Becht, Franks, Mayer, and Rossi (2009). A clinical study of the Hermes U.K. Focus Fund using proprietary engagement data; activism is executed predominantly through private interventions invisible to public-data studies, with the fund's abnormal returns driven by engagement rather than stock-picking.

A.3 What Activism Does at Target Firms (Section 4)

Announcement returns and the long-run question

Brav, Jiang, Partnoy, and Thomas (2008). The empirical baseline: an approximately 7% announcement-period abnormal return at target firms with no reversal during the subsequent year, alongside increases in payout, operating performance, and CEO turnover.

Bebchuk, Brav, and Jiang (2015). The most thorough examination of long-run effects, looking at a five-year window post-intervention. Finds no evidence of reversal or pump-and-dump patterns. The empirical refutation of the short-termism critique.

Brav, Jiang, and Li (2022). Comprehensive recent survey of the empirical literature on hedge fund activism, with the updated objective distribution across 4,657 events from 1994 to 2018.

Becht, Franks, Grant, and Wagner (2017). International evidence on hedge fund activism across 23 countries showing that U.S. announcement-return and outcome patterns generalize internationally.

Klein and Zur (2009). Replicates the positive announcement-return finding in an independent sample.

Clifford (2008). Independent replication of value creation at activist target firms.

Greenwood and Schor (2009). Documents that activist returns are concentrated in campaigns that result in M&A.

Boyson and Mooradian (2011). Independent replication using a different sample and methodology.

Cremers, Giambona, Sepe, and Wang (2020). The leading skeptical view: using matched-sample procedures, argues that activist returns are largely driven by stock-selection and trading skill rather than treatment effects.

Albuquerque, Fos, and Schroth (2022). Structural model of the choice between active and passive beneficial ownership (13D vs. 13G) that decomposes activist announcement returns into treatment, stock-picking, and selection components, finding the treatment (genuine value creation) component dominant – about three-quarters.

Governance reform: settlements and board changes

Bebchuk, Brav, Jiang, and Keusch (2020). Comprehensive analysis of activist settlements, which rose from 3% of campaigns in 2000 to 21% in 2013, with activists receiving 1.8 board seats on average. Settlements are followed by CEO turnover, increased payouts, and improved operating performance, with positive stock-price reactions and no evidence of rent extraction.

Kang, Kim, Kim, and Low (2022). Activist-appointed independent directors act as substantive monitors rather than cosmetic appointments, creating the most value in overinvestment-prone, high-agency-problem firms, especially when they hold monitoring-committee seats.

Wu and Chung (2022). Following activism, target firms make fewer acquisitions, and their post-activism deals are received more favorably by the market; the improvement in M&A decisions reflects better governance, including CEO and director turnover.

The M&A channel and activism mergers

Boyson, Gantchev, and Shivdasani (2017). Activist interventions substantially increase the probability of a takeover offer. Third-party bids at activist targets earn higher target announcement returns, premia, and completion rates, and failed bids still produce real operating improvement — the decisive evidence that the mechanism is governance reform rather than deal-arbitrage.

Corum and Levit (2019). Theoretical work on why activists, unlike conflicted bidders, are aligned with target shareholders and can credibly pressure entrenched boards to accept value-increasing bids.

Jiang, Li, and Mei (2018). Documents that activists also engage after deals are announced to push for better terms.

Hege and Zhang (2022). Activism clusters in industry waves and reshapes the broader market for corporate assets, with peer firms, not just targets, divesting more and acquiring less.

Gantchev, Sevilir, and Shivdasani (2020). Activists target firms with empire-building track records and reshape acquisition and divestiture strategy through three governance channels: removal of empire-building CEOs, compensation incentives, and new board appointments.

The productivity and innovation channels

Brav, Jiang, and Kim (2015). Uses U.S. Census plant-level data to document an increase in total factor productivity of 5.2 to 11.8% of a standard deviation and an 8.4–9.2% rise in labor productivity at target plants over three years. Productivity rises in non-primary industry segments, ruling out activist industry-specific selection as the mechanism.

Brav, Jiang, Ma, and Tian (2018). Innovation efficiency rises post-activism: R&D expenditures tighten while patent counts and citation-weighted patent quality both increase.

Boyson, Ma, and Mooradian (2022). Categorizes activists by prior work experience – investment-banking, private-equity/special-situations, or nonfinancial – and shows that these skill differences shape activists' campaign choices and outcomes.

Distributional consequences

Brav, Jiang, and Kim (2015). In the same plant-level data, documents that white-collar wages decline by 5.0% at target plants while labor productivity rises 8.4–9.2%, implying a transfer of labor rents from white-collar workers to shareholders.

Klein and Zur (2011). Documents bondholder losses at activism targets – excess bond returns of about −3.9% around the 13D filing and a further −4.5% over the following year – consistent with wealth transfer from bondholders to shareholders.

Agrawal and Lim (2022). Documents underfunding of defined-benefit plans and reduced employer contributions to defined-contribution plans at target firms, suggesting a partial wealth transfer from employees to shareholders.

A.4 The Supporting Coalition (Section 5)

Passive funds as secondary supporters of activism

Appel, Gormley, and Keim (2019). "Standing on the Shoulders of Giants": activists are more likely to seek board representation when a larger share of the target's stock is held by passively managed mutual funds. Higher passive ownership is also associated with greater use of proxy fights, settlements, and higher likelihood of board outcomes. The empirical anchor for the dual-role resolution of passive investors.

Bebchuk and Hirst (2019). Already discussed for the weak-primary-monitoring case. Provides the complementary half of the dual-role picture: passive investors are weak initiators but conditional supporters.

Activism-friendly institutions

Kedia, Starks, and Wang (2021). Identifies activism-friendly institutions through past votes against the target's own management, past votes against management at other activist-targeted firms, and ownership increases at past activist targets. Their presence is associated with higher probability of being targeted, higher long-term stock returns, and higher operating performance post-campaign.

Wolf packs and coordination among activists

Becht, Franks, Grant, and Wagner (2017). The main empirical reference for international wolf packs: 21.7% of activist engagements involve multiple activists with disclosed stakes. Wolf-pack disclosure-period returns average 13.8%, roughly double the 6.3% for stand-alone engagements, with substantially higher rates of any-outcome (78% vs. 46%) and board outcomes (32% vs. 12%).

Brav, Dasgupta, and Mathews (2022). The theoretical foundation for wolf packs: multiple delegated asset managers engage the same target in parallel. Delegation lowers skin in the game, but competition for investor flows restores engagement incentives, predicting when and where wolf packs arise and why even small-stake funds participate.

Coffee and Palia (2016). "The Wolf at the Door": the law-review treatment of the legal and regulatory questions wolf packs raise, including the definition of "group" under Section 13(d).

A.5 Spillovers and the Threat Channel (Section 6)

Threat-channel discipline at non-targets

Gantchev, Gredil, and Jotikasthira (2019). The cleanest empirical statement of the threat channel. Uses a difference-in-differences design that interacts industry-level activism intensity with firm-level threat perception measured via director network connections. High-threat firms adjust policies in the directions activists demand, with magnitudes 35–80% of those at direct targets.

Maffett, Nakhmurina, and Skinner (2022). International evidence on threat-channel effects across nearly 7,000 campaigns in 56 countries, with effects most pronounced in countries with weak minority shareholder rights.

Negative spillovers: competitive harm to rivals

Aslan and Kumar (2016). Rivals of activist targets experience reductions in price-cost markups and operating returns, commensurate with the target's efficiency gains; the effect on rival market shares is smaller — consistent with targets improving efficiency rather than expanding scale — and all effects are weaker when rivals improve their own efficiency in response. The central evidence that some target gains come at the expense of competitors.

The historical takeover-threat parallel

Manne (1965). Already cited. The conceptual ancestor for treating the threat of external discipline as itself disciplinary, even at firms never directly targeted.

Jensen and Ruback (1983). Already cited. Documents that the takeover market created value at target firms in the pre-1990s era.

Song and Walkling (2000). The Acquisition Probability Hypothesis: rivals of acquisition targets earn positive abnormal returns because of the increased probability that they will be targets themselves. The structural ancestor of the activism-threat evidence.

Servaes and Tamayo (2014). Industry peers respond to another firm being the subject of a hostile takeover by cutting capital spending, cash holdings, and free cash flows and increasing leverage and payouts — the same disciplinary responses we attribute to activism today.

Bertrand and Mullainathan (2003). "Enjoying the Quiet Life": empirical evidence that the suppression of the hostile-takeover threat through the 1990s raised agency costs, with managers under weakened external discipline showing reduced firm performance and increased slack.

Fos (2017). Documents the substitution between hostile takeovers and proxy contests. As the takeover threat declined through the 1990s, proxy-contest activism rose to fill the disciplinary role, shaping policy even at firms that never face an actual contest.

A.6 Critiques, Policy, and Adjacent Forms (Section 7)

The short-termism critique and its rebuttals

Bebchuk, Brav, and Jiang (2015). Already cited. The empirical refutation of the short-termism critique: no evidence of long-run reversal of the announcement-return gains.

Cremers, Giambona, Sepe, and Wang (2020). Already cited. The most rigorous matched-sample challenge to the value-creation findings.

Stakeholder redistribution

Brav, Jiang, and Kim (2015). Already cited. Documents the wage redistribution at target plants.

Klein and Zur (2011). Already cited. Documents bondholder losses.

Agrawal and Lim (2022). Already cited. Documents pension underfunding and reduced contributions – a partial transfer from employees.

Incomplete coalition and the role of passive support

Bebchuk and Hirst (2019). Already cited. The analytically interesting critique that even with hedge fund activism, the governance system is incomplete because index funds do not fully support what activists do.

Appel, Gormley, and Keim (2019). Already cited. Documents the partial-and-conditional secondary-supporter role of passive investors.

Legal questions on coordination and stake-building

Coffee and Palia (2016). Already cited. The argument that wolf-pack coordination operates in legal gray areas under Section 13(d) that may warrant regulatory tightening.

Bebchuk, Brav, Jiang, and Keusch (2020). Already cited. The settlement-driven landscape that advance-notice bylaws have shifted activists toward.

Gantchev and Jotikasthira (2018). Already cited. Underpins the prediction that shortening the 13D disclosure window raises effective stake-building costs.

Activist short selling

Appel and Fos (2024). The first comprehensive empirical study of short campaigns by hedge funds. About 80% are undertaken by funds that also pursue long-side activism. Aggregate valuation effects are similar in magnitude to long activism. Public communication is a critical component of short campaigns.

Debt and Chapter 11 activism

Jiang, Li, and Wang (2012). Hedge funds in Chapter 11, especially as unsecured creditors, help balance power between the debtor and secured creditors – raising the likelihood of emergence, APR deviations in favor of junior claims, and overall debt recovery, consistent with efficiency gains rather than value extraction.

Heterogeneity in the activist population

Boyson, Ma, and Mooradian (2022). Already cited. Activists' prior work experience – investment-banking, private-equity/special-situations, or nonfinancial – shapes their campaign choices and outcomes.

The evolving structure of passive support

Brav, Li, Lund, and Pan (2025). First empirical analysis of a large manager's "voting choice" program — the policy menus offered and their uptake — arguing that diffusing voting power to underlying investors carries both promise and peril for the coalition activists rely on.

Malenko, Malenko, and Tsoy (2026). Framework for how fund proliferation and decentralized stewardship reshape ownership concentration and monitoring; decentralization need not weaken governance, but the concentrated ownership that has facilitated activism may be diluted by it.

Herrmann, McInnis, Monsen, and Starks (2025). Uses Vanguard's decentralization of voting authority to show that newly enfranchised fund managers oppose management and support shareholder proposals more often than the centralized stewardship team.

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