EXAMINING THE IMPACT OF SHAREHOLDER ACTIVISM ON THE TARGETED FIRMS' TEMPORAL ORIENTATION AND RESOURCE DECISIONS

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ABSTRACT

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Prior research on shareholder activism has expanded our knowledge of how activism affects firms, especially with respect to the types and magnitudes of activist-impelled changes. However, it remains unanswered how deeply activist intervention morphs the targeted firms and how long such changes persist. Focusing on the firm temporal orientation, I develop theory on how activism influences the targeted firm's time horizon, both when attacked by activists and when activists leave the firm. I open the dissertation by reviewing the rapidly evolving research in shareholder activism. In my first empirical study, I examine how activist intervention shortens the targeted firm's time horizon, and how the degree of shortening is contingent on the relative motivation and capability of activist investors vis-à-vis managers. In the second study, I propose that targeted firms shift their course of strategy once activist investors leave the firm, specifically by increasing their resource-consuming investments. Yet, because of the inherent temporal trade-off such investments present, I posit that the degree of shift is likely affected by leader attributes and situational factors. Specifically, I argue that the CEOs who are high in their future temporal focus and who have a high level of prospective wealth will increase their resource-consuming investments to a greater degree. In addition to testing hypotheses, the empirical data revealed an unexpected insight into the time horizon changes in non-targeted firms. With my dissertation, I aim to contribute to streams of research on shareholder activism, firm temporal orientation, and corporate governance.

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INTRODUCTION

Activist investors[1] accumulate equity stakes in a firm with an intention to pressure their agenda onto firm management (Goranova & Ryan, 2014). Roughly one thousand firms are targeted every year globally (Activist Insight, 2019), and seventy percent of companies capitulate to the activists' demands (Boyson & Mooradian, 2011) such as redistributing earnings to shareholders (e.g., Apple, GM), adjusting the scope of the firm (e.g., eBay's PayPal spin-off, Dow and DuPont merger), dismissing a CEO (e.g., Microsoft, Intel, and GE), restructuring the board (e.g., P&G, Darden), and putting the firm up for sale (e.g., The Whole Foods). The growing presence of activist investors has not only posed "an existential threat…[to] chief executives" (WSJ, 2017) but also "undeniably changed the corporate landscape" (SEC Chair's Speech, 2015).

While the trend has drawn a great deal of attention from practitioners and academics alike, the fundamental question of how activism affects the targeted firms continues to be debated (Ahn & Wiersema, 2021; Chen & Feldman, 2018). One stream of research argues that activism addresses operational inefficiency and agency costs, unlocking hidden value (Bebchuk, Brav, & Jiang, 2015) while another stream of research argues that activist investors merely transfer the long-term value to short-term gains (Klein & Zur, 2011). This disagreement clearly evinces that our knowledge of the phenomenon is incomplete.

Prior research focused on two forms of activism outcomes. First, studies examined the changes in financial metrics, such as stock prices or earnings, before and after an activist intervention. The majority of studies have found that activist intervention is associated with an

[1] Activist investors are distinguished from social activists who seek to remedy a perceived social issue at firms, such as environmental concerns, LGBT rights, or labor issues, as activist investors intend to realize financial gains. (Briscoe & Gupta, 2016)

improvement in firm performance (Brav, Jiang, Partnoy, & Thomas, 2008), although some scholars criticize that financial metrics only paint a partial picture of how activism influences firms (DesJardine & Durand, 2020). Second, studies have examined whether the activists' demands are accommodated or rejected by the management (David, Bloom, & Hillman, 2007). While introducing the role of targeted firm managers into theory provided much insight, studies largely treated managers' responses as binary, overlooking how firms behave beyond their direct responses to activist demands. This two-pronged approach in prior research has not only hindered building a comprehensive understanding of the phenomenon but also left the theoretical mechanism through which activist intervention influences the targeted firms sparsely examined.

In this dissertation, I aim to advance the literature by examining how firms shift their strategic courses around activist investors' sojourn. In examining how firms adjust their strategies, I focus on the temporal aspect of firm strategic decisions. Scholars have long recognized that the temporal dimension of firms' strategic decisions—such as planning horizons for projects, timing norms in implementation, or managing different time frames of competitive cycles— is fundamental to many strategic outcomes (Ancona, Goodman, Lawrence, & Tushman, 2001; Das, 1987). The temporal dimension of firm strategies warrants particular attention in the context of activism because activist investors have different temporal preferences from managers. While activist investors are likely to impose a short-term view (Coffee & Palia, 2016; Klein & Zur, 2006), the firm needs to consider both short-term and long-term outcomes; this conflict, in turn, creates tension over the firm's time horizons (Flammer & Bansal, 2017). Examining the changes in the targeted firm's temporal decisions can shed light on how firms are oriented to make strategic decisions under activist pressures, uncovering the theoretical link between activist intervention and the firm's future trajectory.

This dissertation is structured as follows. In the first chapter, I review and summarize prior research on shareholder activism, and discuss what we know about the antecedents and consequences of activism. I close the chapter with a discussion on the implications of prior findings and the gap in the literature.

The second chapter is my first empirical study, examining how activist intervention affects the targeted firms' time horizon. Since activist investors emphasize quick returns and trigger defensive reactions from managers (Greenwood & Schor, 2009; Hadani, Goranova, & Khan, 2011), I theorize that targeted firms' time horizon will shorten in response to activist intervention. Since the change in firm time horizon is a result of reciprocal interactions between managers and activist investors, the degree of time horizon change is theorized to be contingent on the relative motivations and capabilities of activist investors vis-à-vis those of managers.

In the last chapter, I present my second empirical study on the targeted firms' strategic actions after activists exit the firm. I draw on the resource-consuming and resource-freeing framework (Kuusela, Keil, & Maula, 2017) to develop theory on managers' resource allocation decisions post activist exit. Resource allocation decisions signify firms' temporal orientation by posing a trade-off between freeing resources for immediate use and consuming resources for future returns. I propose that managers engage in more resource-consuming actions after activists exit the firm because managers seek to restore the foundations of long-term profit and craft a positive message about the firm's future. Yet, since resource-consuming investment comes with temporal trade-offs, the degree to which managers engage in resource-consuming investments will be contingent on the distance into which CEOs look to the future. Thus, I argue that CEOs' temporal preference is shaped by their underlying disposition and their compensation structure.

CHAPTER 1. LITERATURE REVIEW

The fields of management, finance, law, and public policy have accumulated a substantial body of literature examining shareholder activism, especially regarding which firms are targeted and what changes follow activism campaigns. In this literature review, I begin by providing a brief description of the phenomenon. In the following sections, I review extant research and summarize the findings. First, I discuss the findings on the antecedents of activism—firm characteristics that predict the likelihood of being targeted by activist investors. Then, I discuss research on the outcomes of activism, which largely revolves around short-term financial effects along with some documentation of structural and governance changes. The section ends with a discussion of the implications of current findings and the gaps in extant research, to which my dissertation strives to add.

SHAREHOLDER ACTIVISM AS A PHENOMENON

Activist investors take an equity stake in a company, of usually less than 10%, with an intention to influence the management of the company by leveraging their rights as shareholders. The SEC regulation requires that investors who acquire over 5% in a company with the intention to influence management must disclose their stake and intentions by filing a Schedule 13D. Having acquired the shares, activist investors put pressure onto the management by directly invoking or threatening to exercise their shareholder rights, which include: rights to submit proposals, to initiate a proxy vote, to vote on major issues such as director election, mergers or acquisitions, or managerial compensations and hires, to nominate directors, and to seek litigation against the firm (Securities Exchange Act of 1934). The strategic changes activists demand vary widely in content and forms. For example, activist demands often include changes in firm financials (dividends, debt, cost-cutting), structure (divestitures, M&As, sales of assets), and

corporate governance (restructure managerial compensation, replace managers or directors, request board seats). These demands are communicated via shareholder proposals, private negotiations, proxy fights, litigations, or publicity campaigns (e.g., open letters to shareholders, letters to CEOs, and media interviews).

SUMMARY OF PRIOR RESEARCH

Antecedents

Since shareholder activism is an expression of dissatisfaction by shareholders, firms are more likely to experience activism when shareholders have reasons to believe that their investments are not being properly managed. Prior studies have predicted that performance metrics and corporate governance practices often serve as such signals that, when they fall short of expectations, can prompt shareholders to intervene.

Prior Performance

Studies have found support for the prediction that firms with unsatisfactory performance are more likely to attract shareholder intervention. Specifically, targeted firms are shown to have experienced lower stock performances before an activist campaign, compared to non-targeted firms or to the market benchmark (Bebchuk, Brav, & Jiang, 2015; Boyson & Mooradian, 2011; Brav et al., 2008; Clifford, 2008; Del Guercio, Seery, & Woidtke, 2008; Ertimur, Ferri, & Muslu, 2011; Greenwood & Schor, 2009; Renneboog & Szilagyi, 2011). For example, Becht and colleagues found that, in their sample, targeted firms are "in the bottom quintile of [stock] performance in the six months prior to the initial intervention." (Becht *et al.*, 2009: p. 3108). Targeted firms tend to be poor performers with regard to operating performances as well. They have lower ROA (Del Guercio et al., 2008; Ertimur et al., 2011; Wahal, 1996), ROS (Karpoff, Malatesta, & Walkling, 1996), sales growth (Boyson & Mooradian, 2011; Brav, Jiang, & Kim,

2010; Brav et al., 2008; Gow, Shin, & Srinivasan, 2014; Karpoff et al., 1996; Zhu, 2020), market-to-book ratio (or M-B) (Bizjak & Marquette, 1998; Boyson & Mooradian, 2011; Brav et al., 2008; Clifford, 2008; Greenwood & Schor, 2009; Karpoff et al., 1996), and Tobin's Q (Boyson & Mooradian, 2011; Brav et al., 2008) compared to those of non-targeted firms. These findings are consistent with the view that poor performance serves as a signal of potential agency problems, prompting activist intervention.

Yet, several studies have found an insignificant relationship between attracting shareholder activism and prior performance, measured in stock valuations (Bizjak & Marquette, 1998; Karpoff et al., 1996; Smith, 1996) and operating performances (Klein & Zur, 2009 [using M-B ratio]; Smith, 1996 [using M-B]; Strickland, Wiles, & Zenner, 1996 [using M-B, ROA, ROE]). Studies even found a positive relationship between attracting activism and certain profitability measures, including ROA, ROE, and cash flows (Boyson & Mooradian, 2011; Brav et al., 2010, 2008; Clifford, 2008; Klein & Zur, 2009, 2011). For example, Klein and Zur (2009) found that certain types of activist funds target firms with strong financials—higher one-year abnormal return, higher level of cash on hand, positive earnings, and positive cash flows. Scholars speculated that some activist investors might target financially strong firms in order to extract more value in the short-term, rather than to improve the general health of the firm in the long run (DesJardine & Durand, 2020; Kahan & Rock, 2007; Klein & Zur, 2009).

Corporate Governance

The relationship between governance and shareholder activism is more complicated than that of prior performance and experiencing activism. Studies proposed two competing predictions as to whether effective governance leads to more or less activism. On the one hand, effective governance may *deter* activism by curbing managerial opportunism and self-interested

behavior. This argument implies that shareholder activism works as a substitute for existing corporate governance practices, providing a remedy when existing governance fails. On the other hand, some studies suggested that effective governance may *facilitate* activism by allowing shareholders to take timely actions when they have concerns. This argument implies that shareholder activism is a complementary governance practice, and that shareholder activism is a manifestation of vigilant shareholder monitoring, rather than of failed governance.

Interestingly, studies have found support for both predictions. One line of research suggests that strong corporate governance seems to deter activist intervention while weak corporate governance attracts activist campaigns (Gillan & Starks, 2007). For example, strong managerial incentives to maximize shareholder interests (e.g., high insider ownership) are found to attract fewer activism campaigns (Bizjak & Marquette, 1998; Carleton, Nelson, & Weisbach, 1998; Prevost & Rao, 2000; Renneboog & Szilagyi, 2011; Smith, 1996). Smaller (Gow et al., 2014) or more independent boards (Bates & Hennessy, 2010; Del Guercio et al., 2008), which are considered capable of exercising more effective monitoring, lower the likelihood of experiencing activism. CEO-Chairman duality (Ertimur et al., 2011; Renneboog & Szilagyi, 2011) and higher executive pay (Ertimur et al., 2011; Ferri & Sandino, 2009) are found to attract more activism (*cf*. Cai & Walkling [2011] found an insignificant relationship).

However, a competing line of research arguing for the opposite prediction has also received support. For example, studies found that practices that are often considered strong governance, such as independent boards (Bizjak & Marquette, 1998; Ertimur et al., 2011; Renneboog & Szilagyi, 2011), and non-staggered boards (Gow et al., 2014) attract activism more frequently. Higher levels of concentrated institutional ownership, which have been considered stronger governance because institutional owners have strong incentives and the ability to

monitor managers and defend shareholder interests (Demsetz & Lehn, 1985; Khan, Dharwadkar, & Brandes, 2005), are also shown to attract more activism (Becht, Franks, Grant, & Wagner, 2017; Bizjak & Marquette, 1998; Brav et al., 2010, 2008; Karpoff et al., 1996)

The conflicting evidence on the relationship between governance practices and activism suggests that defining shareholder activism as purely a substitute or a complement of corporate governance may be misleading. Considering shareholder activism as either a substitute or complement of corporate governance fundamentally assumes that activist investors intend to be monitors of the managers and that they represent the interests of the general shareholders of the firm. However, many scholars have pointed out that neither assumption may reflect reality, as many activist investors have their own clients, and activist fund managers' compensations are structured with various short-term incentives (Kahan & Rock, 2007). Furthermore, it is worth noting that the practices that are considered "good governance" coincide with the conditions under which activist investors can muster support for their objectives with greater ease. For example, in firms with concentrated ownership and independent boards, activist investors need to win over fewer investors to gain power (Franks, 2020), and they will see the board as less beholden to management (Cohn & Rajan, 2013). Indeed, in light of the conflicting findings on corporate governance practices as predictors of shareholder activism, scholars have suggested that shareholder activism may be more than a mere monitoring mechanism (Goranova, Abouk, Nystrom, & Soofi, 2017).

Consequences

The fundamental question of activism is whether it creates value for the firm. Numerous studies have explored this question, mostly focusing on the changes in firm valuation using the

share prices and the changes in operational performance reflected in accounting-based performance measures.

Financial outcomes—Valuation effects

The findings on the market reaction to shareholder activism are mixed, but the majority of studies have found positive valuation effects. For example, studies have found a positive impact on the abnormal returns when activist investors file a 13D (Boyson & Mooradian, 2011; Clifford, 2008) or shareholder proposals are passed (Cuñat, Gine, & Guadalupe, 2012). Announcements of activism generally lead to positive abnormal stock returns (Krishnan, Partnoy, & Thomas, 2015), ranging from 1.1% (Clifford, 2008), 5% (Brav et al., 2010), 7% (Becht et al., 2017; Brav et al., 2008), 10.2% (Greenwood & Schor, 2009; Klein & Zur, 2009) to 11% (Boyson & Mooradian, 2011) depending on the event study time windows or the financial model specifications used to predict the baseline return. Other studies have found positive valuation effects around various activist events, such as the activist demands being implemented (Bebchuk, Brav, Jiang, & Keusch, 2020), activist-impelled takeovers (Greenwood & Schor, 2009), activist-impelled divestitures (Chen & Feldman, 2018), forced CEO turnover (Del Guercio et al., 2008) and poison pill restructuring (Bizjak & Marquette, 1998). Several studies, however, found negative (Cai & Walkling, 2011; Caton, Goh, & Donaldson, 2001; Prevost & Rao, 2000) and null (Del Guercio & Hawkins, 1999; Gillan & Starks, 2000; Gow et al., 2014; Wahal, 1996) relationships between activist intervention and firm valuations.

Financial outcomes—Profitability measures

Studies have also examined the impact of shareholder activism on various profitability indicators. Again, the findings are equivocal.

A number of studies have found that activism improves operating performances. For example, Clifford (2008) found that firms with activist block holdings, compared to passive holdings by the same funds, improved their ROA in the following year of activist intervention. Studies by Brav and colleagues found that ROA improvements persist for three years (Brav, Jiang, & Kim, 2015), and five years after the intervention (Bebchuk, Brav, & Jiang, 2015). In another study, Brav and colleagues found a similar increase using Tobin's Q and returns on sales, compared to the year before the announcement of activism (Brav et al., 2008).

Meanwhile, some studies have found the opposite results. ROA and EBITDA/assets ratio are found to deteriorate in the following year of activist intervention (Klein & Zur, 2011) and continue to decline over the four years subsequent to intervention (Prevost & Rao, 2000). Targeted firms have also been found to experience a slower growth rate in sales (Karpoff et al., 1996) and a decline in operating cash flows (DesJardine & Durand, 2020; Klein & Zur, 2011).

In light of these equivocal findings, recent studies sought to examine whether the performance improvement, if any, persists, but findings remain ambiguous. One study found "no evidence of …reversal" (Bebchuk *et al.*, 2015a: p. 5)[2], while another found that market value, profitability, and operating cash flow all increase one year after activist ownership and then decrease in the next four years (DesJardine & Durand, 2020).

There are also a substantial number of studies that report the null effect of shareholder activism on performance as measured by ROA (Greenwood & Schor, 2009; Klein & Zur, 2009, 2011), ROE and ROS (Del Guercio & Hawkins, 1999; Karpoff et al., 1996; Prevost & Rao,

[2] I note that several studies have offered a critique of the study by Bebchuk, Brav, & Jiang (2015), challenging the validity of the conclusion discussed here (Allaire & Dauphin, 2014; Cremers, Giambona, Sepe, & Wang, 2020; Lipton, Niles, & Lewis, 2015), to which the original authors responded in defense (Bebchuk, Brav, & Jiang, 2013; Bebchuk, Brav, Jiang, & Keusch, 2015)

2000; Smith, 1996), as well as payout-cash flow ratio (Del Guercio & Hawkins, 1999; Greenwood & Schor, 2009; Smith, 1996). Scholars have attributed the disagreement to the differences in the metrics emphasized, the sensitivity of financial measures to different time points of measuring, and the failure to consider the idiosyncrasy among activist investors and activism campaigns (see Dene et al., 2017; Karpoff, 2001).

Structural changes

Studies report that many targeted firms experience structural changes as well. The two most common structural outcomes of activism are divestitures and takeovers (Becht et al., 2017). Studies show that more than 15% of activist campaigns push for the divestiture of subsidiaries or assets, asserting that divestitures help re-focus firms' resources on core businesses and reinforce competitive advantage (Brav et al., 2015). Activist-driven divestitures are associated with higher stock market performance compared to manager-driven divestitures (Chen & Feldman, 2018) and are shown to effectively contribute to firms' total factor productivity (Brav et al., 2015). Scholars have attributed activist-driven divestitures as the main driver of improvement in operational efficiency, as shedding non-essential assets has a more substantial effect on immediate gains than creating new sources of cash flow (Clifford, 2008).

Activists often seek takeovers of the target firm by a third-party bidder, which is the quickest, most profitable way of 'exit' for activist investors (Greenwood & Schor, 2009). Indeed, activist intervention is strongly associated with a higher probability of a takeover of the targeted firm, as activist-targeted firms are four times more likely to receive a takeover bid than when no activist is present (Boyson, Gantchev, & Shivdasani, 2017; Smith, 1996). In fact, thirty percent of activist-targeted firms are shown to receive a takeover bid within two years of intervention (Greenwood & Schor, 2009).

Aside from divestitures and takeovers, studies also document other types of activist consequences. For example, studies show that activism is strongly associated with restructuring workforces (Del Guercio & Hawkins, 1999; DesJardine & Durand, 2020), reallocation of capital, most commonly reducing R&D spending (Brav, Jiang, Ma, & Tian, 2014; David, Hitt, & Gimeno, 2001), and suppressing CSP activities (David et al., 2007; DesJardine & Durand, 2020).

Governance changes

Shareholder activism is also associated with changes in corporate governance practices. For example, firms are more likely to make changes to their anti-takeover measures (Bizjak & Marquette, 1998; Gordon & Pound, 1993) or stock-issuing abilities (Carleton et al., 1998) after activist intervention. Shareholder activism also triggers changes in the boardroom and the C-suite. In the boardroom, activism campaigns are associated with increased board diversity (Carleton et al., 1998); declassification of the board (Guo, Kruse, & Nohel, 2008); and higher director turnover (Wu, 2004). In the C-suite, activists often seek to influence managerial compensation structure (Ertimur et al., 2011; Ferri & Sandino, 2009; Shin & Seo, 2011). Specifically, Chowdhury & Wang (2009) found that activism increases the proportion of CEO contingent pay, especially when the activism is proxy-based, increasing the CEOs' stakes in the firm's performance. Shareholder activism is also shown to increase the likelihood of management turnover (Boyson & Mooradian, 2011; Del Guercio & Hawkins, 1999; Gow et al., 2014) and CEO dismissal (Brav et al., 2015, 2008; Wu, 2004; Zhu, 2020).

A common outcome of shareholder activism is granting board seats to activist investors (Klein & Zur, 2006). Studies have shown that about 20% of activism campaigns demand board representation (Brav et al., 2008), and 70% of firms capitulate, adding activist directors to their boards (Boyson & Mooradian, 2011). While research on the consequences of activist directors is

nascent, early studies showed that adding activist-affiliated directors to the board has substantial strategic consequences (Goodwin, 2016; Kushner & Mamun, 2019). For example, Gow and colleagues found that having activist directors on the board is positively associated with divestiture activities and the likelihood of being acquired, while negatively associated with acquisition activities and the level of strategic investments (Gow et al., 2014). The general consensus on the value of having activist directors is yet to be formed. Some studies argued for positive aspects of having activist directors on the board, such as "longer-term investments and a stronger commitment to improving operations and corporate strategy" (Christie, 2019: p.40), while some studies noted adverse outcomes, such as an information leakage to the stock price (i.e., information incorporated into the stock price before disclosure) (Bishop, Jackson, & Mitts, 2017) and increased trading on non-public information (Coffee, Mitts, & Bishop, 2018) upon the appointment of activist directors.

Together with the findings discussed in subsection 1.b (Corporate Governance as Antecedents of Activism), research strongly suggests that shareholder activism may be driven by goals other than simply improving the governance of the firm, and in fact have far-reaching consequences than considered before.

IMPLICATIONS OF AND THE GAP IN THE PRIOR RESEARCH

Research on the topic of shareholder activism is burgeoning, rapidly expanding our understanding of the phenomenon. Yet, a review of extant literature reveals three critical aspects that call for further development.

First, inconsistent findings suggest the lack of theoretical underpinnings in examining the phenomenon. Indeed, even with our comprehensive understanding of the antecedents and consequences of activism campaigns, what transpires during the campaign remains relatively

unexamined, leaving the theoretical mechanism of activist influence a 'black box' (Ahn & Wiersema, 2021). While scholars have begun to move beyond focusing on the action-level changes (e.g., Chen, Meyer-Doyle, & Shi, in press.; DesJardine & Durand, 2020), there remains much to be understood before a consensus can be reached. I aim to contribute to the literature by developing theory on how activist intervention alters managers' strategic orientation, a precursor to various firm decisions. This line of inquiry can shed light on the mechanism through which activist intervention affects firms' decision-making, and ultimately, can help reconcile the inconsistent findings by demonstrating how each firm may experience activism in different ways.

Second, prior studies have largely placed activist investors at the center of the phenomenon. For example, studies largely focused on the implementation of specific activist demands (or lack thereof) or the changes in the targeted firms' performance metrics in the short run, which is more akin to evaluating the activist investors' performance than measuring the implications for the firms (Brav et al., 2008). Indeed, for targeted firms, the strategic implications of the activist-triggered changes are not immediately clear. Not all short-term improvements lead to long-term benefits, and in some cases even undermine long-term advantages (Levinthal & March, 1993: p.110). Thus, scholars have called for the need to consider broader, longer-term consequences of activism for the targeted firm stakeholders (Klein & Zur, 2011; Shi, Connelly, Hoskisson, & Ketchen, 2020). This study answers the call by highlighting how targeted firms' strategies change, rather than focusing on whether the activists' goals were met. With this study, I expand the boundaries of the activism consequences from direct, immediate outcomes of activists' demands to how managers' strategic decisions are shaped as they respond to the pressure beyond accommodating or rejecting demands.

Lastly, a common theme emerging from the review of the literature is that shareholder activism is closely intertwined with the intertemporal choices of firms. A number of studies on activism discuss the short-term versus long-term tension around the changes activist investors pressure onto the firm (David et al., 2001), managerial responses (David et al., 2007; Hadani et al., 2011), and stakeholders, including shareholders, bondholders, and employees (Chen et al., 2021; Klein & Zur, 2011). Practitioners share a similar concern, as they continue to debate whether the activism indeed creates or merely redistributes value (e.g., Lipton & Rosenblum, 2014). Nevertheless, research is scant on how activist intervention affects the temporal orientation of the firm, failing to advance our understanding of the fundamental question of investor activism. I seek to respond to this inquiry by integrating the stream of research on firm temporal orientation (e.g., Nadkarni & Chen, 2014) and provide insight into the link between activist intervention and firm intertemporal strategic actions.

CHAPTER 2. THE EFFECTS OF SHAREHOLDER ACTIVISM ON FIRM TIME HORIZONS

INTRODUCTION

Activist investors are defined as shareholders who proactively urge firms' management to undertake strategic changes they propose to the company (Ahn & Wiersema, 2021; DesJardine & Durand, 2020). Despite holding a minority stake, activist investors wield disproportionate power over targeted firms, precipitating major changes across various strategic fronts—increasing payouts, divesting assets and subsidiaries, replacing directors and managers, and agitating for the sale of the firm (see Goranova and Ryan, 2014 and Denes, Karpoff, and McWilliams, 2017 for reviews). The emergence of activist investors has posed a substantial threat to firms' largely autonomous management, and their influence is rapidly expanding[3]. Empowered by stronger shareholder rights and pressured to generate higher investment returns, the number and size of activism campaigns are on a steady rise with more investors employing activist approaches (i.e., 43 first-timer activists in 2019) and incumbent activists deploying more capital than ever before (i.e., $76 billions in 2019) (Bloomberg, 2020; Lazard Shareholder Advisory Group, 2020). Moreover, as activist investors target not only firms with poor performance but also ones with strong financials (Klein & Zur, 2009), "conceivably no company is off limits" from the activists' threat (Allen, as quoted in Benoit, 2012). A call from an activist investor is, after all, what "every CEO in America dreads getting—or has already received." (The Economist, 2015)

A burgeoning stream of research has provided insights on a range of outcomes activist interventions trigger, yet how activism affects the target firms' fundamental strategic orientation remains unclear. For example, while studies document that activist intervention leads to

[3] Shareholder activism has shown on the rise. In 2010, 136 companies faced activist demands from 76 active investors (Activist Insight, 2014). In 2019, 839 companies experienced activism campaigns from 666 activist investors (Activist Insight, 2020)

increased payouts and decreased cash reserves (Brav et al., 2010; Klein & Zur, 2006), whether this transfer of cash has strategic consequences is unclear (Allaire & Dauphin, 2016; Gillan & Starks, 2007). Studies also report that many activist-triggered initiatives, such as divestitures (Chen & Feldman, 2018) and buyouts (Brav et al., 2008), are positively received by the market. However, whether the boost in the share value is followed by changes that lead to sustainable competitive advantages is still unknown (Black, 1998; Ryan, 2006). Moreover, the findings on the firm's operating performances following activist intervention remain fragmented, partly because the performance metrics only capture snapshots of the firm at a specific time point of choice (Bebchuk, Brav, & Jiang, 2015; DesJardine & Durand, 2020). As limited attention is devoted to how activism affects the general strategic orientation of the targeted firms beyond their responses to activist demands, scholars noted that prior research may have underestimated the magnitude of the activism consequences by restricting its focus to the visibly manifested changes such as performance metrics or firm scope (Allaire & Dauphin, 2014; DesJardine & Durand, 2020; Gantchev, Gredil, & Jotikasthira, 2019).

Focusing on the changes in firms' underlying strategic orientation can help develop a deeper understanding of how activism affects targeted firms. When firms adjust their strategic views, those changes influence multiple policy domains such as their temporal investments, performance goals, marketing strategies, manager selections, problem-solving, network decisions, and innovation strategies, all of which are likely to have substantial impacts on the firm with respect to performance, growth, and survival (i.e., Chaganti & Sambharya, 1987). Furthermore, since activist investors often exit within two years of the initial intervention (Becht, Franks, & Grant, 2010; Brav et al., 2010), the long-term impact of activism, including how firms

sustain or reverse activist-triggered changes after activists exit the firm, is likely to be dependent on the firms' new strategic views.

In this study, I aim to uncover the effects of activist campaigns on targeted firms' temporal orientation. Prior strategic management research has long argued that temporal orientation is a fundamental dimension of how firms plan and execute strategies (Das, 1987; Mosakowski & Earley, 2000), critically shaping various strategic decisions including resource allocation, scope of the firm, risk-taking preferences, product-market orientation, and competitive behaviors (Miles & Snow, 1978; Porter, 1980; Venkatraman, 1989). Moreover, temporal orientation is particularly relevant in the context of shareholder activism, as it is the domain in which the activist investors and the targeted firm are likely to have the most substantial disagreement. Activist investors prioritize quick returns (DesJardine & Durand, 2020), whereas firms must consider long-term futures to survive, grow, and maintain competitive advantages (Flammer & Bansal, 2017). While the potential disagreement is apparent, it remains unclear whose preference prevails; whether activist investors successfully pressure the firm to align the firm's views with the activists' or firms are capable of preserving their baseline strategic orientation. To date, few studies have considered how targeted firms' temporal orientation will be affected by activists' preference for quick returns.

Building on the extant activism research, I posit that activist investors present a strong pressure that is likely to jolt firms' time horizons, not only through implementing their demands but also by triggering defensive motivations from managers. In the following section, I develop a theory proposing that firms are likely to shorten their time horizon (i.e., become more short-term oriented) when activist investors intervene, as the intervention prompts firms to focus on alleviating activists' concerns and neutralizing the threat of activism. Further, I propose that,

since the activist pressure often runs counter to managers' preferences, the degree to which firm time horizons change is contingent on the relative motivations and capabilities of activist investors and the targeted firm managers. Specifically, when the activists have stronger incentives or capabilities, the firm's time horizon is expected to shorten to a greater degree, and when the managers have stronger incentives or capabilities to preserve their established strategies, the time horizon is expected to shorten to a lesser degree.

Both in research and practice, a heated debate continues whether shareholder activism benefits the targeted firm (Ahn & Wiersema, 2019; Coffee & Palia, 2016; SEC speech by Gallagher, 2015). As scholars pointed out, it may be impossible to perfectly isolate the performance effects that shareholder activism has on firms. Nevertheless, it is important to examine the issue of whether and to what degree activist intervention is linked to greater short-termism, an issue often criticized as reflecting ineffective management (Laverty, 1996; Marginson & McAulay, 2008). By studying how firms' temporal orientation is affected by shareholder activism, I aim to offer several contributions. First, I aim to add to the activism literature by developing theory about the broader impact of shareholder activism on the targeted firms. While shareholder activism has received more attention in finance, accounting, and legal research, management researchers have only recently started to pay attention to the impact of shareholder activism on firms. This unequal attention led to a lack of theorizing on the strategic implications of shareholder activism, even though activism campaigns are considered a highly salient event to the management that is likely to have a lasting impact on firm strategies (Bebchuk, Brav, & Jiang, 2015; Goranova & Ryan, 2014; Karpoff, 2001). Theories and perspectives in extant management literature have great potential to offer insights on strategic implications of activism, including how activism campaigns affect firm strategies beyond

specific demands, how targeted firms respond to activist pressure, and how firms implement and manage the activist-induced changes over a longer period of time. This study takes a step in that direction by examining activist investors' influence on firm temporal orientation.

Second, this study adds to the emerging view in research that emphasizes firm temporal orientation as a fluid attribute of firm strategies. A firm's temporal orientation is an important determinant of its long-term survival and performance (Flammer & Bansal, 2017; Laverty, 1996). While extant research largely treats firm temporal orientation as a stable trait, early theories acknowledged that firm time horizons are "dynamic by nature," and are subject to change (Bluedorn, 2002; Das, 1987; Nuttin, 2014). For example, studies have argued that time horizons firms consider evolve through different stages of a firm's life cycle (Miller & Friesen, 1984) or when there are changes in the environment (Das, 1987). Recent streams of research further support the idea of the malleable nature of time horizons in firms. Studies drawing on upper echelon theory, in particular, have established that firm time horizon is heavily driven by the current managements' collective time orientation (DesJardine & Shi, 2019; Gamache & McNamara, 2019; Nadkarni & Chen, 2014), which, in personnel psychology literature, are theorized as largely stable yet subject to change under substantial pressures (Carstensen, 2006; Fingerman & Perlmutter, 1995). This study answers the call for more research on the topic, specifically the need to theorize the temporal orientation as a dynamic variable that can change over time (e.g., Souder & Bromiley, 2012) or under conditions of external pressure, rather than a taken-for-granted constant in firm decision-making.

Lastly, I highlight the role of targeted firm managers in shaping the activist's effect on firms. Prior research on activism acknowledged that top managers play an important role in the activism campaign process. For example, studies have argued that the outcomes of activism

campaigns are partly determined by managers' response to activists' demands, such as whether to resist or accommodate the demands, or how they negotiate the terms of activist-induced changes (Chowdhury & Wang, 2009; David et al., 2007; Neubaum & Zahra, 2006). While scholars agree that managers of targeted firms can affect the degree to which firms experience activism consequences, research has overlooked how managers' underlying dispositions or their discretion over the firm can affect the degree to which activist intervention influences firms, beyond simply accommodating or resisting the activist demands. Understanding the broader role of managers in the context of activism is critical, especially considering that managers maintain their executive control even in the midst of activist intervention while activist investors' control is limited to their rights as minority shareholders. By explicitly introducing the strategic orientation of the targeted firms' managers into theory, this study sheds light on a previously overlooked role of management in determining the extent of activist influence on firm strategies.

THEORY AND HYPOTHESES

Temporal Orientation as a Key Strategic Dimension

Examining the temporal orientation of firms advances prior research by moving beyond documenting action-level outcomes and toward building theory on how activism affects firms at the decision-making level. Temporal orientation not only has a pervasive effect on various dimensions of day-to-day firm strategy, but also portends how firms are likely to perform or survive in a longer time period (Ancona, Okhuysen, & Perlow, 2001; Das, 1987). Scholars have long acknowledged that temporal dimension is a critical, yet underexamined, part of strategy (e.g., Mosakowski and Earley, 2000):

> "*The utterly essential dimension of [strategic planning] is time… Yet time is the one dimension … that never gets discussed.*" (Ewing, 1972: p. 439)

> "*Few would disagree that the concept of strategy is firmly grounded in the notion of 'desired future,' and the process through which a business plans to reach the desired state (Andrews, 1971; Ansoff, 1975).*" (Venkatraman, 1989: p.948).

Indeed, firms are primarily concerned with decisions for the future (Drucker, 1954), while relying on past experiences (Grant, 1996) and real-time information (Eisenhardt, 1989a) to make best-informed decisions (Das, 1987). Furthermore, many definitions of strategy explicitly or implicitly address the importance of time as a fundamental building block of strategy (Nag, Hambrick, & Chen, 2007: 954-955; Ramaprasad & Stone, 1992). For example, the breadth of a firm is a result of decisions on whether to expand or eliminate operations, as well as whether to exploit current business segments or explore new ones, both of which involve considerations of short-term and long-term payoffs (Hoskisson, Hitt, & Hill, 1993). Product-market strategies are also tightly intertwined with temporal concerns, as the choices of markets, investing in new product development, searching for new opportunities, and formulating strategies against rivals, all involve a careful envisioning of the future and considerations of optimal planning horizons (D'Aveni, Dagnino, & Smith, 2010). Temporal orientation is also deeply engrained in other various firm decisions beyond these two primary dimensions. Consideration of the past, present, near future, and far future becomes crucial in decisions regarding resource allocation decisions, the extent of risk the firm is willing to take, or the projects firms prioritize, plan for, execute, and adapt over time (Venkatraman, 1989). An emerging focus on firm temporal orientation in the strategy literature offers strong evidence regarding the link between firms' temporal orientation and various firm actions, including the scope of decisions (Shi, Sun, & Prescott, 2012), product-market strategies (Narver, Slater, & MacLachlan, 2004), competitive actions (Nadkarni, Chen, & Chen, 2016), resource allocation (see a review by Reilly, Souder, and Ranucci, 2016), and risk-

taking tendencies (Das & Teng, 1998; Souder & Bromiley, 2012). Temporal orientation of firms, in essence, provides a window to understand how firms strategically orient themselves toward the market, customers, rivals, and their future goals.

Furthermore, temporal orientation is particularly relevant in the context of shareholder activism. Prior studies on shareholder activism suggest that activist investors are not equally interested in all dimensions of a firm's strategic orientation when pushing for changes. For example, while activist investors often seek changes in the scopes of firms (Chen & Feldman, 2018), they appear to be not as interested in spurring changes in product-market strategies or competitive actions (Brav et al., 2008). While no study to date has yet explicitly examined whether activist investors intentionally seek to alter targeted firms' temporal orientation, studies suggest that activist investors have incentives to do so, as activists and the targeted firm have substantially incompatible time horizons. For firms, it is important to consider long-term futures not only to survive but also to stay competitive in the future (Flammer & Bansal, 2017; Laverty, 1996). Managers of targeted firms, moreover, often have long-term considerations because of their fiduciary duties as well as their compensation contract contingent on long-term performance (Devers, Cannella, Reilly, & Yoder, 2007). On the contrary, activist investors have terminal goals, which are to be at a profit at the time of exiting their investment (Coffee & Palia, 2016). Indeed, with their average holding period of less than two years (Becht et al., 2010; Brav et al., 2010), activist investors seek to realize payoffs in a much nearer future than the targeted firm's planning horizon. Further, activist investors have incentives to prioritize quick returns because they have their own principals to answer to, who often reward the investment managers of activist funds based on their short-term performance (Schneider & Ryan, 2011). Therefore, while targeted firms strive to maintain their preferred temporal orientation, activist investors are

likely to pressure their own time horizons onto the targeted firm, creating tension over the targeted firm's temporal orientation.

In this study, I focus on the firm's time horizon as a central element of firm temporal orientation[4]. Time horizon is defined as the distance into the future a firm considers, grounded in the prevailing collective preferences of current managers (Bluedorn, 2002; Reilly et al., 2016). As a firm's time horizon dictates the short-term versus long-term trade-off decisions the firm faces, scholars argued that a firm's time horizon is deeply embedded in its dominant logic and thus unique to each firm (Prahalad & Bettis, 1986; Reilly et al., 2016). In the following section, I lay out arguments about the direction in which firms' time horizon is likely to change after activist intervention, as well as conditions that may amplify or attenuate the degree of change.

Activism Shortens Targeted Firm's Time Horizons

I argue that activist intervention is likely to shorten the targeted firm's time horizons for two reasons. First, activists often demand actions that drive the firms' attention to the near-term future, as "the paramount goal of the activism is to increase the market return to shareholders, hopefully in the short-run" (Klein and Zur, 2006: p.10). As discussed in the literature review (Chapter 1), research on shareholder activism has shown that many activist-impelled actions indeed lead to a quick boost in the share value (Clifford, 2008; Coffee & Palia, 2016; Del Guercio & Hawkins, 1999). Regardless of whether these actions also lead to long-term value creation, engaging in the actions intended to achieve such immediate impacts is likely to shift the firm's time horizon toward a more proximal future (Smart & Vertinsky, 1984). Moreover, certain

[4] I acknowledge that prior literature has treated the relationship between time horizon and temporal orientation synonymously (i.e., temporal orientation as a future time perspective in terms of the relative cognitive dominance of the near versus distant future (Das, 1987)) as well as hierarchically (i.e., temporal orientation, defined as the mind-sets, perceptions, and attitudes about time (McGrath, 1988), as a broader construct). My focus on the time horizon, rather than the temporal orientation, alleviates concerns regarding this ambiguity in the existing definitions.

actions that aim to generate quick gains may prohibit the firm from maintaining a long-term vision by restricting the available resources for other investments. For example, a dividend raise may deplete cash reserves and limit the firm's ability to invest in profitable opportunities (Demirag, Tylecote, & Morris, 1994; Farsio, Geary, & Moser, 2004), R&D cuts may terminate projects with expected future benefits (Bushee, 1998; Cremers, Pareek, & Sautner, 2017), and selling assets or divesting units may curb the potential value creation opportunities and existing synergies (Montgomery, Thomas, & Kamath, 1984; Tehranian, Travlos, & Waegelein, 1987). With limited options to pursue long-term goals, firms are more likely to turn to focus on short-term projects and goals. As activist-impelled actions aim to boost short-term financial returns, activist intervention will likely shift the firm's time horizon toward a more immediate future.

Second, even when managers are able to reject activist demands, the threat of activism triggers a defensive mechanism that will bring managers' attention to the near-term future. When activists put pressure on the firm, managers at the targeted firm face an infringement on their discretion, as well as threats to their compensation, reputation, and job security at the firm. Managers who are under activist pressure will engage in shorter-term defensive actions in hopes of fending off the activists before experiencing grave personal consequences (D'Aveni & MacMillan, 1990). For example, they may engage in 'fire-fighting' responses, taken to buffer an organization from a disruption that is expected to be temporary and thus to provide incremental, limited remedies (Smart and Vertinsky, 1984: p.202). Such a temporary remedy is especially likely because activist investors are not expected to engage with the company permanently—rather, they present specific objectives to achieve after which they intend to withdraw. As a result, managers of the targeted firms tend to take actions that focus on immediately but temporarily remedying the situation and pacifying the activist, such as managing the earnings or

engaging in one-time actions such as extra dividends or share repurchases (Greenwood & Schor, 2009; Hadani et al., 2011; Klein & Zur, 2006). Therefore, since targeted firms are pressured to focus on the problems that activists bring up—regardless of whether they accommodate or resist the suggested solutions—managers are likely to shift their attention to the near-term future during the activist engagement.

In sum, activist intervention is likely to temporarily shorten the firm time horizon of the firm because managers are not only pressured to but also motivated to bring attention to the nearer future and engage in short-term oriented actions. Therefore, I hypothesize that,

> *H1: Activist intervention is associated with a change in time horizon of a targeted firm, such that the time horizon is shorter after activist intervention than before the activist intervention.*

Moderators

While I argue that any activist intervention is likely to shorten the target firm's time horizon, the degree to which the time horizon shortens may vary across situations. Specifically, since the managers at the targeted firms are often resistant to activist pressure, studies have argued that activism outcomes often result from activist investors and managers trying to undermine each other in a competition for the same resources, such as the support of other shareholders (George & Lorsch, 2014; Wong, 2020).

Based on this contentious nature of activist-manager interactions, I argue that the effects that activist investors have on firms' time horizons are thus likely to be contingent on the relative motivations and capabilities each actor has in influencing (or resisting the influence from) the other. For example, when activist investors have stronger incentives or capabilities to push their demands more aggressively, the effect on firm time horizon is likely to be larger; when the

managers have stronger reservations about accommodating or more resources to resist the activists' efforts, the change in firm time horizon is likely to be smaller. This logic suggests four categories of moderators: motivations and capabilities of both activists and managers (Table 1).

Table 1. Moderating Conditions

	Motivation	**Capabilities**
Activists	• Activist investment horizon How motivated are the activists to push for actions that are intended to yield returns in the short run?	• Activist experience How experienced are the activists in organizing and overseeing campaigns and thus more capable of pressuring managers to adjust their time horizon?
Managers	• CEO temporal focus How attentive and motivated are the CEOs of the targeted firm, based on their underlying temporal dispositions, in responding to activist pressures?	• CEO power How capable are the CEOs of the targeted firm of defending their strategic preferences, such as their time horizon, against activist pressure?

For the factors that shape activist investors' motivation, I argue that when activist investors have shorter investment horizons, they are more strongly motivated to put pressure on the targeted firm to generate quick returns, resulting in the targeted firm's time horizon to shorten to a greater degree. For activist investors' capabilities, I draw on prior research on shareholder activism, which suggests that more experienced activist investors can bring about more substantial changes in the targeted firms (Boyson & Mooradian, 2012). Prior experiences

allow the activist investors to effectively achieve their goals at the targeted firm, such as realizing quick results, and are thus likely to shorten the target firm's time horizon to a greater degree. For the targeted firms' motivation, I propose that the top managers' underlying dispositions are likely to influence the degree to which the targeted firms' time horizon shortens. Specifically, CEOs who have a disposition to pay more attention to the *present* moments than other CEOs are likely to prioritize addressing the activist threat and enact more substantial responses, bringing the firm's strategic focus to fending off the activists in the near future. Thus, CEOs who are high in present focus are likely to shorten the time horizon of the firm to a greater degree. Lastly, for the targeted firms' capabilities, I argue that powerful CEOs can leverage their discretion over firm decisions as well as their social influence over executives, directors, and shareholders, in order to resist activist pressure and to maintain their baseline time horizon. Therefore, the effect of activism on firm time horizon is theorized to be weaker when the CEO of the targeted firm is more powerful.

Activist Motivation: Moderating Role of Activist Investment Horizon on the Time Horizon Change

Activist campaigns vary in their approaches and demands, and some activism campaigns may push the firms to shorten their temporal horizon to a greater degree than other campaigns. In particular, activist investors' own investment horizon will affect how attentive and driven the activist investors are in pressuring changes in firm time horizons. Prior research defined investment horizon as the time span between investment decisions (Smith, 1997). For example, if an investor evaluates his/her decision to continue or discontinue an investment every quarter, the investment horizon is three months. If evaluated weekly or yearly, the investment horizon would be a week or a year. Prior organizational research has shown that institutional owners have

different investment horizons (Bushee, 2001), which influence their ability and preference in promoting or discouraging particular issues at the firm (Laverty, 1996; Neubaum & Zahra, 2006; Ryan & Schneider, 2002). For example, long-term owners tend to promote long-term strategies, such as investing in R&D, exploring opportunities to innovate, or developing relationships with stakeholders via CSR (David et al., 2001; Useem, 1996), while short-term owners are characterized by prioritizing short-term market value over long-term profitability (Bushee, 2001; Johnson & Greening, 1999) or taking more aggressive approaches to avoid short-term expenses despite the risks of a greater loss in the future (Khurana & Moser, 2010). Indeed, prior research on activist investors suggested that activist investors do have different perspectives toward their investments because of idiosyncratic liquidity needs (Ryan & Schneider, 2002) and the pressures from their own stakeholders (Blair, 1995). Anecdotal evidence also supports the idea of different investment horizons across activist investors:

> *"Cevian Capital, for instance, typically expects to invest for three to four years… Blue Harbor Group's stated investment strategy involves a two- to three-year horizon."* (Malik, 2015)
>
> *"Activists … may latch onto a position and hold it for years…[while] they may bail at the drop of a hat."* (Curtis, 2020)

Drawing on prior research on the effects of institutional owners' investment horizons on firms, I propose that when activist investors with a shorter investment horizon intervene, the target firm's time horizon will become even shorter than when activist investors with a longer investment horizon intervene. Activist investors with a shorter investment horizon aim to generate returns more quickly and thus are likely to more strongly urge the targeted firm to take immediate actions and prioritize swift results. As a result, targeted firms are put under greater

pressure to shorten their time horizon. On the contrary, activist investors with a longer investment horizon are likely more willing to support changes that will take time to realize benefits from, allowing the targeted firm to maintain a long-term view of the firm's future.

Furthermore, studies have found that activists who pursue well-defined objectives have been shown to take more aggressive approaches compared to those with less specific objectives, who focus on communication with the firm (Boyson & Mooradian, 2007). Since many short-term oriented demands are, as discussed in the above examples, clearer and more specific than long-term oriented demands, this finding suggests that activist investors with shorter investment horizons are likely to take a more aggressive approach than the ones with longer investment horizons. In turn, more aggressive approaches are associated with a higher likelihood of managers accommodating the activists' short-term oriented goals, bringing the strategic attention to the nearer future (Boyson & Mooradian, 2011).

In sum, activist investors with shorter investment horizons are likely to pressure more short-term oriented demands and take more aggressive approaches compared to activist investors with a longer investment horizon. Thus, I hypothesize that,

> *H2: The degree to which the targeted firm's time horizon shortens is attenuated by the activist investor's investment horizon, such that the targeted firm time horizon shortens to a lesser degree when the intervening activist investor has a longer investment horizon than when the intervening activist investor has a shorter investment horizon.*

Activist Capabilities: Moderating Role of Activist Experience on the Time Horizon Change

Prior research on shareholder activism suggests that activist investors also vary in their abilities to influence the targeted firm to implement their ideas. One important attribute identified

in the literature is activist investors' prior experience (Boyson, Ma, & Mooradian, 2018; Boyson & Mooradian, 2012). Activist investing involves various activities that are distinct from traditional investment approaches. Primarily, activist investing requires an ability to develop and provide informed suggestions that are tailored to the target firms' current strategic position, performance, and industry landscape (Krishnan, Partnoy, & Thomas, 2016). Activist investors need to make a case that their proposals can generate greater value than the current strategies that were formulated by the managers, who are, by virtue of their position, considered to have both necessary expertise and firm-specific insights. Indeed, a "*successful activism requires … business skills that are built over time; [activist investors] should demonstrate a track record"* (An activist fund manager, as cited in Marriage, 2014: para 11). Developing insightful and convincing suggestions takes a significant amount of knowledge and business insights that inexperienced activist investors may not have yet acquired. Moreover, activist investing involves proactive interactions with various stakeholders—the regulatory agency, management, directors, and shareholders—which is otherwise uncommon in traditional investing. For example, activist investors need to disclose their intentions and agenda for intervention to the SEC prior to launching a campaign; communicate and negotiate with the managers; persuade other shareholders via letters, interviews, reports, or proposals; make decisions on whether to initiate proxy fights and lawsuits; and determine the optimal timing of exit, all of which are predominantly unique to activist investing.

While these two domains—providing informed strategic advice and proactively working to implement their suggestions—are unfamiliar territory to first-time activist investors, studies suggest that activist investors learn from repeated experiences of engaging in activist campaigns. Specifically, prior studies have shown that activist investors who have engaged in activist

campaigns in the same industry as the focal target firm are likely to achieve higher returns than those without such experience (Boyson & Mooradian, 2012), suggesting that activist investors develop knowledge that helps them generate valuable strategic initiatives for target firms. Studies have also shown that activist investors develop skills to persuade the target firm management more effectively to implement the activists' suggestions (Boyson et al., 2018; Krishnan et al., 2016). Conversely, activist investors who only occasionally engage in activism campaigns, who thus do not have the experience to accumulate the activist-investing-specific knowledge and skills, are less effective in achieving their goals (Williams, 2014). In addition to the inherent value of prior experiences, research suggests prior experiences may further augment the activist's influence on the target firm managers by forming a reputation as an experienced activist investor (Krishnan et al., 2016; Wiersema, Ahn, & Zhang, 2020). Specifically, activist investors who repeatedly engage in activist campaigns may signal better access to capital, broader skill sets in persuading stakeholders, and more willingness to turn hostile, all of which will encourage managers to shift their time horizons. Since activist investors who are more experienced in activist investing are likely to wield a stronger influence over the firm, they are likely to be more effective in driving a shorter time horizon. Therefore, I hypothesize,

> *H3: The degree to which the targeted firm's time horizon shortens is bolstered by the activist investor's prior experience, such that the targeted firm time horizon shortens to a greater degree when the intervening activist investor has more experience in activist investing, than when the intervening activist investor has less experience.*

Managerial Motivation: Moderating Role of CEO Temporal Focus5 on the Time Horizon Change

The changes in targeted firms' time horizons may also be affected by how attentive and motivated managers are with respect to their control over firm time horizon. In particular, CEOs' motivation and capability may be key; while firms take multiple measures to defend the firm against activist investors, "beyond the basics, the game plan falls largely to the CEO" (The Wall Street Journal, 2014).

A growing stream of research has shown how CEOs' underlying temporal focus shapes various strategic outcomes such as new product development (Nadkarni & Chen, 2014), acquisition decisions (Gamache & McNamara, 2019), risk-taking (DesJardine & Shi, 2019), and innovation (Yadav, Prabhu, & Chandy, 2007). Temporal focus is defined as a proclivity to distribute attention between the past, present, or the future, and consists of three distinct and orthogonal constructs: past focus, present focus, and future focus (Bluedorn, 2002; Shipp, Edwards, & Lambert, 2009)[6].

Among the three dimensions of temporal focus—past, present, and future focus—I argue that the present focus dimension is a particularly important determinant of CEOs' responses to activist investors. Past focus has little pertinence in activism context because activist intervention is often an unprecedented challenge for the CEO. Prior research has shown that past focus is associated with repetitive reflections on the past experiences and memories in making decisions, often leading to enhanced learning as previous experiences are analyzed for relevant lessons

[5] I wish to emphasize that the upcoming discussion of temporal focus is at the individual (CEO) level, which is distinct from the firm-level temporal orientation discussed as an outcome of activist intervention.
[6] Temporal focus is an independent concept from temporal depth, since "focusing on the past or future does not itself determine its distance from the present." (Shipp et al., 2009: p.3). Therefore, it is possible for an executive high (or low) in present focus to have either a short or a long time horizon.

(Shipp et al., 2009). However, shareholder activism is a relatively new phenomenon that became prominent less than twenty years ago (Bratton & McCahery, 2015; Denes et al., 2017; Gillan & Starks, 2007)[7]. Therefore, being targeted by activist investors is often a first-time experience for many CEOs. Even if a CEO has previously faced an activist intervention in the past, activist campaigns tend to be highly idiosyncratic in their forms, demands, and development, making it difficult for CEOs to extract lessons applicable to the current activist threat. Thus, there is little 'past' for the CEO to ruminate on and analyze with respect to how they respond to activist pressure.

While future focus is not irrelevant, it poses a conceptual complication unique to the activism context. Future focus is associated with envisioning what the future holds and acting proactively toward future goals rather than reflecting on the past or the present (Bluedorn, 2002; Shipp & Aeon, 2019; Wallace, 1956). Studies have shown that CEOs high in future focus heavily consider future benefits, rather than past performances, of their strategic actions (Gamache & McNamara, 2019), and are keenly attuned to future opportunities to develop and introduce new products (Nadkarni & Chen, 2014; Yadav et al., 2007). Unlike these contexts examined in prior studies, however, under activist intervention, the futures CEOs consider may look substantially different depending on how far into the future the CEOs focus on. On the one hand, CEOs may focus on a relatively short-term future of fending off the activists. In this case, CEOs high in future focus may be willing to drastically shorten the time horizon in their response to the activist, potentially amplifying the hypothesized effects of activist intervention

[7] Defining when shareholder activism started is open to debate, as there have always been some active participants in US corporate governance since the 1900s, a very early form of shareholder activism (Gillan & Starks, 2007). The current form of shareholder activism, with respect to the identities of activists, motives of activism, and typical development of the campaigns, however, is generally seen to have emerged in the early 2000s (Bratton & McCahery, 2015; Denes, Karpoff, & McWilliams, 2017; Gillan & Starks, 2007).

on firm time horizon. On the other hand, CEOs may focus on the long-term future of the firm, not losing sight of the firm's growth and survival. In this case, CEOs high in future focus are likely to strive to maintain their time horizon, suggesting that the hypothesized effect would be weaker. In other words, two CEOs both high in future focus may exhibit completely different patterns of behavior in the context of this study, obfuscating the theoretical prediction regarding the activists' impact on firm time horizon.

In this study, present focus is particularly important, as it concerns how much CEOs are aware of, and how likely they are to take actions against, activist intervention. I argue that CEOs high in present focus are likely to shorten the firm time horizon to a greater degree during activist intervention. Prior work theorized that individuals high in present focus possess a "here and now" orientation and prioritize the events happening in the current situation (Shipp *et al.*, 2009: p.6). Activist intervention, indeed, is a substantially disruptive event to the ongoing routines of the firm, posing an immediate and material threat to managers. When activist investors intervene, CEOs high in present focus are likely to be more acutely aware of the threat and swiftly shift attention to the activist-related concerns. Moreover, CEOs high in present focus tend to engage in actions with immediate results and bring their focus to the near-term future, especially in response to a threat (Shipp et al., 2009). Facing the activist threat, CEOs high in present focus are more likely to take action against activist investors than CEOs low in present focus, who may disregard the threat or delay responding.

Further, regardless of whether the CEOs accommodate or resist, the actions CEOs high in present focus take to address the activist threat bring the CEOs' attention to the short-term future. On the one hand, if CEOs take actions to accommodate activists' demands, which are often intended for quick returns, it brings their attention to the near future. On the other hand, if CEOs

take resisting measures against the activist, such defensive actions are inherently temporary and short-term because they are intended to fend off the threat and meant to be reversed once activist threat is removed.

In sum, CEOs high in present focus are likely to not only quickly shift attention to the activists and their demands, but also take actions that focus on immediately addressing the current threat. Both the shift in attention and the tendency to engage in responsive actions are likely to bring managers to consider the present or short-term futures over long-term plans, resulting in the firm time horizon to shorten to a greater degree.

H4: The degree to which the targeted firm's time horizon shortens is bolstered by the CEO's present focus, such that CEOs who are high in present focus are likely to shorten the time horizon to a greater degree than CEOs who are low in present focus.

Managerial Capabilities: Moderating Role of CEO Power on the Time Horizon Change

Lastly, the targeted firm CEOs may have different levels of capabilities to protect their time horizon against activist pressure. Prior research has long theorized that the power CEOs hold at their firm is an important determinant of whether and how firms experience strategic changes. Powerful CEOs are defined as CEOs who have greater capabilities to leverage ownership, position, or relationships to pursue their own goals (Daily & Johnson, 1997; Finkelstein & Hambrick, 1990). When activist investors pressure the firm to implement their demands, the resulting strategic changes are likely to pose an even more substantial threat to powerful CEOs. For example, strategic changes typically involve significant breaks from past strategies, in which the current CEOs have vested interests (Lant, Milliken, & Batra, 1992; Pfeffer & Salancik, 1978). Thus, CEOs prefer status quo and resist changes, as new strategies are

likely to render the value of knowledge and experience of the CEO less valuable (Hannan & Freeman, 1984; Zhang, 2006); disband the current coalition formed around the CEO (Hannan & Freeman, 1984; Stevenson, Pearce, & Porter, 1985); and may threaten the CEOs' position at the firm (Zhang & Rajagopalan, 2010). Indeed, CEOs have been shown to develop capabilities to effectively deploy resources to achieve desired strategic direction and overcome resistance along the way (Hambrick, Geletkanycz, & Fredrickson, 1993; Haynes & Hillman, 2010; Pfeffer, 1981). This body of research suggests that when activist investors pressure the firm to implement the activists' demands, powerful CEOs are likely to effectively assert their preference for the status quo, mitigating the effect of activists on the targeted firm's time horizon.

In addition, powerful CEOs tend to exert a greater influence over important stakeholders, such as other executives, directors, and block shareholders, because CEOs build and manage relationships with numerous stakeholders during their tenure (Pfeffer & Salancik, 1978). Along with the sense of legitimacy and strong leadership that many powerful CEOs convey, the relationships CEOs have built are often leveraged to garner support and cooperation from the stakeholders. (Daily & Johnson, 1997; Yukl, 1981). Being able to persuade various stakeholders is particularly useful when under the activist pressure, because activist investors and managers compete for the support of other shareholders. Activist investors seek to convince other shareholders to support them in order to ramp up the pressure on managers, especially given their standing as minority shareholders. Meanwhile, CEOs of the targeted firm also seek to reinforce their relationships with the shareholders to prevent activist investors from gaining grounds for more aggressive actions, such as launching proxy fights. For instance, many executives often seek in-person meetings with investors in the weeks leading up to an activist-initiated shareholder vote to promote their plan and assuage any concerns they might have (Benoit, 2014).

Leveraging their social and political influences, powerful CEOs are likely to effectively win over the shareholders to support the managers as they assert their own time horizon preferences. In sum, powerful CEOs have greater capabilities to protect the firm time horizon from activist pressure by leveraging their discretion and social relationships. Therefore, I hypothesize that,

> *H5: The degree to which the targeted firm's time horizon shortens is attenuated by the incumbent CEO power, such that firms with more powerful CEOs shorten their time horizon to a lesser degree than firms with less powerful CEOs.*

METHODS

Data and Sample

The sample for this study includes all S&P 1500 firms that experienced shareholder activism from 2006 to 2018. To construct the sample, I collected press releases, CEOs' letters to shareholders, firm financial data, CEO data, and activism data from various sources. I collected press releases from *Factiva* and *LexisNexis* databases. CEOs' letters to shareholders are primarily collected from company websites, supplemented by searches on *SEC Edgar* and *ABI/Inform* databases[8]. Firm financial data are collected from *COMPUSTAT*, CEO data from *EXECUCOMP*, and activism data from FactSet's *Shark Repellent* database. I structured the data for estimating the dependent variable and for generating a matched sample as a panel at the quarterly level. The matched sample is structured as cross-sectional data.

Dependent Variable

Firm time horizon. The dependent variable of this study is firms' time horizon after activist intervention. Here, firm time horizon is defined as the distance into the future the focal firm is primarily considering. Time horizon is measured each quarter where one or more press

[8] I thank Danny Gamache (University of Georgia) for the access to and his expertise on this data.

releases were published. Following prior research, the farthest future a firm discusses in each press release is used as the time horizon the firm is considering (Nadkarni, Pan, & Chen, 2019; specifics are discussed in the following paragraphs). In order to reduce confounds from the content-specific idiosyncrasy across press releases, the quarterly time horizon is calculated as the median of all time horizons collected (i.e., the farthest future in each press release) from all press releases published in each quarter (i.e., the median value of all maximum future cues from each press releases). To minimize confounds from quarter-to-quarter fluctuations, the post-intervention firm time horizon is measured as the average of the quarterly time horizon (i.e., the quarterly median of the farthest future discussed in each press release) over the four quarters after activists intervened.

Firm time horizon is measured by content-analyzing the language used in the firm's press releases. Press releases contain public language carefully crafted and broadcasted by firms with specific strategic intent (Gao, Yu, & Cannella, 2017). Studies have widely used press releases to understand the strategic motive and background of various firm actions, such as acquisitions (Graffin, Haleblian, & Kiley, 2016), poison pills (Fiss & Zajac, 2006), exploitation versus exploration decisions (Mudambi & Swift, 2014), and impression management (Zavyalova, Pfarrer, Reger, & Shapiro, 2012).

In measuring the firm time horizon, I adopt and modify a previously developed measure of firm temporal distance. In a study by Nadkarni and colleagues (2019), temporal distance is defined as "the length of action timeline [that conveys] whether an action will occur in the short term or in a longer timeline." While Nadkarni and colleagues' study focuses on specific action plans, their temporal distance construct is theoretically akin to firm time horizon in this study, as both seek to capture how far into the future firms consider. The authors measured the temporal

distance using "the number of days between the date of the press release and the latest date or time frame cited in the press release." (Nadkarni, Pan, & Chen, 2019). Following prior research, time horizon is measured by the number of days between the date of press releases and the latest date cited in the press releases. A dictionary of temporal cues used by Nadkarni and colleagues is included as Appendix A-1.

Extracting and coding temporal cues was done by an automated program built with Python language. Similar to the content analysis done by software such as LIWC and Diction, this program identifies the pre-specified dictionary of quantitative numeric, qualitative numeric, and non-numeric cues. Quantitative numeric cues include positions of an event in time (e.g., 2010, July 2008, 12th of February 2016) and descriptions of passage of time (e.g., three years, five weeks) expressed in numbers. Qualitative numeric cues include positions in time (e.g., end of the year, this month, next season) and passages of time (e.g., in a couple of weeks, after several months) expressed in words. Non-numeric cues include time-related adverbs and adjectives (e.g., now, immediately, in the future, long-term). In this study, I primarily use quantitative and qualitative numeric cues. Prior studies reported that in their samples, about 80% of temporal cues are quantitative numeric (Liberman, Trope, McCrea, & Sherman, 2007).

The automated program extracted quantitative numeric, qualitative numeric, and non-numeric temporal cues and computed the differences between each cue and the publish date of the press release was calculated in days. For example, in a press release published on March 1st, 2018, a mention of 'April 15th, 2018' was coded as 45 days. When a quantitative numeric cue only consists of month and year only and is missing a date, it was treated as referring to the same date of the month as that of the published date. For example, in the same press release published on March 1st, 2018, a mention of 'June 2018' was coded as 90 days. Similarly, quantitative

numeric cues missing months and dates were treated as referring to roughly the same time in the year as the published date, such that a mention of '2019' in the same example was coded as 365 days.

Qualitative numeric cues were translated into quantitative numeric values according to the pre-specified system that follows convention and prior linguistics research. When followed by time units such as months, quarters, and years, cues such as *"a couple of [time unit]"* was coded as {2 x the numeric value of the following time unit}. For example, a mention of "a couple of days" was coded as 2 days, "a couple of months" was coded as 60 days (2x30). "*A few [time unit]*", "*a number of [time unit]*", and *"several [time unit]"* were coded {3 x the numeric value of the following time unit}. For example, "in a few quarters" was coded as 270 days (3x90). *"Coming"* and *"forthcoming"* was coded as {1 x the numeric value of the following time unit}, such that "in the coming quarter" was coded as 90 days. *"End of the [time unit]"* was coded as {1 x the numeric value of the following time unit} - {passed days since the first day of the time unit}. The latter term, passed days since the first day of the time unit, was defined as the number of days between the first date of the corresponding time unit during which the press release was published ("passed days" hereinafter). For example, a mention of the "end of the quarter" in a press release published on March 1st, the passed days since the first date of the quarter was coded as 60, and the cue was translated into {(1 x 90) – 60} = 30. A mention of the "end of the year" in a press published on January 31st, the number of passed days was coded as 31, and the cue was translated into {(1 x 365) – 31} = 334 days. A table summarizing how each qualitative numeric cue was translated into numbers of days is included as Appendix A-2.

Independent Variable

Activist intervention. The quarter in which activist intervention is announced was coded as one. Following prior research, I used 13D filings as an indicator of activism campaign launch.

Moderators

Activist investment horizon. Activists' investment horizon was measured using their history of activist holdings. I took the average of the past holding periods the activist investor maintained in firms they targeted in the last five years.

Activist experience. Activist experience was measured by the total number of activism campaigns that came to a resolution by the time of the focal activism campaign. I used five-year periods prior to the focal campaign, since experiences from the distant past may be less relevant.

CEO present focus[9]. Following prior studies on CEO temporal focus, I content-analyzed the language used in the letters to shareholders published in the three-year period prior to the activist intervention. CEOs' letters to shareholders have been widely used to capture the focal CEO's individual attributes, as CEOs are primarily responsible for drafting and approving the letter. Studies provide evidence that CEOs' letters to shareholders exhibit unique characteristics of the CEOs, by showing that there are significant within-CEO similarities and across-CEO differences in the language used in letters to shareholders (Gamache, Neville, Bundy, & Short, 2020). CEOs are also shown to exhibit similar language use between the letters and other forms of public communication (e.g., published interviews, speeches), further supporting the construct validity of the measure (Nadkarni & Chen, 2014). A pre-defined dictionary for present focus is included as Appendix B.

[9] I note that there might be potential confound between CEO present focus (measured using letters to shareholders) and firm time horizon (measured using press releases), as they were both measured using a form of firm communication. To mitigate this concern, CEO present focus was measured before activist intervention to ensure temporal distinction from the dependent variable.

CEO power. I used an index measure of CEO power developed by Zhu and Chen (2015). This measure integrates seven indicators that have been commonly used in prior research—CEO tenure, CEO's stock ownership, CEO duality, CEO's total number of other board appointments, percentage of inside directors, percentage of outside directors appointed after the CEO, and outside directors' stock ownership. This measure captures CEOs' capabilities to assert their decisions and to persuade other decision-makers within the firm to support the CEO over the activist investors. Each indicator was combined into a single index by using the sum of their standardized scores.

Control Variables

I controlled for various factors that may affect the relationship between activist intervention and firm time horizon.

First, I controlled for various firm-level attributes. I control for the level of firm time horizon before activist intervention, measured in the same way as the dependent variable but over the four quarters leading up to the one-year prior to activist intervention. I also control for firm financials and performance, such as the *firm size* using the natural log of total assets, *firm market value* using the outstanding equity and share price, *firm leverage* using total long-term debt, and *firm performance* using net income. Additionally, I controlled for *CEO total compensation*, since CEOs' compensation level and structure are shown to be strongly associated with firm time horizons (Martin, Wiseman, & Gomez-Mejia, 2016). Since prior research showed that institutional shareholders could influence the firm's time horizon, I included the Herfindahl index of *institutional ownership*. I controlled for three categories of slack resources—*available slack* using current ratio (current assets divided by current liabilities), *recoverable slack* using

(selling, general and administrative expenses divided by sales), and *potential slack* using the debt-to-equity ratio (Bourgeois & Singh, 1983).

Second, I controlled for several attributes of activism campaigns, since what transpires during the campaign could affect how the firms adjust their time horizon. Activism campaigns vary widely with respect to the use of hostile or friendly tactics (Eesley, Decelles, & Lenox, 2016). Since the *hostility* directed toward management can influence the changes in firm time horizon, I included the number of hostile tactics used by activist investors, which is one of the following: proxy fights, threats to launch proxy fights, lawsuits, and tender offers. I controlled for the *duration of the campaign* because how long the firm was under activist pressure can influence the changes in the firm time horizon. Duration of the campaign was measured by the number of quarters during which the activist investors maintained their equity stakes in the firm. I controlled for the *types of activist demands* by including the number of value-related demands and the number of governance-related demands, as categorized by FactSet. Value-related demands include demands to divest assets, break up the company, block or renegotiate a merger, make acquisitions, return cash via dividends or buybacks, as well as other capital structure-related demands. Governance-related demands include demands regarding executive officers and their compensation, board directorship, and other governance practices such as takeover defenses. The *degree to which activists' initial demands were accommodated* could also be associated with changes in firm time horizon. I controlled for the proportion of activists' demands accommodated by using the number of total initial demands made in the 13D filings and the number of accommodated demands recorded.

Lastly, I controlled for *industry effects* by including the two-digit SIC codes as dummy variables, since different industries tend to have different paces of change and thus likely to

affect how far into the future the firms need to or used to consider (Nadkarni et al., 2016). To control for *time effects*, I included year dummies in the model. Since some firms experience activist intervention more than once, standard errors were clustered around each firm.

ANALYSIS

My research question examines the impact of activist intervention on targeted firms. Here, simply comparing the activist-targeted firms to firms that did not experience activist intervention can be problematic because activist intervention is not a random event. Specifically, any differences estimated between targeted firms and non-targeted firms can spuriously arise because of the factors that led to activist intervention, instead of the intervention itself. To reduce this confound, I constructed a matched sample using propensity score matching. Propensity score matching pairs each firm that experienced intervention (treatment group) with a counterfactual firm that is similar to the treatment firm in its likelihood of being targeted by activist investors, but did not experience activist intervention (control group). This pairing was done in two steps.

In the first step of PSM, each firm-quarter observation was assigned a conditional probability of experiencing activist intervention. This probability was estimated by a logit model predicting the binary outcome of experiencing activist intervention, given various firm-level characteristics as predictors. I included factors that have been shown to affect the likelihood of being targeted, such as financial and performance metrics (*total asset*, *long-term debt*, and *net income*), ownership structure (*institutional ownership percentage*), prior activist intervention (*whether the firm experienced activism prior to the focal quarter, and if so, the number of past activism campaigns*), and industry membership (*SIC two-digit code*). I also included the year in order to account for the changes in the activism trends over time.

In the second step, each treatment observation was paired with one observation from the control group pool with a similar propensity score. I specified one-to-one nearest-neighbor matching so that a treatment observation is matched with the counterfactual that has the closest propensity score to the treatment observation (Guo & Fraser, 2014). Since the "closest" match is defined ordinally and may keep poor matches even when no similar firms are available, I limited matches to when the absolute value of the difference in propensity scores between the treatment and control is smaller than one-quarter of the standard deviation of the logit of the propensity score (Austin, 2011; Rosenbaum & Rubin, 1985). Observations that did not have close matches within this 0.25 caliper were "pruned" from the final sample. I also specified that matching is done without replacement, such that observations that were once selected are dropped from the potential pool of counterfactuals and thus no control observations are paired repeatedly with any treatment observation. The final matched sample paired 1,504 observations out of 1,524 observations with 1,504 control observations. The 20 dropped observations were not significantly different from the remaining observations both in their targeted firm characteristics and activism campaign characteristics. Out of 1,504 observations, only 1,059 firms published a sufficient number of press releases before and after activist intervention to reliably extract temporal cues. Using the t-test, the 445 firms that did not consistently publish press releases were significantly different from the 1,059 firms that consistently published press releases in their firm-level characteristics. On average, the 445 firms were smaller in their total assets ($30B compared to $113B), had less debt ($5B compared to $18B), and had lower net income ($200M compared to $710M) than the 1,059 firms. The level of institutional ownership failed to reject the null that the two groups of firms are significantly different from zero.

For control observations, variables for activism campaign characteristics are inherently not available. Yet, my theory suggests that the nature of the activism campaign a firm experiences can shape the changes in firm time horizon. To account for the roles of various campaign characteristics, I posited that each pair is not only similarly likely to experience an intervention but also likely to face an activism campaign that is similar in its characteristics. Ergo, each control observation was given the same values of the campaign hostility, duration, types of demands, and degree of accommodation as the values of its paired treatment observation.

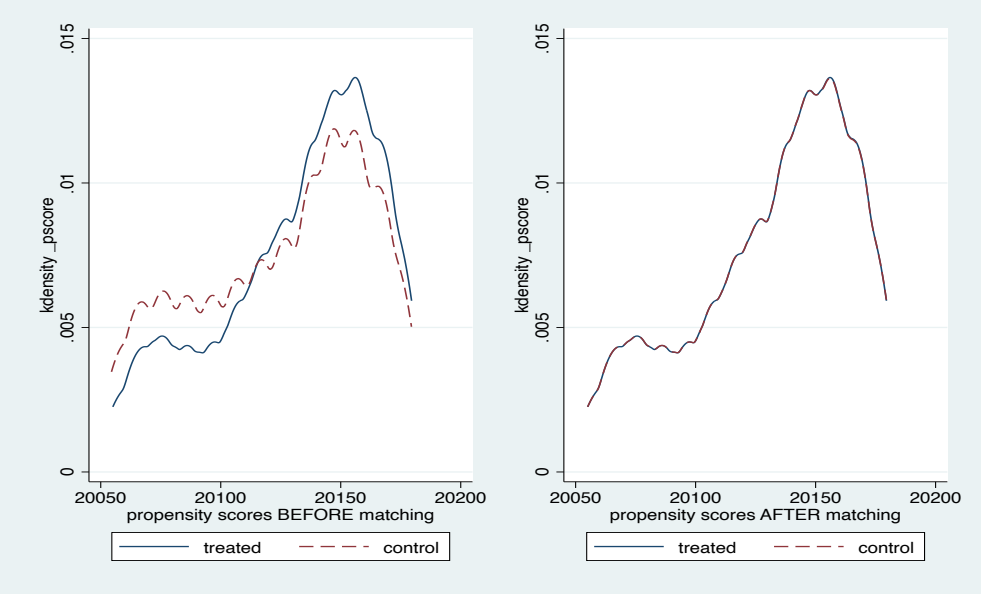
In the regression analysis, all variables were winsorized at 0.5% from each tail to avoid outlier observations driving the results, and all moderators were centered to aid interpretation. The independent variable, moderators, and control variables were lagged by one year compared to the dependent variable, such that the post-activism firm time horizon was measured one year after the focal quarter. Regressions estimated robust standard errors. Missing values were imputed as the mean of the entire sample, rather than being deleted, to avoid attrition and "protect the balance of matched-on variables" (Fukumoto, 2015). Single value imputation approach is shown to "retain the benefits of randomization [such as achieved by matched design] … regardless of the missing data mechanism" (Imai, King, & Nall, 2009: p.44) and results in an unbiased estimator (King et al., 2007). I conducted a robustness test using a sample without imputation, in which observations were deleted from the sample if any of the variables included in the regression was missing (i.e., listwise deletion). In this analysis, the sample consisted of 266 observations with 156 treatment observations and 110 control observations. Results were consistent.

I assessed the quality of the matching by examining the balance between the treatment and control groups. First, I compared the average propensity scores and confirmed that the two groups have highly similar averages of propensity scores, 37.0399 for the control group and 37.0405 for the treatment group. I also compared the distribution of the propensity scores before and after, which is visualized in Figure 1. Second, I compared the main firm-level characteristics. As shown in Table 2, the two groups do not differ significantly. When tested using the t-test, the differences were significantly different from zero for time horizon after intervention, CEO present focus, market valuation, and institutional ownership. Analyses involving time horizon before intervention, CEO power, total assets, long-term debt, net income, CEO compensation, the degree of diversification, and three categories of slack resources failed to reject the null hypothesis that the difference between the means of treatment and control group are not significantly different from zero.

Table 2. Descriptive Statistics

	Treatment group		Control group	
Variable	Mean	Std. Dev.	Mean	Std. Dev.
Time horizon before intervention	973.42	736.04	939.95	643.32
Time horizon after intervention	700.82	415.83	667.08	303.62
CEO present focus	5.26	.90	5.34	.84
CEO power	.05	1.72	-.01	1.19
Total asset	112.87	358.81	102.42	345.77
Long-term debt	18.26	47.17	16.55	45.02
Net income	.71	1.73	.70	1.67
Market valuation	49.16	90.16	57.22	77.23
CEO compensation	11.45	3.87	11.73	3.13
Institutional ownership (%)	6.12	15.27	1.92	6.96
Diversification (sales)	.31	.18	.30	.11
Current ratio	1.95	1.46	1.89	1.43
SG&A (divided by sales)	0.24	0.16	0.23	0.14
Debt-to-Equity ratio	0.24	1.20	0.21	0.72

Figure 1. Comparison of propensity score distributions before and after matching (Chapter 2)



As a robustness analysis, I also conducted the same analysis on a sample that was constructed using the Coarsened Exact Matching approach. CEM entails 'coarsening' a set of predictor covariates into several strata and finding matches within each stratum. For continuous variables, I used the automated coarsening algorithm (*cem* command in STATA), which creates the optimum number of strata based on the distribution of the variable. For categorical variables, each year is a separate stratum; industry membership is coarsened into five strata including manufacturing (sic 2 and 3), transportation (sic 4), finance (sic 6), services (sic 7 and 8), and miscellaneous (sic 1, 5, and 9). Compared to PSM, which assigns a single score to each observation, CEM assigns a continuous weight to observations based on the matches found in each stratum, and thus tends to retain more observations. Using CEM, 1,507 treatment observations out of 1,524 were matched to 1,507 control observations. I report the analysis results using this sample in Appendix C.

RESULTS

Table 3 presents the correlation matrix for the main variables. In Table 4, I present the results of the analysis predicting firm time horizon after activists intervene.

Model 1 shows the results of the main analysis. Hypothesis 1 predicted that activist intervention is associated with a shorter time horizon. In this model, the coefficient for the independent variable is interpreted as the difference between treatment group (i.e., targeted firms) and control group (i.e., non-target firms). As presented in Model 1, the coefficient for activist intervention is positive and is statistically significant ($b=24.72$, $p<0.05$)[10], suggesting that when evaluated at the mean of all variables, activist-targeted firms look to the farther future by about three weeks than the non-targeted control firms. While this positive coefficient seems to fail to lend support for Hypothesis 1, a closer look into the data revealed that *both* targeted firms and non-target firms shorten their time horizon when activists intervene (for control firms, when activists intervene the matched pair firm)—a finding that contradicts the underlying assumption of the model that control firms are not affected by activist intervention at the matched pair firm. Against this backdrop, a more precise interpretation of the coefficient is that while both targeted and non-target firms shorten their time horizons when activists intervene, targeted firms shorten their time horizon to a *lesser* degree than the control firms. I elaborate on this unexpected finding in the next section.

Models 2 and 3 present the impacts of activists' motivation and capabilities on the targeted firm time horizon. Hypothesis 2 predicted that activist investors' investment horizon would attenuate the degree to which firm time horizon shortens, such that when the intervening activist investor has a longer investment horizon, the firm time horizon will shorten to a lesser

[10] Here, I would like to note that this main effect was not replicated in the analysis using CEM-matched sample ($b=13.17$, $p=0.11$, reported in Appendix C in more detail).

degree. As shown in Model 2, this hypothesis is marginally supported, as the coefficient for the interaction between activism and the intervening activists' average investment horizon is marginally different from zero (b=–0.20, p<0.10).

Hypothesis 3 predicted that the relationship between activist intervention and firm time horizon would be stronger when activists are more experienced, such that targeted firms would exhibit a shorter time horizon when activist experience is high. As shown in Model 3, this hypothesis also fails to receive support, as the coefficient for the interaction between activism and the intervening activists' prior experience is not significantly different from zero (b=0.12, p=0.95).

Models 4 and 5 present the impacts of targeted firm CEOs' motivation and capabilities on firm time horizon. Hypothesis 4 predicted that when the CEO is high in present focus, and thus more strongly motivated to address the activist threat in the near future, firm time horizon will shorten to a greater degree. As shown in Model 4, this hypothesis is not supported, as the interaction between activism and the targeted firm CEOs' present focus is not statistically significant (b=–4.88, p=0.66).

Hypothesis 5 predicted that when CEOs are more capable of protecting firm time horizon through their power over the firm, time horizon will shorten to a lesser degree. As shown in Model 5, the coefficient for the interaction between activism and the targeted firm CEOs' power is not significantly different from zero (b=8.04, p=0.21), failing to support the hypothesis.

INTERPRETATION OF RESULTS

My analysis yielded a surprising finding—the positive coefficient of activist intervention for firm time horizon—which seems to suggest that activist intervention is associated with an extension of, rather than shortening of firm time horizon. At first glance, this seems to suggest

that activist intervention promotes long-term views, rather than short-term views, contradicting my proposition. However, a closer look into the data illustrated a more complex picture of the effects that activist intervention has on firms, which in fact is consistent with the logic of the theory and provides deeper insight into the broader population of firms.

I theorized that activist intervention is likely to shorten the time horizon in activist-targeted firms. One key assumption I made in my theory is that activist intervention affects the targeted firms, but does not affect the firms that are not targeted by activist investors. However, my data showed that *both* targeted and (paired) non-targeted firms shortened their time horizon after the intervention at the targeted firm. In my matched sample, the average time horizon before activist intervention is 781 days, while time horizon after activist intervention is 482 days—on average, firms shorten their time horizon regardless of the firm directly targeted by activist investors. When examined separately, time horizon shortens from 800 days to 498 days at targeted firms, and from 761 days to 467 days at non-targeted firms. T-tests confirmed that the differences are all statistically significant. In short, my assumption that only the targeted firms will shift their time horizon after activist intervention was falsified, as both targeted and non-targeted firms shortened their time horizon after activist intervention—either at their own firms or at their paired firms—compared to before activist intervention.

Prior strategy literature offers insights that explain this pattern revealed among non-targeted firms. Studies have shown that firms pay attention to their peers for various reasons, ranging from forming competitive actions (Geletkanycz, Boyd, & Finkelstein, 2001) to gaining legitimacy (Davis & Greve, 1997). In my sample, firms are matched based on various firm-level characteristics and time factors, which means that the paired firms are close 'twins' who are operating in the same industry, are similar in size, leverage, performance, and ownership

structure, and are observed in the same year. Therefore, it can be deduced that for a non-targeted firm, activist intervention at the targeted firm is not the distant and independent event that I had previously assumed, but a proximal and highly relevant event that prompts reactive actions. Furthermore, given the highly visual nature of activist campaigns, it is indeed likely that firms notice and react to activism campaigns at peer firms.

In light of this insight and a better understanding of data, the results for Hypothesis 1 are interpreted such that while targeted firms shorten their time horizon in response to the activist intervention, firms that are not targeted (but are similar to the targeted firms) shorten their time horizon to a *greater* degree. As both activist-targeted and non-targeted firms shorten their time horizon after activist intervention, the positive regression coefficient implies that targeted firms shorten their time horizon to a lesser degree, while non-targeted firms in fact shorten their time horizon to a greater degree. This surprising finding is again in line with prior research that views firms collectively as an institution and studies on the social control among corporate leadership. In addition to the institutional view that established the inter-firm attention and reactive actions, the social control perspective argued that company executives are not only keenly aware of what happens to their peers at other firms but also actively seek to avoid potential negative experiences they observe, such as activist intervention (e.g., Shani, 2018; Shani & Westphal, 2016). Further, managers at non-targeted firms may have greater room to take proactive actions to forestall future activism, because they retain greater control over their firms than the managers at the targeted firms. Thus, non-target firm managers leveraging their discretion to react to activist intervention at their close peers prompt them to look nearer in the future, even more so than the targeted firms.

In sum, findings from my analysis with the backdrop of prior literature on inter-firm awareness and managerial reactive responses illustrate a complex yet intuitive picture. Primarily, activist intervention shortens time horizons at both targeted firms and their non-targeted peers. In fact, non-targeted firms seem to shorten their time horizon to an even greater degree because managers are likely to leverage their discretion to bring their firms' focus to a nearer future and take preemptive responses, whereas targeted firms are already under activists' control and are limited in making drastic changes other than those imposed by activist investors. My findings, while in part surprising, lends some support to my main proposition that activist intervention shortens firm time horizon at targeted firms, and potentially provides broader insight regarding non-targeted peer firms. As my theory does not encompass non-targeted firms, future research should strive to disentangle the motivational and situational drivers of time horizon change in non-targeted firms.

DISCUSSION

Our knowledge of shareholder activism has grown substantially, but primarily with respect to the breadth of activism's consequences for targeted firms—such as the ways, ranges, and magnitudes of activist-triggered changes. To advance this body of research, scholars and practitioners have invited further investigation of the *depth* of such changes, such as how long such activist-triggered changes last, or how deeply embedded the changes are in the targeted firm's routines (DesJardine & Durand, 2020; Wiersema et al., 2020). Can activist investors bring changes to a firm's strategic preferences beyond the structural, financial, or governance changes they impose? I took a step toward addressing this question by focusing on temporal orientation of firms.

How far into the future a firm considers—its time horizon—is a fundamental strategic dimension that shapes how firms set goals, plan, and act. Prior research has established that a firm's time horizon dictates strategies ranging from daily decisions to large-scale decisions that can have decades of aftermath (Ancona, Okhuysen, et al., 2001; Das, 1987; Mosakowski & Earley, 2000). In the activism context, firm time horizon is particularly important because activist investors are theorized to be short-term oriented, while managers need to consider both short-term performance and long-term survival (Flammer & Bansal, 2017; Laverty, 1996). Such tension over firm time horizon and the question of whether activist investors pressure targeted firms into shorter-term or longer-term views has been acknowledged in prior research (e.g., David et al., 2001). However, scholars have yet to reach a consensus as to which effect prevails. This lack of consensus is not only hampering scholarly progress but also problematic in a broader sense, as regulators and policymakers rely on academic research. For example, the SEC has recently proposed an amendment to reduce the 10-day period to disclose activist stakes to 5 days in order to "alleviate the information asymmetry" and "promote transparency" (Securities and Exchange Commission, 2022). The proposal of this amendment heavily draws from academic research on shareholder activism to argue for the proposed policy, citing several seminal works in shareholder activism literature (e.g., Bebchuk, Brav, Jackson, & Jiang, 2013; Coffee & Palia, 2016).

Given the foundational nature of firm time horizon, and the substantial ripple effects that activist intervention brings to the broader population of firms, it is important to integrate what we know about organizational time horizons to understand how activist interventions affect targeted firms' time horizon. Empirical data collected from firms' communications strongly suggest that when activist investors engage, both targeted and non-targeted firms experience a shift in their

attention to the nearer future. Such a shift in time horizon is expected to precipitate changes in exploration versus exploitation decisions, innovation strategies, competitive strategies, and resource allocation, all of which can have cascading effects on firms' survival and growth. Therefore, examining the effect of activist intervention needs to consider a much broader context than previously considered, especially preemptive actions by firms that are relevant to the targeted firms in various contexts such as market competitors, suppliers, and geographic clusters. My findings highlight that while activist-implemented changes are important, as prior research has established, the internal changes that take place within the firm—such as their own temporal and strategic orientations—as well as the indirect impact activist interventions have on non-targeted firms, also warrant more research.

This study is not without its limits. There have been a variety of ways scholars have captured firm time horizon, mostly using financial or accounting measures (see Reilly, Souder, & Ranucci, 2016). As financial measures become highly endogenous to activist intervention and thus less appropriate to use in the activism context, I adopted the recent approach to leverage corporate communication contents to identify firm time horizon (Nadkarni et al., 2019). Although there is no evidence yet that activist intervention systematically shapes targeted firms' communication content or language, it is possible that managers do not 'walk the talk' and fail to adhere to the time horizon they evinced in their press releases. To address this concern, the degree to which time horizons in press releases indeed translate to strategic decisions requires further examination. Relatedly, the proposed theoretical mechanism of managerial attention shift and can be tested more directly. Future studies should seek to shed light on the changes in managers' attention during activist intervention by leveraging non-archival data sources such as surveys or interviews.

Table 3. Matrix of Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. Pre-activism time horizon	1.00																				
2. Post-activism time horizon	0.27	1.00																			
3. Activist intervention	0.03	0.04	1.00																		
4. Activist inv horizon	-0.05	-0.03	0.06	1.00																	
5. Activist experience	0.01	0.00	-0.09	0.07	1.00																
6. CEO present focus	-0.01	-0.01	-0.03	-0.01	-0.04	1.00															
7. CEO power	-0.04	0.00	0.03	-0.01	-0.01	0.01	1.00														
8. Total asset	0.08	0.06	0.01	-0.11	-0.11	0.23	-0.09	1.00													
9. Long-term debt	0.10	0.06	0.01	-0.12	-0.10	0.22	-0.09	0.94	1.00												
10. Net income	0.07	0.01	0.02	-0.17	-0.07	0.10	-0.07	0.44	0.40	1.00											
11. Market valuation	0.05	0.00	-0.06	-0.22	-0.08	0.13	-0.04	0.41	0.39	0.79	1.00										
12. CEO compensation	0.04	0.05	-0.07	-0.07	-0.11	0.07	0.04	0.23	0.24	0.22	0.28	1.00									
13. Inst ownership	-0.07	-0.01	0.19	0.07	-0.04	0.00	0.11	-0.06	-0.07	-0.08	-0.13	-0.08	1.00								
14. Diversification	-0.05	-0.05	0.10	0.06	0.02	-0.01	0.02	-0.04	-0.04	-0.07	-0.07	-0.07	-0.01	1.00							
15. Current ratio	-0.05	-0.04	0.03	0.06	0.02	0.02	0.10	-0.03	-0.06	-0.05	-0.01	-0.04	0.03	0.07	1.00						
16. SG&A/Sales	0.01	0.01	0.05	0.06	-0.01	0.07	0.00	0.05	0.03	-0.05	-0.04	-0.02	0.03	0.06	0.23	1.00					
17. Debt-to-Equity	0.00	0.01	-0.01	-0.01	-0.01	0.04	-0.02	0.20	0.24	0.03	0.03	0.03	-0.02	-0.01	-0.04	-0.01	1.00				
18. Campaign hostility	0.03	-0.01	0.02	0.06	0.08	-0.02	0.01	-0.05	-0.06	-0.06	-0.09	-0.01	-0.01	0.06	0.02	0.03	0.01	1.00			
19. Campaign duration	-0.06	-0.03	0.02	0.68	0.03	-0.01	0.01	-0.06	-0.08	-0.11	-0.13	-0.04	0.06	0.07	0.04	0.06	-0.01	0.08	1.00		
20. Value demands	-0.01	-0.04	0.04	0.32	0.08	-0.03	-0.01	-0.08	-0.09	-0.11	-0.15	-0.06	0.06	0.09	0.02	0.05	0.00	0.28	0.31	1.00	
21. Gov demands	0.01	0.00	-0.04	-0.17	-0.01	0.01	0.03	0.02	0.03	0.06	0.07	0.03	0.03	-0.06	-0.03	-0.03	0.02	0.00	-0.14	0.03	1.00
22. Accom demands (%)	-0.02	-0.02	0.03	0.14	0.08	-0.01	-0.01	-0.09	-0.11	-0.12	-0.14	-0.06	0.06	0.06	0.03	0.05	-0.04	0.04	0.02	0.08	-0.02

*Correlations greater than |0.03| are significant at 0.05 level

Table 4. Regression Results using Propensity Score Matching

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5
Activist intervention	24.72**	22.63**	24.80**	24.92**	24.85**
	(11.00)	(10.84)	(10.90)	(11.07)	(10.98)
Activist intervention		-.20*			
x Activist inv horizon		(.12)			
Activist intervention			.12		
x Activist experience			(2.12)		
Activist intervention				-4.88	
x CEO present focus				(11.00)	
Activist intervention					8.04
x CEO power					(6.41)
Control variables					
Activist investment horizon		.11			
		(.08)			
Activist experience			.86		
			(1.14)		
CEO present focus				6.89	
				(7.22)	
CEO power					-5.65
					(7.02)
Pre-activism time horizon	.13**	.13**	.13**	.13**	.13**
	(.03)	(.03)	(.03)	(.03)	(.03)
Total asset	.14	.14	.14	.14	.14
	(.13)	(.13)	(.13)	(.13)	(.13)
Long-term debt	-.76	-.76	-.78	-.76	-.77
	(.81)	(.81)	(.81)	(.81)	(.81)
Net income	-1.67	-1.12	-1.74	-1.49	-2.08
	(5.12)	(5.18)	(5.18)	(5.11)	(5.2)
Market valuation	-.16	-.16	-.16	-.17	-.15
	(.12)	(.12)	(.12)	(.12)	(.12)
CEO compensation	2.99	3.00	3.15	2.97	2.95
	(3.75)	(3.74)	(3.82)	(3.76)	(3.8)
Inst ownership (%)	.05	.09	.07	.05	.03
	(.95)	(.96)	(.96)	(.95)	(.96)
Diversification (sales)	-78.71*	-77.05*	-79.01*	-78.89*	-78.10*
	(44.41)	(44.47)	(44.40)	(44.54)	(44.22)
Current ratio	-5.66*	-5.80*	-5.74*	-5.55*	-5.46
	(3.13)	(3.13)	(3.14)	(3.12)	(3.39)
SG&A/Sales	135.70	138.80	135.70	136.12	135.85
	(100.63)	(100.67)	(100.49)	(100.84)	(102.53)
Debt-to-Equity	-1.40	-1.22	-1.29	-1.33	-1.42
	(3.55)	(3.59)	(3.54)	(3.54)	(3.58)
Campaign hostility	-8.86	-8.79	-9.37	-8.83	-9.31
	(10.86)	(10.95)	(11.00)	(10.83)	(10.72)

Table 4 (cont'd)

Campaign duration	.00	-.01	.00	.00	.00
	(.04)	(.05)	(.04)	(.04)	(.04)
Value demands	-10.02	-10.29	-10.49	-9.95	-10.43
	(7.75)	(7.94)	(7.75)	(7.74)	(7.87)
Gov demands	-1.08	-1.12	-1.09	-1.10	-1.30
	(5.98)	(6.08)	(5.97)	(5.97)	(6.04)
Accom demands (%)	-.09	-.09	-.09	-.09	-.08
	(.17)	(.17)	(.17)	(.17)	(.17)
Industry Dummy	YES	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES	YES
Observations	2118	2118	2118	2118	2118

*Standard errors are in parentheses; ** p<.05, * p<.1*

CHAPTER 3. EXAMINING FIRM STRATEGIC BEHAVIOR AFTER ACTIVISTS EXIT: TAKING THE RESOURCE-CONSUMING AND RESOURCE-FREEING PERSPECTIVE

INTRODUCTION

Activist investors are defined as investors who buy into companies with an intention to implement specific changes they have in mind, by proactively leveraging their shareholder rights as shareholders to pressure firm management (Goranova & Ryan, 2014). Activist investors have indeed been at the center of major strategic changes in numerous firms in the last decade, largely successful in achieving their intended goals (Ahn & Wiersema, 2021). Over a thousand firms, including major corporations such as Intel, General Motors, Unilever, and Shell, among others, were targeted in just the last two years in the U.S. (Lazard Shareholder Advisory Group, 2021; The Wall Street Journal, 2021, 2022). Most targeted firms experienced substantial consequences in their corporate strategies, ranging from investment cuts (DesJardine & Durand, 2020), activist-driven divestitures (Chen & Feldman, 2018), to dismissals of high-profile CEOs (Del Guercio et al., 2008; Helwege, Intintoli, & Zhang, 2012). As shareholder activism disrupts how firms formulate and execute their strategic decisions, the trend has indeed "undeniably changed the corporate landscape" (SEC Chair's Speech, 2015).

While prior research provided much insight into what transpires during activist campaigns, there is a noticeable lack of research on what happens once activist investors exit the firm. In fact, activist investors sell their stakes and exit the firm in about one year on average (Brav et al., 2010), with longer engagements ending in about three years[11], as the cost of actively engaging with firms could accumulate very quickly (Gantchev, 2013). When activist investors

[11] Firms at the 90th percentile in campaign duration engage for 1,235 days, or 3.38 years (Brav et al., 2010)

exit the firm and managers restore their latitudes to operate without "a gun to their heads" (Athenahealth CEO, 2018), this transition of control marks an important crossroad for the firm. Specifically, prior research suggests that managers are likely to respond to the relief of pressure by re-assessing and re-configuring their strategies because they need to adapt their behaviors and firm strategies to changes in their decision-making environment (Westphal, 1998). Moreover, since activism campaigns are inherently a public challenge to the managers' competence (David et al., 2007), there is even greater motivation for managers to take actions intended to reassert their position at the firm once activists leave. Given their incentives to proactively reassert themselves in the eyes of the shareholders, how managers strategize after activist exit warrants scholarly attention as an important predictor of both the performance of activist-triggered changes and the firm's strategic trajectory going forward.

I propose that managers shift their course of strategy upon activist exit for two reasons. First, managers have incentives to reestablish the foundation for the long-term performance of the firm, since activist investors likely have reoriented the firm to prioritize short-term financial returns over long-term competitive advantages (DesJardine & Durand, 2020; Gillan & Starks, 2007). This is often at odds with managers' preferences, which are primarily shaped by their compensation contract as well as their fiduciary duty—that the firm survives, grows, and generates returns in the long term, as their career and compensation are often tied to how the firm performs in the longer run (e.g., Eisenhardt, 1989). Second, managers seek to present a positive impression of the firm and of themselves because activism campaigns are substantially discrediting events. Studies have demonstrated that activist intervention not only undermines managers' discretion but also damages their reputation (Bebchuk & Fried, 2006) and career prospects (Fos & Tsoutsoura, 2014). When activists leave, managers could repair the damages

and regain shareholders' confidence by reorienting firm strategy (Graffin, Pfarrer, & Hill, 2012). Taking strategic initiatives that foreshadow a new course of strategy bring shareholders' attention to the future potential of the firm.

To examine whether managers take strategic actions that move the firm away from what transpired during activist intervention, I focus on the changes in firm resource allocation decisions. Drawing on the resource-freeing and resource-consuming framework developed by Kuusela and colleagues (Kuusela et al., 2017), I propose that firm resource-consuming actions will increase after activists exit the firm. Resource-consuming and resource-freeing framework focuses on the *direction* of strategic actions beyond each individual action. For example, resource-consuming actions, defined as actions that commit, and thereby tie up, substantial financial and managerial resources as investments with the goal of achieving a positive performance impact, include acquisitions (Kuusela et al., 2017), new plant investments (Pacheco-De-Almeida, Henderson, & Cool, 2008), boosting experimentation (Nohria & Gulati, 1996), obtaining knowledge from external channels (Wang, Guo, & Yin, 2017), and forming strategic alliances (Shijaku, Larraza-Kintana, & Urtasun-Alonso, 2020). In contrast, resource-freeing actions, defined as actions that convert tied-up resources into liquid assets, include sales of assets, divestitures (Kuusela et al., 2017), product termination (McCann & Shinkle, 2020), layoffs (Chadwick, Hunter, & Walston, 2004), and reducing investments in various projects (Chen & Miller, 2007). Resource-consuming actions are more consistent with the managers' needs to reorient the firm in two ways. First, resource-consuming actions signal that managers are preparing the firm for future opportunities via corresponding investments. Second, deploying a substantial amount of resources, such as undertaking an acquisition, could attract shareholders' attention to the message that the firm is moving toward a promising direction and is expected to

exploit future opportunities effectively. Therefore, when activist investors leave the firm and the pressure is lifted, I propose that managers increase the level of resource-consuming actions.

Yet, resource-consuming actions present an inherent trade-off between upfront spending and future returns. While making investments for the future may attract shareholders' attention and send a positive message, excessive investment can compromise short-term returns by increasing costs and eroding profits. Thus, I posit that the willingness to forgo short-term performance for long-term future gains will depend on both leader attributes and situational factors that influence the time horizon of managers as individuals. Internally, I argue that CEOs' underlying disposition to consider short- or long-term futures will influence the magnitude of the increase in resource-consuming actions. Research has demonstrated that CEOs' future temporal depth, defined as how far into the future one considers when making decisions (Bluedorn, 2002), plays an important role in resource allocation within firms (Nadkarni et al., 2016; Reilly et al., 2016). CEOs with short future temporal depth promote actions that will are expected to achieve quick successes, while those with long future temporal depth are more tolerant of the delays in realizing payoffs of their investments (Das & Teng, 2001; Loewenstein, 1988). Therefore, CEOs with a longer future temporal depth are theorized to commit more resources to resource-consuming investment upon activist exit.

Situationally, I argue that CEOs' financial incentives influence their preferences regarding the temporal trade-off, and thus the degree to which they increase resource-consuming investments after activist exit. Prior research drawing on the behavioral agency model demonstrated that managers' perception of their prospective option wealth could influence managers' temporal preferences (Martin, Gomez-Mejia, & Wiseman, 2013). CEOs' current option wealth refers to the already-accumulated cash value of the options granted as a part of the

compensation contract. In contrast, prospective wealth refers to the potential cash value of options that could be achieved if strategic choices are successful (Martin et al., 2016). A high level of current wealth leads to a strong motivation to protect the wealth (Devers, Wiseman, & Holmes, 2007), and thus a greater aversion to the possibility of losses that may incur by investing in future opportunities. On the contrary, a high level of prospective wealth encourages investing in the future, as options provide unlimited upside potential with limited downsides (DesJardine & Shi, 2020). As CEOs' current and prospective levels of wealth are at work simultaneously, I posit that CEOs with greater prospective wealth relative to their current wealth will increase resource-consuming investment to a greater degree.

This study offers two main contributions. First, I add to the shareholder activism literature by examining targeted firms after the conclusion of activist intervention. Our current understanding of how activist intervention impacts targeted firms largely revolves around implementing activists' demands (David et al., 2007; Wiersema et al., 2020). However, managers ultimately—and often quickly—restore their control over the firm after activist investors exit the firm. This restoration in control has significant strategic importance because how the activist-triggered changes shape the firm's long-term trajectory now lies in the managers' hands. Yet, how managers run the firm post-activism has received little attention, leaving a substantial gap in the literature. This gap has not only limited our understanding of the phenomenon but also underemphasized the theoretical mechanism through which activist intervention influences the firm. To address this, I offer theoretical arguments on firms' course of strategy upon activist exit and how its shift is manifested through resource allocation decisions. Broadly, this study serves to develop a more comprehensive understanding of how activist intervention affects targeted firms beyond the immediate changes brought on by the activists.

Second, this study extends research on firm strategic change by applying the resource-freeing and resource-consuming framework to a novel context. While prior research traditionally viewed resource availability as an enabling condition or a constraint on strategic decision-making, an emerging stream of research proposed that the resource implications of strategic actions are often deliberately planned (e.g., Kuusela et al., 2017). While this development generated much insight on how firms choose the direction of their strategic change with specific resource goals—such as consuming or freeing resources—in response to internal triggers like performance shortfalls, we do not know much about how factors beyond performance cues drive organizations to undertake resource-freeing versus resource-consuming actions. I extend this body of research by examining how firms consume or free resources in response to changes in external pressures. This line of inquiry demonstrates how pressures from external stakeholders (and relief from such pressure) can have a substantial impact on the firm's resource profile by influencing managers' strategic goals.

THEORY AND HYPOTHESES

Activist Investors' Preference Toward Resource-Freeing Actions

Activist investors seek to realize profit by buying into undervalued firms and selling the stakes at an appreciated price, which they seek to achieve by proactively influencing firm strategic decisions (e.g., Klein & Zur, 2011). Scholars argued that activist investors target firms with "allocative inefficiencies," which provides activist investors an opportunity to unlock hidden value and quickly appreciate the firm's valuation (Brav et al., 2008: p.1731). At the targeted firms, therefore, activist investors pursue actions that focus on correcting various forms of inefficiencies in how resources are allocated within the firm (David et al., 2001; Shi et al., 2020). For example, activist investors criticize, and pressure to address, that managers are over-

investing firm resources in self-serving strategies such as empire-building acquisitions and pet projects (Gantchev, Sevilir, & Shivdasani, 2020), or their own salaries and perquisites (Ferri & Sandino, 2009). Another strategic change activist investors often push for is to enhance the efficiencies of various financial investments. For example, activist investors pressure firms to sell unprofitable assets or units (Chen & Feldman, 2018), implement cost-cutting measures (DesJardine & Durand, 2020; Gillan & Starks, 2007), or reduce investment spending on various capital development and research projects (Bebchuk, Brav, & Jiang, 2015; David et al., 2001). In fact, changes to firm resource allocation regarding the scope of the firm and financial slack resources are some of the most commonly stated goals of activist investors, demanded by 14% and 20% of activism campaigns, respectively (Chen & Feldman, 2018; Gantchev, 2013).

Regardless of whether such demands were explicitly put forth, prior studies have shown that activist intervention is indeed associated with reallocating resources of various forms, including physical assets (Chen & Feldman, 2018), innovative resources (Brav, Jiang, Ma, & Tian, 2018; David et al., 2001), capital investments (Brav et al., 2015), and human capital (DesJardine & Durand, 2020). Prior research suggests that those activist-demanded changes in various strategic domains have similar implications for the firm's overall resource profile. Specifically, corporate restructuring has been shown to release resources and transform them into more liquid forms of assets (Bergh, 1995). Reining in excessive costs and investments (DeWitt, 1993) or raising debt (Bourgeois III & Singh, 1983) also engender additional financial slack that is highly fungible.

Drawing on the resource-consuming and resource-freeing framework proposed by Kuusela and colleagues, I develop theory on the resource preferences of activist investors and managers, as well as the strategic actions they pursue. The resource-consuming and resource-

freeing framework conceptualizes strategic actions with opposing resource implications. Resource-consuming actions commit, and thereby tie up, substantial financial and managerial resources as investments, such as by allocating them to R&D spending or making an acquisition, seeking a positive performance impact. Resource-freeing actions convert tied-up resources into liquid assets, such as via divestitures or reducing investments, that can serve as a buffer or be reinvested (Kuusela et al., 2017).

I demonstrate that activist investors push for actions that are resource-freeing, which will give them access to more of the firm resources they can leverage to advance their own agenda. For example, extra financial resources generated from divestitures or cost savings can be used to directly pay shareholders—including the activist investors themselves—via dividends or a buyback program, a demand about 20% of campaigns put forth (Gantchev, 2013). Additionally, activist investors have incentives to push for resource-freeing actions because such actions generate returns more quickly than resource-consuming actions. Prior research argued that returns from organic improvements via investments (e.g., improved productivity, synergies from acquisitions) are likely to be realized over the long run, while gains from shedding resources (e.g., divestitures) are realized almost immediately (Brav et al., 2015; Chen & Feldman, 2018; King, Wang, Samimi, & Cortes, 2021). Since activist investors have terminal goals, they prioritize actions that will have a positive impact on the firm performance in the short term. Many resource-freeing actions are in line with this goal. Furthermore, activist investors pursue resource-freeing actions to project an impression that they are tightening control at the targeted firm. Research suggests that activist investors have incentives to build and maintain a reputation as an effective monitor, which can positively influence subsequent activism campaign performance (Wiersema et al., 2020). Compared to resource-consuming actions, resource-freeing

actions are more consistent with, and thus likely seen as, stringent turnaround efforts, which often involve conservation of resources (Voss, Sirdeshmukh, & Voss, 2008), aggressive cost reduction (Schendel, Patton, & Riggs, 1976), and limiting new initiatives (D'aveni, 1989).

Activists' emphasis on resource-freeing actions is manifested in a multitude of demands they put forth. Specifically, activist investors encourage the targeted firm to sell off assets or reduce investments, while discouraging the firm from acquiring or increasing investments. Indeed, studies have shown that firms under activist pressure are more likely to engage in more divestitures of assets and subsidiaries (Clifford, 2008), decrease investments in R&D (Brav et al., 2018), and reduce capital expenditure (Gantchev et al., 2019). Firms under activist pressure also reduce operational expenses such as overhead or advertising, as well as their spending on environmental and social initiatives after activist intervention (DesJardine & Durand, 2020).

Changes in Firm Strategic Actions after Activist Exit

While the pressure from activist investors can be monumental, activist intervention often comes to an end rather quickly. Activist investors choose to sell their stakes and exit the firm when the estimated current value of the investment in the targeted firm is greater than the expected return of continuing with the campaign (Gantchev, 2013). Perhaps because of the steep increase in costs as the activism campaign escalates, the average holding period of activist investors is documented to be around one year (Brav et al., 2010; Gantchev, 2013). Upon activist exit, I theorize that managers will respond to the relief from activist pressure by engaging in strategic initiatives that are resource-consuming.

In general, managers prefer to reinvest their liquid resources rather than maintaining a cash reserve or returning them to investors (Jensen, 1986). Here, I propose two more reasons managers will undertake resource-consuming initiatives after activist exit.

First, managers seek to reestablish the foundation for the long-term performance of the firm, on which their career and compensation are contingent. Managers have both fiduciary duty and incentives to ensure that the firm survives, grows, and maintains competitive advantages in the long run. To ensure that managers maintain the long-term perspective, many contemporary firms have performance-based incentives in place to encourage managers to plan and strategize for the long-term performance of the firm (e.g., Eisenhardt, 1989).

Yet, reaping returns in the long term requires a consistent commitment of resources over time. For example, steady investment in R&D is argued to be a necessary condition for innovation (Romer, 1990). Capital investments, which are often crucial to realize economies of scale or improved efficiency in the long run, yield benefits gradually over time (Myles Shaver, 2011). Similarly, investing in acquisitions instantly grows the firm but any synergetic returns to acquisitions are often realized in the longer run (King et al., 2021).

We know from prior research that activist investors promote resource-freeing actions and constrain resource-consuming activities. Investors and managers alike acknowledge the potential consequences of such resource-freeing actions for the firm's long-term performance. For example, a long-term institutional investor who supported DuPont over Trian during the proxy contest said that "*cutting R&D can make everything look sparkly and bright for a while…but…looking decades into the future…you have to look after the goose that lays the golden egg.*" (The Atlantic, 2016). As managers seek to foster future returns and protect their long-term interests, I propose that managers re-engage in resource-consuming investments after activist exit.

Second, managers want to paint a positive picture of the firm and highlight how the firm is moving in a promising direction. Managers strive to "save face and preserve the image that

they are effective leaders" (Gray & Ariss, 1985) especially in the face of discrediting situations (Sutton & Callahan, 1987). Activism campaigns pose such threats, as they are inherently a challenge to managerial discretion and often involve public excoriation of managers' prior decisions, personal criticism, and threats to oust the managers from the firm. Therefore, once activists leave, managers are motivated to repair their reputation as leaders in the eyes of various stakeholders.

I argue that resource-consuming actions can help managers restore their reputation and manage impressions of the firm's future. Resource allocation decisions encompass a wide range of firm strategic decisions, some of them highly visible and attention-drawing. For example, resource-consuming initiatives like acquisitions can involve multibillion-dollar transactions and require substantial integration efforts or complete restructurings, which make it one of the most "dramatic changes an organization can take" (Kuusela et al., 2017). Such initiatives are also likely to draw the attention from stakeholders, providing managers an opportunity to craft and communicate a positive message about the firm. For example, after the Clorox Company went through a bitter campaign with Carl Icahn, they undertook several acquisitions, which gave the managers opportunities to highlight their efforts to drive the firm to a high-growth environment. In their press releases, the Clorox company stated that the acquisitions are "*important steps in the company's effort to increase exposure to faster-growing categories… [and to] complement and expand the breadth and depth of the health care portfolio. One element of our strategy is making targeted, strategic acquisitions to drive faster growth… [and] to expand our portfolio of leading brands where there are significant tailwinds to drive growth*" (Clorox press release, January 2012).

Reallocating resources can also help managers project a positive picture of the firm's strategic choices. Going back to the Clorox company example, they also increased investments in various areas including R&D after activists left, which they claimed to have contributed to their "strong sales growth" reported in 2012 (Clorox press release, August 2012). Here, resource-consuming investments provided managers leverage to form a narrative about the firm's strategic directions. In sum, since re-engaging in resource-consuming actions restores the foundation for long-term competitive advantage and also provides a platform for managers to communicate a positive message to shareholders, firms will increase their resource-consuming actions after activist exit. Thus, I hypothesize that,

H1: Activist exit from the targeted firm is associated with increased investment in resource-consuming strategic actions.

Moderating Conditions

I argue, however, that not all managers will be equally affected by activist exit. In particular, increasing resource-consuming investments presents a temporal trade-off. While the investment is expected to generate returns in the future, increasing the spending can put a strain on the strategic flexibility and potentially depress firm financial performance in the short term (Folta, 1998; McDonald & Siegel, 1986). Limited flexibility and depressed performance can not only lead to stronger pressure from the capital market, but also undermine the managers' positions that have already weakened from weathering the activism campaign. Therefore, from the managers' perspective, securing the long-term gains requires a willingness to, or tolerance of, weathering the short-term pressures. Managers' proclivity to choose between temporarily forgoing short-term returns for long-term gains is thus likely to depend on the individual attributes of the leaders and situational factors around the decision. Specifically, factors that

encourage managers to consider a longer time horizon and look farther into the future will lead to a stronger preference for resource-consuming investments.

Prior research suggested that CEOs' temporal preferences are shaped by both intrinsic and extrinsic factors (Holman & Zimbardo, 2009; Wallace & Rabin, 1960). Intrinsically, individual CEOs have underlying dispositions with respect to their subjective perception of time, which have been shown to affect their strategic decisions with temporal implications (Chen & Nadkarni, 2017; Gamache & McNamara, 2019). I draw on the bodies of research on individual temporal orientation and upper echelon scholarship to examine how CEOs' individual temporal disposition moderates the degree to which they re-engage in resource-consuming investments after activist exit. Extrinsically, CEOs' financial incentives created through stock options will influence their temporal preferences (Martin et al., 2013, 2016). I draw on the behavioral agency model and research on executive compensation to examine how CEOs' expectation of future wealth shapes their decision to re-engage in resource-consuming investments.

CEO Future Temporal Depth

Recent research highlighted executives' subjective perspectives of time as an important driver of strategic decisions (Ancona, Okhuysen, et al., 2001; Nadkarni & Chen, 2014). Integrating theory on time perspectives and upper echelon theory, this body of research argued that executives' perception of time—which varies across individuals (Das, 1987) and is largely stable over time within each individual (Strathman, Gleicher, Boninger, & Edwards, 1994)—affects firm decisions by creating 'temporal filters' that influence how executives perceive and process information around them (Nadkarni & Chen, 2014; Shipp & Cole, 2015). Studies have demonstrated that executives' temporal dispositions can predict a range of strategic decisions, such as acquisition decisions (DesJardine & Shi, 2020; Gamache & McNamara, 2019), alliance

decisions (Shi et al., 2012), competitive strategies (Nadkarni et al., 2016, 2019), and corporate entrepreneurship (Chen & Nadkarni, 2017).

Specifically, executives' future temporal depth, or how far into the future one considers when making decisions (Bluedorn, 2002), is shown to play an important role in resource allocation decisions (see a review by Reilly, Souder, & Ranucci, 2016). Future temporal depths of individual CEOs are likely to be manifested in the firm's strategic orientations such that CEOs with short future temporal depth will promote actions that will lead to quick successes, while CEOs with long future temporal depth will advocate for actions that are expected to yield future returns that exceed the upfront costs (Judge & Speitzfaden, 1995). As CEOs are particularly concerned with the timing of the returns to their investments, their underlying disposition to consider short- or long-term futures is likely to influence how they plan for future returns and allocate resources accordingly.

I argue that CEOs with longer future temporal depth are likely to increase resource-consuming investments to a greater degree after activists exit the firm. CEOs with longer future temporal depth discount future returns less aggressively and thus are more tolerant of the delays in realizing payoffs of their investments. Research has shown that individuals, in general, endow a higher subjective value on the current or immediately acquirable assets than on the same amount of assets promised in the future, 'discounting' the future gains to reflect the inherent uncertainty associated with the future (Fisher, 1930; Loewenstein & Thaler, 1989). However, the rate of discounting varies across individuals. Individuals with longer future temporal depth are shown to discount future payoffs to a lesser degree (Das & Teng, 2001), as they are capable of "taking a cognitive step back [from temporally more proximal situations] and view the larger [strategic] canvas" (Miller & Porter, 1980: 538). Studies further argued that holding a long-term

view promotes CEOs' ability to envision what the future holds for the firm and thus encourages CEOs to prepare for such developments by committing to corresponding investments (Nadkarni et al., 2016). Since CEOs with a longer future temporal depth are inclined to place a greater subjective value on future cash flows and to prepare for the firm's future than those with a shorter future temporal depth, they are more likely to commit to resource-consuming actions after activist exit. Thus, I hypothesize that:

H2: The increase in resource-consuming actions after activist exit is greater when the CEO of the targeted firm has a longer future temporal depth.

CEO Prospective and Current Option Wealth

Extrinsically, executives' financial incentives influence their temporal preferences and thus the degree to which they increase resource-consuming investments after activist exit. Most CEOs in U.S. public firms are granted stock options as a part of their compensation contract, which ties their personal wealth to the firm's long-term performance (Tosi, Werner, Katz, & Gomez-Mejia, 2000). Several streams of research showed that managers with such financial incentives indeed act to influence their personal wealth via the impact of their decisions upon firm performance (Devers, McNamara, Wiseman, & Arrfelt, 2008; Martin et al., 2013). Specifically, CEO incentives through stock options significantly influence firms' temporal decisions such as acquisitions and divestitures (Sanders, 2001), long-term investments (Souder & Shaver, 2010), and risk-taking choices (Devers et al., 2008; Larraza-Kintana, Wiseman, Gomez-Mejia, & Welbourne, 2007).

Integrating the agency perspective and prospect theory, the behavioral agency model (BAM) further stressed that the managers' perceptions of current and future values of their stock options influence managers' temporal preferences. Specifically, the prospect theory line of

argument in BAM posits that individuals' preferences are framed around a reference point of 'endowed wealth,' such that individuals perceive the value of an owned asset more highly than the value of an identical, unowned asset (Devers, Wiseman, et al., 2007). As a result, individuals are more aversive to losses of the assets they currently own than to potential losses of the same amount to the assets promised in the future (Thaler, Tversky, Kahneman, & Schwartz, 1997). Extending this argument to CEOs and stock options, CEOs are likely to place a higher subjective value on the stock options they have immediate access to, than the same amount of stock options that are only accessible in the future (Devers, Wiseman, et al., 2007). Indeed, Martin and colleagues (2013, 2016) have shown that CEOs are more aversive to losses in their current option wealth than to their future option wealth.

Drawing on the BAM and the research on CEO compensation, I argue that CEOs with a higher level of prospective wealth relative to current wealth will engage in resource-consuming investments to a greater degree after activist exit. Current wealth refers to the already-accumulated cash value of options realized from a stock price above the options' exercise price, whereas prospective wealth refers to the wealth-creating potential that existing options may deliver over and above the current accumulated value in the stock options if CEOs' strategic choices are successful as planned (Martin et al., 2013, 2016). CEOs are likely to perceive the current wealth as a part of their personal wealth 'in hand' (Kahneman, Knetsch, & Thaler, 1991), which is subject to potential losses if the stock price declines (Thaler & Johnson, 1990). For CEOs with high current wealth, therefore, increasing resource-consuming investments poses tangible risks through a potential performance shortfall, while leveraging the resources to generate short-term returns is likely to help preserve their current wealth. In contrast, a high level of CEOs' prospective wealth is likely to encourage more resource-consuming investments. Since

their prospective wealth is not accessible yet, CEOs do not consider this value as their current wealth. Yet, their stock options still offer "unlimited upside potential, to whatever level the stock price rises to prior to the option's expiry" with limited downside potential (DesJardine & Shi, 2020: p. 267). Therefore, given the same level of current wealth, CEOs perceive a greater gain potential and less value at risk with resource-consuming investments.

As CEOs' current and prospective levels of wealth are at work simultaneously, I propose that CEOs will engage in resource-consuming investments to a greater degree after activist exit when the magnitude of prospective wealth relative to current wealth is higher.

H3: The increase in firm resource-consuming actions after activist exit is likely to be greater when the targeted firm CEO's prospective wealth relative to current wealth is higher.

METHODS

Data and Sample

I used S&P 1500 firms that experienced shareholder activism from 2006 to 2018. I collected firm financial data from *COMPUSTAT*, compensation data from *EXECUCOMP*, activist holdings data from the *Thomson Reuters Institutional Holdings (13F) database*, acquisition data from the *Securities Data Corporation (SDC) Merger and Acquisitions database*, and activism campaign data from FactSet's *Shark Repellent database*. I collected firm press releases from *Factiva* and *SEC EDGAR database*. I structured the data as a panel at the quarterly level for estimating the changes in the dependent variable and for generating a matched sample. The matched sample is structured as cross-sectional data.

Dependent Variable

Resource-consuming investments. I used the magnitudes of the changes in resource-consuming investments from before activist intervention to after activist exit. I used three measures to capture resource-consuming investments of managers. First, R&D investment reflects the extent to which a firm chooses to build its long-term innovative capabilities despite technological and market uncertainty that may arise before its completion (Hoskisson et al., 1993). Since there are considerable differences in R&D practices, I used industry-adjusted R&D intensity, which is a firm's R&D expenditure as reported in *COMPUSTAT* minus industry average R&D expenditure calculated based on two-digit SIC code category (Hoskisson et al., 1993; Xu, Zhou, & Du, 2019).

Second, capital expenditure is another intertemporal decision firms face when allocating resources (Gatchev, Pulvino, & Tarhan, 2010). Similarly to R&D investments, there may be industry-specific capital intensity trends (Arrfelt, Wiseman, McNamara, & Hult, 2015). Thus, I used industry-adjusted levels of capital expenditure following the same approach as above.

Third, I used acquisition intensity, as undertaking acquisitions represents the CEO's willingness to commit more resources to investing in the future of the firm (Kuusela et al., 2017; Sanders & Hambrick, 2007). Acquisition intensity was operationalized as the number of all acquisitions as reported in the SDC database. I also collected the aggregate and average of the transaction values for a robustness test. Results remain largely consistent.

Independent Variables

Activist exit. Following prior research, activist exit is defined as the quarter during which the stock holdings fell below five percent (Brav et al., 2008).

Moderators

CEO time horizon. I adopted and modified a previously developed measure by Nadkarni et al. (2019)[12]. CEOs' time horizon is defined as "the number of days between the date of the press release and the latest date or time frame cited in the press release" (Nadkarni et al., 2019). To extract the latest date or time frame cited, I content-analyzed the language in press releases published over the course of one year prior to activist intervention. Prior research has widely used press releases to understand the strategic motive and background of various firm actions (e.g., Graffin, Haleblian, & Kiley, 2016), as press releases are carefully crafted and broadcasted to communicate managerial strategic intent (Gao et al., 2017).

I used an automated program to extract various forms of language referencing dates and time frames. First, I categorized temporal references into quantitative numeric, qualitative numeric, and non-numeric cues. Quantitative numeric cues include positions of an event in time (e.g., 2010, July 2008, 12th of February 2016) and descriptions of passage of time (e.g., three years, five weeks) expressed in numbers. Qualitative numeric cues include positions in time (e.g., end of the year, this month, next season) and passages of time (e.g., in a couple of weeks, after several months) expressed in words. Non-numeric cues include time-related adverbs and adjectives (e.g., now, immediately, in the future, long-term). In this study, I primarily used quantitative and qualitative numeric cues. Prior studies reported that in their samples, about 80% of temporal cues were quantitative numeric (Liberman et al., 2007). In the data I collected, 75% of temporal cues were quantitative numeric.

Second, I computed the number of days between each cue and the publish date of the press release. For quantitative numeric cues with dates, the computation was straightforward. For

[12] The same measure was used to capture the *firm's* time horizon in Nadkarni et al. (2019) and also in study 1 of this dissertation (as the dependent variable).

quantitative numeric cues only consisted of month and year only and were missing a date, it was treated as referring to the same date of the month as that of the published date. For example, in the same press release published on March 1st, 2018, a mention of 'June 2018' was coded as 90 days. Similarly, quantitative numeric cues missing months and dates were treated as referring to roughly the same time in the year as the published date, such that a mention of '2019' in the same example was coded as 365 days.

Qualitative numeric cues were translated into quantitative numeric values according to the prespecified system that follows convention and prior linguistics research. When followed by time units such as months, quarters, and years, cues such as *"a couple of [time unit]"* were coded as {2 x the numeric value of the following time unit}. For example, a mention of "a couple of days" was coded as 2 days, "a couple of months" was coded as 60 days (2x30). "*A few [time unit]*", "*a number of [time unit]*", and *"several [time unit]"* were coded {3 x the numeric value of the following time unit}. For example, "in a few quarters" was coded as 270 days (3x90). *"Coming"* and *"forthcoming"* were coded as {1 x the numeric value of the following time unit}, such that "in the coming quarter" was coded as 90 days. *"End of the [time unit]"* was coded as {1 x the numeric value of the following time unit} - {passed days since the first day of the time unit}. The latter term, passed days since the first day of the time unit, is defined as the number of days between the first date of the corresponding time unit during which the press release was published ("passed days" hereinafter). For example, a mention of the "end of the quarter" in a press release published on March 1st, the passed days since the first date of the quarter would be 60, and the cue was translated into {(1 x 90) – 60} = 30. A mention of the "end of the year" in a press published on January 31st, passed days will be 31, and the cue was translated into {(1 x

365) – 31} = 334 days. A dictionary of temporal cues I adopted from Nadkarni et al. (2019) and how each quantitative numeric cue is translated is included as Appendix A.

CEO current option wealth. Following prior studies (Devers et al., 2008; Larraza-Kintana et al., 2007; Martin et al., 2016), current option wealth was calculated as the number of options from each option grant that is in-the-money (i.e., market price is above exercise price) on the last day of the previous year multiplied by their corresponding spread. The spread was calculated as the market price minus the exercise price.

CEO prospective option wealth. Following Martin et al. (2013), prospective wealth was calculated using the following formula.

$$Propective\ wealth = number\ of\ options\ held\ by\ CEO\ \times\ [(1.068^{time} \times stock\ price) - stock\ price]$$

The *number of options held by the CEO* is the total number of options, both unexercisable and exercisable, as reported in the *EXECUCOMP* database. *Price* is the firm's stock price on the last day of the previous year. To calculate the prospective increase in the option wealth CEOs anticipate, the value of the current stock option was compounded by the *rate of the average increase in the Dow Jones Industrial* over the period of the study, for the remainder of the life of the CEO's stock options. Mathematically, this was done by raising (1 + (average % increase in the Dow)) to the power of the average number of years remaining prior to the expiry in the CEO's stock options. The average % increase in the Dow from 2006 to 2018 was 1.053.

Control Variables

I controlled for various factors that may affect the level of change in firm resource-consuming investments.

First, I controlled for various firm-level attributes. Prior levels of each resource-consuming investment, measured one year before activist intervention, were included in the model to control for the baseline investment activity. Since making investments can be facilitated or limited by the availability of resources, I also controlled for the three categories of slack resources—*available slack* using current ratio (current assets divided by current liabilities), *recoverable slack* using selling, general and administrative expenses divided by sales, and *potential slack* using the debt-to-equity ratio (Bourgeois & Singh, 1983). I controlled for firm financial and performance metrics, such as the *firm size* using the total assets, *firm market value* using total common equity, *firm leverage* using total long-term debt, and *firm performance* using net income. I controlled for *firm diversificatio*n using the entropy measure based on sales (Palepu, 1985), *institutional ownership* concentration using the Herfindahl index, and the *total amount of* CEO *compensation*. All firm-level controls were lagged by one year.

Second, I controlled for campaign-specific attributes in order to minimize the idiosyncratic variance across campaigns. I controlled for the firm's *prior activism experience* by using the number of activism events the firm experienced before. I controlled for the *hostility* of activist campaigns, defined as the number of hostile tactics involved in a campaign. Hostile tactics include a threatened or actual proxy contest, takeover, lawsuit, or openly confrontational interactions (Brav et al., 2008). I also controlled for the *duration of the campaign,* measured by the number of days (or the number of quarters x 30.5 days if precise dates are not available). I controlled for the *types of activist demands* by including the number of value-related demands and the number of governance-related demands, as categorized by FactSet. Value-related demands include demands to divest assets, break up the company, block or renegotiate a merger, make acquisitions, or return cash via dividends or buybacks, as well as other capital structure

related demands. Governance-related demands include demands regarding executive officers and their compensation, board directorship, and other governance practices such as takeover defenses. I controlled for the *degree of accommodation* using the number of accommodated demands divided by the number of total demands put forth by activist investors.

Lastly, I controlled for *industry effect* by including two-digit SIC codes as dummy variables, since different industries tend to have different paces of change and thus likely to affect the level of investments and general managerial resource-consuming investments. To control for the *time effect*, I included year dummies in the model.

ANALYSIS AND MODEL ESTIMATION

My research question examines how activist exit affects firms' resource-consuming investments. Since experiencing activist intervention is not random, there is potential endogeneity. In the context of activism, targeted firms might be systematically different from non-targeted firms in a way that influences their resource-consuming investment behaviors. To reduce this confound, I constructed a matched sample using the propensity score approach. Propensity score matching pairs a treatment observation with a control observation based on the likelihood of experiencing the treatment. By comparing two firms that are similarly likely to experience activist intervention, the effect of activist intervention is more effectively isolated from potential confounds that may spuriously drive the effect of interest. Propensity score matching is done in two stages.

In the first stage, a 'score' was assigned to each observation based on the likelihood of experiencing activist intervention. This likelihood was estimated by a logit model with activist intervention as a dependent variable and various firm-level characteristics as predictors. Predictors included factors that have been shown to affect the likelihood of being targeted, such

as financial and performance metrics (*total asset, long-term debt, and net income*), ownership structure (*institutional ownership percentage*), prior activist intervention (*whether the firm experienced activism prior to the focal quarter, and if so, the number of past activism campaigns*), industry membership (*whether the firm experienced activism prior to the focal quarter,* and if so, *the number of past activism*), and year.

In the second stage, each treatment observation was paired with the counterfactual with the closest propensity score. Since activist exit is conditional on activist intervention, I first matched firms based on the likelihood of being targeted. Then, both treatment and control firms were observed in the quarter that activists exited the treatment firm. In constructing matches, I specified nearest-neighbor matching, which pairs a treatment observation with the control observation with the smallest difference in their propensity scores. I specified a 0.25 caliper, thereby limiting the matches to when the difference of propensity scores between a matched pair is smaller than one-quarter of the standard deviation of the logit of the propensity score (Austin, 2011; Rosenbaum & Rubin, 1985). The final matched sample paired 1,504 observations out of 1,524 observations with 1,504 control observations. The 20 dropped observations were not significantly different from the remaining observations both in their targeted firm characteristics and activism campaign characteristics. Out of 1,504 observations, only 1,059 firms published a sufficient number of press releases before and after activist intervention to reliably extract temporal cues. Using the t-test, the 445 firms that did not consistently publish press releases were significantly different from the 1,059 firms that consistently published press releases in their firm-level characteristics. On average, the 445 firms were smaller in their total assets ($30B compared to $113B), had less debt ($5B compared to $18B), and had lower net income ($200M

compared to $710M) than the 1,059 firms. The level of institutional ownership failed to reject the null that the two groups of firms are significantly different from zero.

For control observations, variables for activism campaign characteristics are inherently not available. Yet, my theory suggests that the nature of the activism campaign a firm experiences can shape the changes in firm resource allocation decisions. To account for the roles of various campaign characteristics, I posited that each pair is not only similarly likely to experience an intervention but also likely to face an activism campaign that is similar in its characteristics. Ergo, each control observation was given the same values of the campaign hostility, duration, number of value- and governance-related demands, and the degree of those demands being accommodated as the values of its paired treatment observation.

In the regression analysis, all variables were winsorized at 0.5% from each tail to avoid outlier observations driving the results, and all moderators were centered to aid interpretation. The independent variable, moderators, and control variables were lagged by one year compared to the dependent variable, such that the post-activism firm time horizon was measured one year after the focal quarter. Regressions estimated robust standard errors. Missing values were imputed as the mean of the entire sample, rather than being deleted, to avoid attrition and "protect the balance of matched-on variables" (Fukumoto, 2015). Single value imputation approach is shown to "retain the benefits of randomization [such as achieved by matched design] … regardless of the missing data mechanism" (Imai, King, & Nall, 2009: p.44) and results in an unbiased estimator (King et al., 2007).

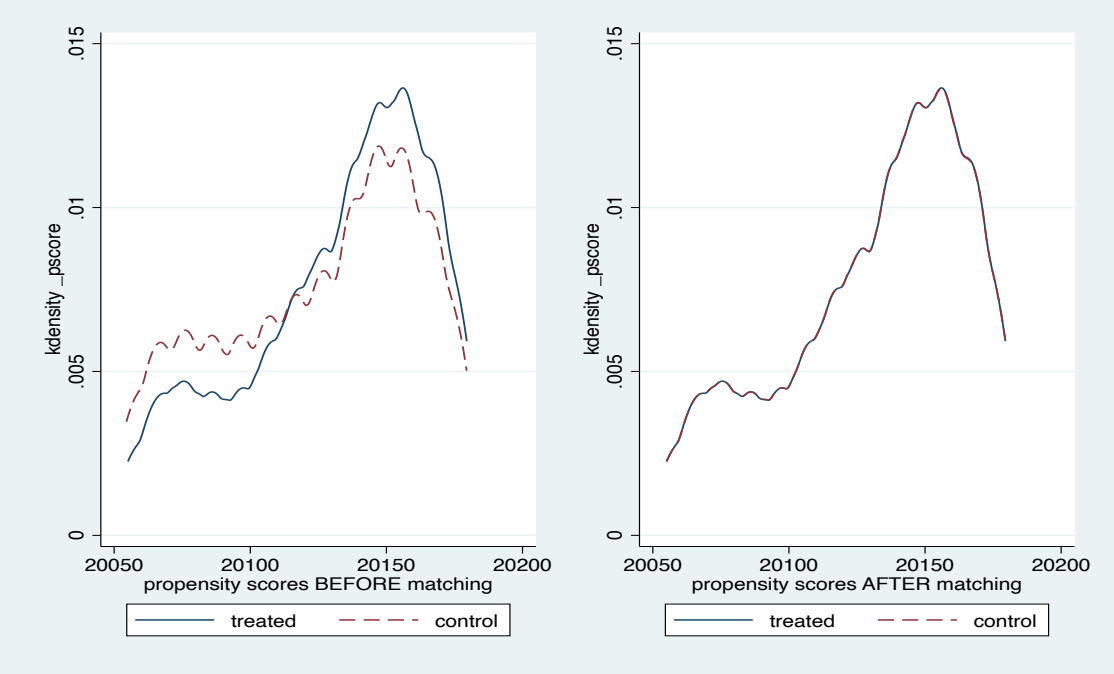
I assessed the quality of the matching by examining the balance between the treatment and control groups. First, I compared the average propensity scores and confirmed that two groups have highly similar averages of propensity scores, 37.0399 for the control group and

37.0405 for the treatment group. I also compared the distribution of the propensity scores before and after, which is visualized in Figure 2. Second, I compared the main firm-level characteristics. As shown in Table 5, the two groups do not differ significantly. When tested using the t-test, the differences are significantly different from zero for the resource-consuming actions after activism, market valuation and institutional ownership. Analyses involving resource-consuming actions before activism, CEO power, total assets, long-term debt, net income, CEO compensation, the degree of diversification, and three categories of slack resources failed to reject the null hypothesis that the difference between the means of treatment and control group are not significantly different from zero.

Table 5. Descriptive Statistics

	Treatment group		Control group	
Variable	Mean	Std. Dev.	Mean	Std. Dev.
R&D before activism	6.06	8.06	6.35	10.12
CAPEX before activism	14.4	27.68	12.74	25.52
Acquisition before activism	.19	.34	.15	.34
Total asset	112.87	358.81	102.42	345.77
Long-term debt	18.26	47.17	16.55	45.02
Net income	.71	1.73	.70	1.67
Market valuation	49.16	90.16	57.22	77.23
CEO compensation	11.45	3.87	11.73	3.13
Inst. ownership (%)	6.12	15.27	1.92	6.96
Diversification (sales)	.31	.18	.30	.11
Current ratio	1.95	1.46	1.89	1.43
SG&A (divided by sales)	0.24	0.16	0.23	0.14
Debt-to-Equity ratio	0.24	1.20	0.21	0.72

Figure 2. Comparison of propensity score distributions before and after matching (Chapter 3)



As a sensitivity test of the matching process, I also constructed a matched sample using the Coarsened Exact Matching approach. The CEM approach stratifies each variable into several categories—'coarsening' the variable—and finds matches within each stratum. For continuous variables, I used the automated coarsening algorithm (using the *cem* command in STATA), which creates the optimum number of strata based on the distribution of the variable. For categorical variables, each year was treated as a separate stratum; industry membership is coarsened into five strata including manufacturing (sic 2 and 3), transportation (sic 4), finance (sic 6), services (sic 7 and 8), and miscellaneous (sic 1, 5, and 9). Compared to PSM, which pairs treatment and control observations based on the 'distance' between the two, CEM assigns a continuous weight based on the matches found in each stratum, often retaining more observations. Using CEM, 1,507 treatment observations out of 1,524 were matched to 1,507 control observations. Analysis results using this sample are reported in Appendix D.

RESULTS

Table 6 presents the summary statistics and correlations. Table 7 presents the results of the analyses predicting the three resource-consuming actions—R&D, capital expenditure, and acquisitions—after activist exit. Model 1 shows the results of the main analysis. Hypothesis 1 predicted that activist exit is associated with an increase in resource-consuming actions. In this model, the coefficient for the independent variable is interpreted as the difference between treatment group (i.e., targeted firms) and control group (i.e., non-target firms). As shown in Model 1, this hypothesis receives limited support for capital expenditure, as the coefficient for the impact of activist exit on capital expenditure is positive and marginally significant (b=1.65, $p<0.10$). This hypothesis failed to receive support for R&D expenditure and acquisition activities, as the coefficients for the impact of activist exit on R&D expenditure and acquisition activities are not significantly different from zero (b=–0.38, p=0.48 for R&D expenditure; b=–0.00, p=0.87 for acquisitions). This result suggests that firms increase their capital expenditure but do not substantially change the investments in R&D or investments that go beyond the firm's boundary after activist exit. I offer a post-hoc interpretation of this behavior in the discussion section.

Model 2 presents the results of the moderating effects of CEOs' future temporal depth. Hypothesis 2 predicted that the increase in resource-consuming actions after activist exit would be greater when the CEO's future temporal depth is longer. This hypothesis failed to receive support, as coefficients for the interaction terms between activist exit and each dimension of resource-consuming actions are not significantly different from zero (b=–0.00, p=0.17 for R&D; b=–0.00, p=0.92 for capital expenditure; b=–0.00, p=0.99 for acquisitions).

Model 3 presents the results of the moderating effects of CEOs' prospective wealth. Hypothesis 3 predicted that the increase in resource-consuming actions after activist exit would be greater when the CEO's prospective wealth (given their current wealth) is higher. Hypothesis 3 failed to receive support with respect to R&D investment and acquisition activities, as the interaction between activist exit and prospective wealth is not significantly different from zero (b=–0.04, p=0.22 for R&D; b=0.00, p=0.15 for acquisitions). The coefficient for the impact of activist exit on capital expenditure is marginally significant and in the opposite direction of the hypothesized direction (b=–0.06, $p<0.10$). This result suggests that when CEOs have higher wealth potential to be realized in the future, they may be likely to increase their capital investment to a lesser degree. I provide a post-hoc interpretation of this finding in the discussion section. In sum, I found little support for my proposition that activist exit will prompt an increase in firms' resource-consuming actions or that CEO future temporal depth and prospective wealth will moderate the degree of the increase.

DISCUSSION

Activist intervention is a temporary event for firms, and managers regain their discretion upon activist exit. Assessing the consequences of activist intervention must consider this temporary nature of activism campaigns because what managers do with their restored control shapes the success and failure of activist-induced changes. In this study, I focused on the changes in resource allocation to observe the potential reversion of activist-triggered changes. I argued that firms would engage in resource-consuming actions after activist exit because managers seek to re-establish their position in the firm and to reinforce the strategic foundation for long-term competitive advantages. My analysis using three forms of resource-consuming investments offers interesting insights.

My analysis shows that firms' resource-consuming investment may increase after activist exit, but only in one specific form—capital expenditure—and not others, such as R&D or acquisitions. While my hypotheses made an implicit assumption that managers will indiscriminately engage in a range of resource-consuming actions, the data shows that managers may not treat all resource-consuming investment options the same. Here, I offer two complementary post-hoc explanations for why managers would choose capital expenditure over R&D and acquisitions.

First, increasing internal spending is a less obtrusive way to spend resources than engaging in actions that go beyond the firm's boundary. High-profile external actions such as acquisitions can attract unnecessary attention to the firm from investors, competitors, and regulators, and expose the firm to a greater risk of activist attack (Gantchev et al., 2020). Given the recent activist intervention, managers are likely to tread cautiously and refrain from actions that may lead to a similar experience. Also, acquisitions are often received negatively by the market (Haleblian et al., 2009), posing additional risk to the managers who seek to re-establish their competence in the eyes of the shareholders. Given these risks associated with acquisitions, increasing internal spending is likely a more desirable avenue for managers.

Second, even among various forms of internal spending, capital expenditure has been shown to be a more desirable option than investing in R&D. R&D involves more uncertainty in generating benefits (Kothari, Laguerre, & Leone, 2002), and thus is a riskier choice for managers. In contrast, capital investment is intended to improve the current cash flow stream by reinforcing the assets and production process already in place, posing little risk (Dosi, 1988; Myers, 1977; Wyatt, 2014). Because of the different risk profiles for each form of spending, studies have shown that risk-averse managers tend to under-invest in R&D, while over-investing

in capital expenditure (Ghosh, Moon, & Tandon, 2007). As managers seek to re-establish their standing in the eyes of stakeholders after activist exit, they are likely to prioritize stable yet positive performance. Moreover, benefits from investing in R&D are often realized in the long-term, whereas investing in physical or financial assets often yields tangible change or improvement quickly, which managers can leverage to reinforce their position at the firm. Furthermore, these conceptual and practical differences in choosing R&D versus capital expenditure can explain the moderating effect of CEO prospective wealth in an unexpected direction. While capital expenditure is more desirable on average, studies have shown that CEOs with substantial incentives to seek risk—such as those with high prospective wealth—may opt for other forms of resource investment (Ghosh et al., 2007).

Analyses results regarding the boundary conditions offer an opportunity to further refine the theory on firm behavior after activist exit. I theorized that CEOs' proclivity to engage in resource-consuming actions—captured by their individual disposition to consider the long-term future and their expectation of future wealth potential—moderates the effects of activist exit on resource-consuming investments. My analysis showed no support for the moderating effects of CEO future temporal depth, and some evidence against my hypothesized moderating effects of CEO prospective wealth. There can be two potential explanations for these mostly null results, especially in light of the rest of the findings.

First, it is possible that other aspects of CEOs serve as more salient boundary conditions. For example, given that capital expenditure and R&D substantially differ in their inherent risks, CEOs' tendency to tolerate uncertainty may play a role. It is also possible that CEOs' tendency to revert is more prominently shaped by their recent activism experience beyond what is captured by my control variables. Specifically, experiencing an activist intervention could have muted the

effect of CEOs' underlying personality traits or wealth perception, while heightening the CEOs' temporary state of threat response or defensive motives. In some cases, CEOs may have formed a tie with the activist investor that persists even after the activists exit, which could lead to weaker motivation or capability to engage in resource-consuming actions. It is important for future research to identify boundary conditions arising from CEOs' individual preferences in order to fully understand the underlying mechanism between activist exit and resource-consuming investments.

Second, it is possible that the reversal is driven more by an organization-level construct, and less by CEOs' individual motivations or constraints. For example, research has shown that strategic changes (and reversals) are shaped by how the changes are communicated to and accepted by individual employees (Mantere, Schildt, & Sillince, 2012). Given its disruptive and assertive nature, activist intervention could substantially shift the cognition and sensemaking of organizational employees regarding resource allocation practices (Mantere et al., 2012). How the employees, top management teams, or other various coalitions within the firm perceive firm strategies may have a stronger influence over the resource-consuming decision and execution than top managers' individual preferences and incentives. Future activism research should leverage extant organizational literature to investigate potential firm-level boundary conditions with respect to post-activism investments.

In this study, I sought to examine whether firms restore their resource allocation strategy after experiencing activism, specifically by increasing their capital investment. My findings allude to the possibility that activist-triggered changes may not be permanent, as many studies posited (Bebchuk, Brav, & Jiang, 2015; Goranova & Ryan, 2014). In particular, with the backdrop of prior findings that activist intervention tends to cut capital investments (Klein &

Zur, 2009), the possibility that resource-consuming investment may increase after activist exit poses an important question about what we can reliably deduce from our extant knowledge. To advance what we know, future research should move toward rigorously tracking and monitoring the changes over a longer period. Specifically, it would be important to identify theoretically meaningful intervals to observe the outcomes of interest, investigate the persistence of activist-induced changes after activist exit, and most importantly, isolate the impact of the intervention itself from any potential reversal attempt after the intervention ends.

This study contributes to broader strategy research as well. While activist intervention is a substantial threat, it may not permanently distort firms' preferences, which have implications for studying strategic reversal and resilience. Strategic resilience, or a firm's ability to recover from unforeseen adversity, is one of the important competitive advantages a firm can have (Iftikhar, Purvis, & Giannoccaro, 2021). Strategy reversal is closely related to strategic resilience, as resilient organizations are likely to recover quicker and more effectively after a disruptive change or reversal—like activist intervention and exit (Hillmann, 2021). We know from prior research that firms undergo strategy reversals under various circumstances, such as a cancellation of planned changes (Greenwood & Hinings, 1988), divesting a recently acquired unit (Hayward & Shimizu, 2006), or reversing previously adopted market strategy (Blake & Jandhyala, 2019). Yet, scholars point out that the extant literature provides little guidance for when reversals happen, why, or how, leaving it "by and large an uncharted territory" (Mantere et al., 2012). This study highlighted a novel context in which firms face the choice between maintaining unwanted changes and reversing those changes, where strategic reversal can be explicitly observed. As firms constantly face various obstacles in their endeavors that may necessitate strategic reversals, even outside of activism, it remains for future research to examine

when a strategic reversal is beneficial, how they are executed, and what performance implications reversals have.

Table 6. Matrix of Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Activist exit	1.00																	
2. R&D	0.02	1.00																
3. CAPEX	0.04	0.01	1.00															
4. Acquisitions	0.03	0.00	0.07	1.00														
5. Total asset	0.04	-0.06	0.07	0.30	1.00													
6. Long-term debt	0.03	-0.12	0.03	0.23	0.85	1.00												
7. Net income	0.05	-0.07	0.09	0.34	0.81	0.63	1.00											
8. Market valuation	0.02	-0.06	0.11	0.35	0.83	0.66	0.82	1.00										
9. CEO compensation	0.02	-0.05	0.02	0.03	0.21	0.20	0.16	0.20	1.00									
10. Inst ownership	0.12	0.03	0.00	-0.04	-0.11	-0.10	-0.09	-0.13	-0.14	1.00								
11. Diversification	0.00	-0.03	-0.01	-0.07	-0.11	-0.10	-0.09	-0.10	-0.08	0.01	1.00							
12. Current ratio	-0.01	-0.04	0.10	0.02	-0.14	-0.18	-0.04	0.04	-0.01	0.00	0.11	1.00						
13. SG&A/Sales	0.00	-0.07	0.07	0.01	-0.17	-0.14	-0.12	-0.09	-0.01	0.00	0.07	0.21	1.00					
14. Debt-to-Equity	0.00	-0.01	0.03	0.02	0.03	0.05	0.01	0.01	0.01	0.00	-0.01	-0.04	-0.05	1.00				
15. Campaign hostility	0.00	-0.06	-0.03	0.00	-0.10	-0.10	-0.06	-0.09	-0.04	-0.04	0.02	0.01	0.05	0.04	1.00			
16. Campaign duration	-0.10	-0.04	0.01	-0.05	-0.14	-0.12	-0.11	-0.14	-0.06	0.03	0.09	0.03	0.09	0.01	0.08	1.00		
17. Value demands	0.00	-0.02	0.02	-0.05	-0.15	-0.16	-0.11	-0.15	-0.08	0.06	0.10	0.03	0.09	0.05	0.28	0.30	1.00	
18. Governance demands	0.08	-0.04	0.00	0.02	0.06	0.09	0.03	0.06	0.04	0.00	-0.08	-0.04	-0.10	0.08	0.04	-0.17	0.06	1.00
19. Accom demands (%)	0.04	-0.01	-0.05	-0.04	-0.16	-0.16	-0.12	-0.16	-0.07	0.06	0.05	-0.02	0.07	-0.03	0.02	0.00	0.02	0.01

*Correlations greater than |0.03|are statistically significant at 0.05 level

Table 7. Regression Results on Firm Resource-Consuming Actions Post Activist Exit

	Model 1			Model 2			Model 3		
	R&D	CAPEX	ACQ	R&D	CAPEX	ACQ	R&D	CAPEX	ACQ
Activist exit	-.38	1.65*	.00	-.05	1.72	.00	-.32	1.73*	.00
	(.54)	(.88)	(.02)	(.56)	(1.45)	(.02)	(.53)	(.9)	(.02)
Activist exit				.00	.00	.00			
x CEO temporal depth				(.00)	(.00)	(.00)			
Activist exit							-.04	-.06*	.00
x CEO prosp. wealth							(.04)	(.04)	(.00)
Control variables									
R&D before activism	.87**			.87**			.87**		
	(.04)			(.04)			(.03)		
CAPEX before activism		.72**			.72**			.72**	
		(.06)			(.06)			(.06)	
Acquisition before activism			.44**			.44**			.44**
			(.05)			(.05)			(.05)
CEO future temporal depth				.00	.00	.00			
				(.00)	(.00)	(.00)			
Prospective wealth							-.04	-.02	.00
							(.06)	(.03)	(.00)
Current wealth							.00	.00	.00
							(.01)	(.01)	(.00)
Total asset	.00	.00	.00**	.00	.00	.00**	.00	.00	.00**
	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)
Long-term debt	-.02	.01	.00**	-.02	.01	.00**	-.02	.01	.00**
	(.02)	(.02)	(.00)	(.02)	(.02)	(.00)	(.02)	(.02)	(.00)
Net income	-.09	-.71	.00	-.09	-.70	.00	-.09	-.72	.00
	(.35)	(.44)	(.01)	(.35)	(.44)	(.01)	(.35)	(.44)	(.01)
Market valuation	.01	.02**	.00**	.01	.02**	.00**	.01	.02**	.00**
	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)
CEO compensation	-.03	.02	.00	-.03	.02	.00	-.03	.02	.00
	(.09)	(.15)	(.00)	(.09)	(.15)	(.00)	(.09)	(.15)	(.00)

Table 7 (cont'd)

Inst. ownership (%)	.01	.00	.00**	.01	.00	.00**	.01	-.01	.00**
	(.02)	(.04)	(.00)	(.02)	(.04)	(.00)	(.02)	(.04)	(.00)
Diversification (sales)	-1.81	8.91*	-.09*	-1.80	8.82*	-.09*	-1.90	8.86*	-.09*
	(2.84)	(5.26)	(.06)	(2.85)	(5.24)	(.05)	(2.80)	(5.26)	(.06)
Current ratio	-.05	-.15	.01	-.05	-.18	.01	-.06	-.16	.01
	(.32)	(.43)	(.01)	(.33)	(.42)	(.01)	(.32)	(.43)	(.01)
SG&A/Sales	-3.24	3.79	.09	-3.25	3.75	.09	-3.16	3.82	.09
	(2.77)	(2.8)	(.07)	(2.77)	(2.82)	(.07)	(2.76)	(2.78)	(.07)
Debt-to-Equity	-.05	-.09	.01	-.05	-.08	.01	-.04	-.08	.01
	(.17)	(.18)	(.01)	(.17)	(.18)	(.01)	(.16)	(.18)	(.01)
Campaign hostility	-.26	-.49	.01	-.26	-.48	.01	-.24	-.48	.01
	(.63)	(.55)	(.01)	(.64)	(.55)	(.01)	(.62)	(.55)	(.01)
Campaign duration	.00	.00	.00	.00	.00	.00	.00	.00	.00
	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)
Value demands	.15	.43	-.01	.14	.44	-.01	.11	.41	-.01
	(.33)	(.37)	(.01)	(.33)	(.37)	(.01)	(.31)	(.37)	(.01)
Gov demands	-.14	-.17	.01	-.14	-.16	.01	-.15	-.18	.01
	(.28)	(.33)	(.01)	(.28)	(.34)	(.01)	(.28)	(.33)	(.01)
Accom. (%)	.00	.00	.00	.00	-.02	.00	.00	-.02	.00
	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2118	2118	2118	2118	2118	2118	2118	2118	2118

*Standard errors are in parentheses; ** p<.05, * p<.1*

CHAPTER 4. CONCLUDING THOUGHTS

About five hundred U.S. public firms are targeted by activist investors annually (Activist Insight, 2022). Activist intervention is a momentous event for firms, as activist investors directly infringe on firms' autonomy and often compel drastic changes to the firm's structure, financials, and governance. Academics, practitioners, and regulators alike have paid much attention to understanding how this growing force influences firms. While extant research on shareholder activism expanded our knowledge on how activism affects firms—with respect to the types of changes and magnitudes of performance improvement (see chapter 1 literature review)—scholars agree that there is much to be clarified (e.g., Ahn & Wiersema, 2021; DesJardine & Durand, 2020). For example, a fundamental question remains unanswered: does activist intervention create value in both the short- and long-term or merely transfer long-term value to the near future? To adequately answer this question, it is imperative to understand not only the breadth but also the depth of activist influence on firms—including, but not limited to, how deeply activist intervention morphs the targeted firms and how long such changes persist.

My dissertation set out to examine how activism influences firms' underlying strategic orientations and whether their influence is reversed after activist pressures are relieved. Drawing on bodies of research on temporal orientation, upper echelon theory, and resource-consuming and freeing framework, I theorized and analyzed whether activist intervention indeed precipitates a short-term outlook in the targeted firms and whether managers engage in reversive resource-consuming actions when activists exit. My first empirical study demonstrated that activist intervention indeed influences how far into the future a firm looks— one of the fundamental dimensions of firm strategies—such that firms shift their attention to a short-term future when activists intervene. More interestingly, the empirical data revealed that *both* targeted and non-

targeted firms (that are similar and relevant to the targeted firms) shorten their time horizons. Furthermore, firms that are threatened by potential activist intervention—firms that are closely comparable to the firms that are under activist attack—shift their attention to a short-term future to an even greater degree than activist-targeted firms. This presents strong evidence that activist intervention is not just an isolated event that firms individually deal with, but a salient threat that shapes the behaviors of firms that have not been targeted. This first empirical study also highlights the role of managers, as the degree of firms' attention shifting to the short-term was contingent on leader attributes. Based on the finding that firm time horizon shortens to a lesser degree under powerful CEOs. This specific study highlights that activist-induced changes are not limited to decisions to implement (or resist) activists' demands, but encompass shifts in firms' fundamental strategic orientations. In addition, my boundary conditions illustrate the importance of bringing managerial perspectives into activism research.

My second empirical study examined what happens after activists exit the firm. I proposed that firms may backtrack on some of the activist-imposed changes to prepare for the long-term future once activist pressure is relieved. While we do not know much about the persistence of activist-imposed changes, some of my findings allude to the possibility that firms may engage in actions—such as increasing capital expenditure—that is not completely in line with encasing and reinforcing activist-demanded changes. A further examination of this topic can elucidate whether the activist consequences are permanent or ephemeral, and if so, how much of the activist-induced changes tend to revert. Despite the mixed results lending weak support for the hypothesized relationships, this study highlights the importance of raising questions about the expectation that activist-triggered changes have a lasting impact on the

targeted firms. As no firm exists as a vignette, it is imperative future research considers how activist-induced consequences evolve or demise over time.

In both studies, I strived to introduce managerial agency beyond their responses to activists' demands. Managers are the primary actors with whom activist investors are concerned—either to justify their intervention, to reach an agreement, or to effectively take control of the firm. In the realm of activism research, this study complements prior research that situates activist investors in the center of theory, and also opens future avenues for leveraging management theories and perspectives to expand our understanding of shareholder activism. In the broader strategy research, this study makes important contributions by investigating a salient and prominent threat that organizations face, explicitly examining firm time horizon using firm communication, and uncovering previously unknown reversal of activist-imposed changes.

APPENDICES

APPENDIX A-1. Dictionary of Temporal Cues for Content Analysis (Nadkarni et al., 2019)

Quantitative numeric cues

DATES

Year: 1999, 2000, 2001, 2002 . . . up to 2050

Month: January, February, March, April, May, June, July, August, September, October, November, December

Day: 1, 2, 3, 4, 5 . . . up to 31

TIME FRAMES

Year(s): 1, 2, 3, 4, 5 . . . up to 50; one, two, three . . . up to fifty; first, second, third . . . up to fiftieth

Month(s): 1, 2, 3, 4, 5 . . . up to 50 month(s); one, two, three . . . up to fifty; first, second, third . . . up to fiftieth

Week(s): 1, 2, 3, 4 . . . up to 54; one, two, three . . . up to fifty; first, second, third . . . up to fiftieth

Day(s): 1, 2, 3, 4, 5 . . . up to 365; one, two, three . . . up to fifty; first, second, third . . . fiftieth; next day, today, tomorrow

Hour(s): 1 to 50; next hour

Qualitative numeric cues

future, much later, long time from now, long term; sometime from now; short term, forthcoming; ahead, soon, current, immediate*, now, present, promptly, quick*, short*, at this moment, right after

Non-numeric cues

this (season, year, quarter, month, week, weekend); end of the (decade, year, quarter, month, week, day); next (season, year, quarter, month, weekend, week); coming (year*, quarter*, month*); in the coming (days, months, quarters, and years); number of (decades, years, quarters, months, weeks, days, hours); several (decades, years, quarters, months, weeks); few (decades, years, quarters, months, weeks, days hours); many (decades, years, quarters, months, weeks, days hours)[1]

[1] Because of a greater ambiguity in translating this cue, I chose not to include `many' in my coding

APPENDIX A-2. Details of the Coding Procedure to Construct Firm Time Horizon

1. Converting numeric (quantitative) into the number of days
    a. If a press release published on June 1st of 2015 includes "June 10th, 2015," then the cue (June 10th, 2015) is translated into 9 days
    b. If a press release published on June 1st of 2015 includes "July 2015," then the cue (July 2015) is translated into 30 days
    c. If a press release published on June 1st of 2015 includes "2016," then the cue (2016) is translated into 365 days
2. Converting numeric (qualitative) into the number of days
    a. If a press release published on June 1st of 2015 includes "coming year," then the cue is translated into 365 days
    b. If a press release published on June 1st of 2015 includes "end of the quarter," then the cue is translated into 30 days
    c. If a press release published on June 1st of 2015 includes "a couple of seasons," then the cue is translated into 180 days
    d. If a press release published on June 1st of 2015 includes "several months," then the cue is translated into 90 days

Table 8. Conversion of Qualitative Numeric Cues into Dates

Qualitative cues		decade(s)	year(s)	quarter(s)	season(s)	month(s)	week(s)	weekend(s)	day(s)
Numeric translation		3650	365	90	90	30	7	5	1
this	x 0								.
next, coming, forthcoming	x 1								
end of the	{last date of the corresponding period – publish date} x 1								
a couple of	x 2								
a few, a number of, several	x 3								

APPENDIX B. LIWC Dictionary for Present Focus

add	cant	determine	flirts	he´s	jump	mean	perfect	shes	sucks	throw	want	yell
adds	care	determines	flow	heal	jumps	means	pick	shove	suffer	throws	wants	yells
admit	cares	die	flows	heals	keep	meet	picks	shoves	suffers	today*	warms	you're
admits	carries	dies	follow	hear	keeps	meets	pities	sigh	support	travel	wash	youre
ain't	carry	differs	follows	hears	kick	miss	practice	sighs	supports	travels	washes	
aint	cashes	dines	forbid	heed	know	misses	practices	sing	suppose	tries	watch	
am	cleans	disappear	forbids	helps	knows	mock	present	signs	supposes	trot	watches	
appear	come	disappears	forget	here's	lack	mocks	presently	sit	sway	trots	we're	
appears	comes	dislike	forgets	heres	lacks	move	provide	sits	swerve	trust	weakens	
are	commit	dislikes	frequents	hes	lay	moves	provides	sleeps	swerves	trusts	wear	
arent	commits	do	fuck	hope	lays	need	puts	slide	swing	try	wears	
aren't	completes	does	fucks	hopes	learn	need'nt	realize	slides	swings	tryna	weds	
arrive	complicates	doesn't	get	how're	learns	needn't	realizes	slows	take	tumble	weigh	
arrives	compiles	doesnt	gets	how's	leave	neednt	revolve	sob	takes	tumbles	weighs	
ask	confide	don't	give	howre	lend	needs	revolves	sobs	talk	turn	weirds	
asks	confides	donate	gives	hows	lends	notice	rub	solve	talks	turns	what're	
attend	confuses	donates	glides	i'm	let's	notices	rubs	solves	tastes	twitch	what's	
attends	consider	dont	go	i've	lets	now	run	speak	tell	twitches	whatre	
attract	considers	drives	goes	ignore	to like	nowadays	runs	speaks	tells	understand	whats	
attracts	continue	earns	googles	ignores	likes	obey	save	spend	tend	understands	where's	
be	continues	eat	grow	im	listen	obeys	say	spends	tends	undo	wheres	
become	crave	eats	guess	include	listens	obtain	says	spin	terrifies	undoes	who's	
becomes	craves	enter	guesses	includes	live	obtains	scares	spits	terrify	unfriend	whos	
begin	current*	enters	hang	infer	lives	okays	searches	spose	thank	unfriends	wobble	
begins	decide	excels	happen	infers	look	oks	see	start	thanks	up-to-date	wobbles	
begs	decides	excite	happens	inform	looks	open	seem	starts	that's	upsets	wonder	
believe	define	excites	harms	informs	lose	opens	seems	stay	thats	use	wonders	
believes	defines	exclude	has	invade	loses	organize	sees	stays	there's	uses	work	
bounce	delete	excludes	hasn't	invades	loves	organizes	sell	stir	theres	vary	works	
bounces	denies	explain	hasnt	is	lowers	overcome	sells	stirs	they're	wag	worries	
bring	deny	explains	hate	isn't	mails	overcomes	send	stumble	theyre	wags	worry	
brings	depend	feel	hates	isnt	majors	owe	sends	stumbles	think	wait	worse	
can	depends	feels	have	it's	make	owes	share	stun	thinks	waits	worsens	
can't	describe	find	haven't	ive	makes	pass	shares	stuns	thirsting	walk	write	
cannot	describes	finishes	havent	join	manages	passes	she's	suck	thirsts	walks	writes	

APPENDIX C. Robustness test (Chapter 2)

Table 9. Analysis Results using Coarsened Exact Matching

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5
Activist intervention	13.17	12.53	11.07	13.30	13.45
	(8.33)	(8.16)	(8.63)	(8.31)	(8.36)
Activist intervention		-.64			
x Activist inv horizon		(.41)			
Activist intervention			2.39		
x Activist experience			(2.26)		
Activist intervention				-7.37	
x CEO present focus				(10.12)	
Activist intervention					6.16
x CEO power					(6.04)
Control variables					
Activist investment horizon		.53			
		(.40)			
Activist experience			-2.18		
			(1.82)		
CEO present focus				9.51	
				(7.48)	
CEO power					-2.82
					(5.24)
Pre-activism time horizon	.11**	.11**	.11**	.11**	.11**
	(.02)	(.02)	(.02)	(.02)	(.02)
Total asset	.10	.10	.10	.09	.10
	(.07)	(.07)	(.07)	(.07)	(.07)
Long-term debt	-.48	-.50	-.48	-.49	-.48
	(.43)	(.43)	(.43)	(.43)	(.43)
Net income	1.96	2.73	1.90	2.12	1.79
	(4.07)	(3.98)	(4.11)	(4.09)	(4.13)
Market valuation	-.12	-.13	-.12	-.12	-.11
	(.10)	(.10)	(.10)	(.10)	(.10)
CEO compensation	1.87	1.90	1.83	1.84	1.84
	(2.93)	(2.91)	(2.96)	(2.93)	(2.97)
Inst ownership (%)	.58	.60	.58	.57	.53
	(1.00)	(1.00)	(1.00)	(.99)	(1.00)
Diversification (sales)	-66.64**	-65.66**	-67.03**	-66.61**	-67.13**
	(29.40)	(29.45)	(29.40)	(29.45)	(29.35)
Current ratio	-3.82**	-3.85**	-3.87**	-3.82**	-3.95**
	(1.82)	(1.83)	(1.84)	(1.81)	(1.89)
SG&A/Sales	83.36*	83.77*	83.66*	83.48*	83.57*
	(49.08)	(49.13)	(48.97)	(49.14)	(49.32)
Debt-to-Equity	1.16	1.15	1.18	1.19	1.18
	(1.10)	(1.11)	(1.10)	(1.11)	(1.11)

Table 9 (cont'd)

Campaign hostility	-8.00	-8.69	-8.13	-8.01	-8.33
	(9.59)	(9.73)	(9.85)	(9.61)	(9.47)
Campaign duration	.00	.04	.00	.00	.00
	(.05)	(.06)	(.05)	(.05)	(.05)
Value demands	-12.01*	-11.28	-11.95*	-12.00*	-12.32*
	(7.24)	(7.28)	(7.22)	(7.23)	(7.28)
Gov demands	3.89	2.77	3.89	3.91	3.40
	(6.94)	(7.11)	(6.93)	(6.93)	(6.97)
Accom demands (%)	-.21	-.20	-.20	-.20	-.20
	(.19)	(.19)	(.2)	(.19)	(.19)
Industry Dummy	YES	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES	YES
Observations	3014	3014	3014	3014	3014

*Standard errors are in parentheses; ** p<.05, * p<.1*

APPENDIX D. Robustness test (Chapter 3)

Table 10. Analysis Results using Coarsened Exact Matching

	Model 1			Model 2			Model 3		
	R&D	CAPEX	ACQ	R&D	CAPEX	ACQ	R&D	CAPEX	ACQ
Activist exit	-.06	.94**	.01	.21	.65	.03	-.08	.97**	.01
	(.51)	(.38)	(.02)	(.55)	(.64)	(.02)	(.53)	(.39)	(.02)
Activist exit				.00	.00	.00			
x CEO temporal depth				(.00)	(.00)	(.00)			
Activist exit							-.05	-.02	.00
x CEO prosp. wealth							(.04)	(.02)	(.00)
Control variables									
R&D before activism	.84**			.84**			.84**		
	(.05)			(.05)			(.05)		
CAPEX before activism		.75**			.75**			.75**	
		(.04)			(.04)			(.04)	
Acq before activism			.46**			.46**			.46**
			(.05)			(.05)			(.05)
CEO FTD				.00*	.00	.00			
				(.00)	(.00)	(.00)			
Prospective wealth							-.08	-.01	.00
							(.08)	(.03)	(.00)
Current wealth							.01	-.01	.00
							(.02)	(.01)	(.00)
Total asset	.00	.00	.00	.00	.00	.00	.00	.00	.00
	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)
Long-term debt	-.01	.01	.00**	-.01	.01	.00**	-.01	.01	.00**
	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)
Net income	-.16	-.18	.01	-.17	-.18	.01	-.16	-.19	.01
	(.13)	(.22)	(.01)	(.14)	(.22)	(.01)	(.13)	(.22)	(.01)
Market valuation	.00	.00	.00**	.00	.00	.00**	.00	.00	.00**
	(.00)	(.01)	(.00)	(.00)	(.01)	(.00)	(.00)	(.01)	(.00)
CEO compensation	-.03	.08	.00	-.03	.08	.00	-.05	.09	.00

	(.08)	(.06)	(.00)	(.08)	(.06)	(.00)	(.09)	(.06)	(.00)
Table 10 (cont'd)									
Inst. ownership (%)	.01	.00	.00**	.01	.00	.00**	.00	.00	.00**
	(.02)	(.02)	(.00)	(.02)	(.02)	(.00)	(.01)	(.02)	(.00)
Diversification (sales)	.24	1.64	-.11**	.32	1.60	-.10**	.12	1.64	-.11**
	(1.92)	(1.13)	(.04)	(1.92)	(1.12)	(.04)	(1.86)	(1.11)	(.04)
Current ratio	-.06	.21	.00	-.06	.21	.00	-.07	.21	.00
	(.12)	(.17)	(.00)	(.12)	(.17)	(.00)	(.12)	(.17)	(.00)
SG&A/Sales	.21	-.53	.03	.21	-.52	.03	.16	-.45	.03
	(2.25)	(.84)	(.04)	(2.24)	(.85)	(.04)	(2.29)	(.85)	(.04)
Debt-to-Equity	.00	.00	.01	.01	.00	.01	.01	.00	.01
	(.03)	(.05)	(.01)	(.03)	(.05)	(.01)	(.03)	(.05)	(.01)
Campaign hostility	-.44	-.23	.01	-.43	-.24	.01	-.40	-.23	.01
	(.76)	(.32)	(.01)	(.76)	(.32)	(.01)	(.72)	(.31)	(.01)
Campaign duration	.00	.00	.00	.00	.00	.00	.00	.00	.00
	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)
Value demands	.05	.18	-.01	.04	.19	-.01	-.01	.16	-.01
	(.33)	(.22)	(.01)	(.33)	(.22)	(.01)	(.32)	(.22)	(.01)
Gov demands	-.21	.21	.00	-.20	.20	.00	-.21	.20	.00
	(.32)	(.19)	(.01)	(.32)	(.19)	(.01)	(.32)	(.19)	(.01)
Accom. (%)	-.01	.00	.00*	-.01	.00	.00*	-.01	.00	.00*
	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)	(.01)	(.01)	(.00)
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3014	3014	3014	3014	3014	3014	3014	3014	3014

*Standard errors are in parentheses; ** p<.05, * p<.1*

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