# CORPORATE RAIDERS, PERFORMANCE AND GOVERNANCE IN EUROPE

Forthcoming *European Financial Management*

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## Abstract

*I analyze 136 block purchases made by corporate raiders in Europe between 1990 and 2001. Contrary to the hypothesis that these investors expropriate the target companies, there is a positive market reaction to the first public announcement of these purchases. In the long-run, raiders earn an abnormal profit when they sell their stakes. When they still held their positions at the end of the sample period, abnormal returns were insignificant. Raiders' activities do not improve operating performance. The findings are consistent with superior stock picking ability among these investors, but do not support the hypothesis that raiders are governance champions.*



**Keywords**: *corporate control; corporate raiders; Europe; event study; corporate governance.*

**JEL classification**: G34.

## 1. Introduction

Shareholder activism increased substantially in Europe during the 1990s. In particular a group of investors became notorious for aggressively challenging incumbent managements. Although these investors are not usually interested in acquiring full control of target firms, the European financial press has often likened them to the corporate raiders of the 1980s in the USA (Holderness and Sheehan, 1985). Henceforth, I will use the term corporate raiders to identify the group of activist investors examined. The financial press has mixed feelings about these corporate raiders. Sometimes these investors are thought to be interested only in short-term profit, and sometimes they are thought to be corporate governance champions.

The typical corporate raider studied in this paper is a minority shareholder who is expected to force changes in the target firm's corporate policies.[1] The expectation that raiders will introduce changes is based on their reputation for putting pressure on incumbent managers. Gorton and Kahl (2002) argue that this kind of investor has a strong incentive to monitor because they have substantial amounts of money at stake. The other large outside investors, financial institutions and corporate blockholders, may not be as effective as monitors because they have their own agency problems. Thus, understanding the role of corporate raiders is essential for understanding how corporate governance is evolving in Europe. The question of whether these investors improve the performance of their target firms or whether they extract corporate resources to their advantage from these companies is of interest to investors, regulators, managers, and scholars. In fact, these investors are in the position (and are expected) to be the most effective monitors of large shareholders that characterize many European corporations.

The ability of activist minority shareholders to influence firm policies has been documented in the USA by Bethel *et al.* (1998), but in Europe, outside minority shareholders face a different challenge. European corporations usually have a concentrated ownership structure (La Porta *et al.,* 1999; Faccio and Lang, 2002) and manages are insulated from hostile acquisitions (Franks and Mayer, 1998; Loderer and Peyer, 2002). Thus, the main contribution of this paper is to shed light on the role of these investors as governance champions in an environment in which outside shareholders have usually less leeway than in the USA. As Faccio and Masulis (2005) point out, studying different European countries also permits the

[1] The definition is similar to what Bethel *et al.* (1998) describe as 'active investors'.

evaluation of the importance of a wide range of country characteristics, like ownership structures, corporate governance rules and corporate laws, to name a few.

The hypotheses of the paper emerge from the Holderness and Sheehan (1985) study of the behavior of six controversial investors who are portrayed in the financial press as corporate raiders. The hypotheses are: the raiding hypothesis (RH), the superior stock-picking hypothesis (SSPH), and the corporate governance champion hypothesis (CGCH). Under RH, the target stock price response to the public announcement of the first raider's stock purchase is negative. Anticipating that the raider will extract corporate resource to his advantage, other stockholders sell their shares, causing a decline in the firm's stock price. This hypothesis is not equivalent to saying that raiders obtain private benefits. In fact, RH implies a reduction of other shareholders' wealth. As Holderness (2003) points out, this is not always true in the case of private benefits, especially when private benefits are nonpecuniary. Both the other hypotheses, the SSPH and the CGCH, predict a positive stock price reaction to the announcement. The SSPH states that raiders systematically purchase underpriced stocks, because of either private information or higher skill in interpreting public information. The CGCH holds that this kind of investor is helpful in triggering managerial changes that increase a target firm's value; to put it another way, they provide a public good that benefits every stockholder in the company. Thus, a second, ancillary question of interest, which is also investigated in this analysis, is whether corporate raiders have superior skills in selecting profitable investments.

As emphasized by Holderness and Sheehan (1985), and also by Bethel *et al.* (1998), these hypotheses are not necessarily mutually inconsistent. While it is difficult to distinguish between SSPH and CGCH using an event study analysis of the initial purchase, these hypotheses have different implication in the long run. SSPH calls for passive post-acquisition behavior by the raider, since improvements in target firm operating performance are generated by incumbent management's initiative. On the other hand, CGCH calls for active post-acquisition behavior by the raider, because improvements in target firm performance are generated by the investor's initiatives. RH is consistent with an active post-acquisition behavior by the investor, as well. But in this case, the interventions are expected to be value-decreasing.

To test these hypotheses, I gathered data on the acquisition of 136 positions by 15 raiders during the period January 1990 to December 2001. As in Holderness and Sheehan (1985), my short-run evidence does

not support the raiding hypothesis; firms earn positive abnormal returns when the raider's stockholding is announced. This outcome is consistent both with the hypothesis that these investors are expected to improve target firm performance and with the superior stock-picking hypothesis. The long-run analysis shows that raiders earn abnormal returns if they sell their positions, but there is no evidence of abnormal performance if they are still shareholders at the end of the sample period, 31 December 2001. Further analysis based on the size of the stake held by raiders during their time as shareholders and on their interventions to influence the target firm's corporate policies do not support the view that these investors are corporate governance champions. The evidence also suggests that these investors are indeed good stock pickers, especially when they behave like passive investors. This result casts doubt on the effectiveness of minority blockholders as monitoring and is consistent with the Beiner *et al.* (2006) finding that large outside blockholders do not have a significant impact on firm value and with the Dherment-Ferere *et al.* (2004) result that blockholders do not play an active role in disciplining underperforming managers.

I also present evidence at the country level and based on the ownership structure of the target firms. Results at the time of the first public announcement of a raider's shareholding are positive in every country. The long-run results for the UK, the country with most observations, show no evidence of abnormal performance. Concerning the analysis based on ownership structures, the strongest market reaction occurs when investors target companies with a large shareholder. There is a long-run abnormal performance when raiders target firms with a controlling shareholder owning between 20 and 50% of the voting rights.

This paper adds to the growing body of literature that explores the market for partial corporate control and the effect of blockholders in Europe. First, the paper studies a group of investors who were considered to be unique by the financial press both because of their ability and their aggressive style of confronting incumbent managers. While previous studies examine the blockholder's identity for France (Banarjee *et al.*, 1997), Germany (Köke, 2004), and Belgium (Renneboog, 2000), this paper is the first work to specifically investigate corporate raiders in Europe. Second, this paper examines purchases that can be generally characterized as hostile transactions. The only previous paper that examines hostile block purchases in Europe is Jenkinson and Ljungqvist (2001), which present case studies on 17 hostile block purchases in Germany and suggest that companies often accumulate hostile stakes in order to gain control. This paper presents new evidence for Germany as well as for four other European countries. Finally, this

paper contributes to the literature concerning the activities of blockholders (Dherment-Ferere *et al.* (2004) for the role of existing blockholders on management turnover in three countries, and Heiss and Köke (2004) for the determinants of changes in corporate ownership in Germany) presenting a detailed analysis of all the raiders' corporate control activities after the initial purchase.

The remainder of the paper is organized as follows. Section 2 deals with data and the investor selection process. Section 3 shows some preliminary descriptive results. Section 4 presents the short-run evidence. Section 5 documents the long-run results. Section 6 shows the results for the event-study when raiders exit their positions. Section 7 shows results based on the country of the target firm. Section 8 shows results based on the ownership structure of the target firm. Section 9 concludes. Appendix A presents the results using a 5% blockholder definition for the raiders. Appendix B documents the activities of the 15 investors after the initial purchase.

## 2. Sample, data, and methodology

I focus my empirical analysis on corporate raiders that operate in Europe. A corporate raider is a minority shareholder who is expected to force changes in the target firm's corporate policies, based on his reputation for annoying incumbent management. The management of the target company usually opposes the proposed changes. Corporate raiders do not usually try to gain full control of the target firm.

The sample was constructed by searching the national daily newspapers in France (*Les Echos*), Germany (*Frankfurter Allgemeine Zeitung*), Italy (*Il Sole-24 Ore*), Switzerland (*Neue Zürcher Zeitung*), and the UK (*Financial Times*). The search involved the use of the keyword 'corporate raider' on these daily national newspapers in the period 1990-2001.[2] The label corporate raider is usually used by the European financial press to describe both CEOs of firms who make hostile takeovers and investors known for annoying incumbent managements with hostile purchases and proposals. I exclude from the analysis CEOs or majority shareholders of industrial companies whose acquisitions are related to their businesses. In the end, I selected 15 investors for studying.

This criterion of choice has both strengths and weakness. Among the strengths, first, it permits identifying corporate raiders from the whole population of investors in Europe; second, the financial press

[2] The electronic archives of *Les Echos*, *Frankfurter Allgemeine Zeitung*, and *Neue Zürcher Zeitung* only start in 1993.

does not often use this label, and the term identifies relatively few investors who are not activist investors. On the negative side, the criterion relies heavily on the ability of the financial press to identify correctly which investors are corporate raiders. Yet my measure is far better than the alternative one. Selecting investors on the basis of purchases of share blocks in excess of a given threshold would miss a key point; investors can create trouble for incumbent managements even if they only hold small block of shares.[3] Furthermore, some European countries have very low disclosure thresholds for substantial acquisitions of shares in a company. Italy has the lowest disclosure threshold, 2%. In the UK, all acquisitions of in excess of 3% require disclosure. The threshold is 5% in France, Germany, and Switzerland.[4] Thus, it is not possible to identify the first purchase based on a 5% blockholder definition.

The dates of the public announcement of minority stake purchases are not readily available from data or information suppliers.[5] I collected data manually from daily newspaper archives, and I performed key word searches of the newswires available on the Lexis/Nexis database. The public announcements are usually made at the time of an official public information release that is required by regulation.[6]

From the original search, I identify 159 public announcements of initial stake purchases in European listed firms by raiders. Several observations were deleted for the following reasons: two investors bought a stake in the same company on the same day; two initial purchases were due to spin-offs; a purchase was made just a few days after the IPO of the target company; three target companies were already facing a takeover bid from other companies; fifteen were dropped because of either missing or incomplete stock price data. Thus, the final sample is composed of 136 observations.

Throughout the paper, I compare the results for firms targeted by corporate raiders (raider sample) to two other samples. The first sample consists of 136 announcements of initial stake purchases made by non-

[3] I present evidence based on purchases of share blocks in excess of 5% of the target firm's equity in Appendix A.

[4] German requirements were lax before enactment of the *Security and Trading Law (WpHG)* in 1995, and the *Law for Control and Transparency in the Corporate Sector (KonTraG)* in 1998, according to Becht (1997) and Becht and Boehmer (2001). At that time, no interest of less than 25% of a company's equity had to be disclosed. After the passage of these laws, the threshold was reduced to 5%. In Switzerland, after the Swiss Stock Exchange Act (SESTA) came into effect on 1 January 1998, interests exceeding 5% must be disclosed. Before the SESTA, there were no disclosure requirements for substantial acquisitions.

[5] SDC does not usually report the names of individual investors.

[6] Since there is usually a time lag between the purchase and the public notification, I do not know for certain that investors carried out their purchases on the announcement day. Anecdotal evidence from *The Regulatory News Service*, which reports transaction data for the U.K., does not rule out the possibility that investors purchase at least part of their positions on the announcement date or very close to it. This anecdotal evidence indicates that transactions are often made either on the business day before or on the day of the news release. No comparable data is available for the other countries.

raider investors in Europe during the period 1993-2001. This sample includes purchases by industrial firms, institutional investors, as well as individual investors who do not adopt a public activist position. The deals were randomly selected according to these criteria:

1. The target firm is a public company from one of the countries where raiders made their purchases, i.e. Belgium, France, Germany, Italy, Sweden, Switzerland, and the United Kingdom.
2. The percentage of shares held by the acquirer before the transaction is zero and the percentage of shares acquired in the transaction is less than 15%.

I also require that the average size of the ownership stakes in this sample is similar to that of the raider sample. This requirement aims at filtering out the impact of the size of ownership stakes on CARs when comparing the two samples. This sample will be referred to as the non-raider sample in the paper. It is used to compare the initial stock price reaction to the raiders' purchases with those of comparable purchases made by other investors.

The second sample is created to analyze operating performance. It is composed of firms in the same industry (Datastream Sector 4), from the same country, that have similar pre-event operating performance (ROA) in the year before the investor's purchase, following Barber and Lyon (1996). Matching companies have an ROA that is 90-110% of the corresponding firm's ROA in the Raider Sample. ROA, which is the performance variable for the analysis, is defined as operating profits over book value of assets.[7] When no companies meet these criteria, the interval is expanded from 80 to 120%. If no match is found in the 80-120% range, a broader industry definition is used (Datastream Sector 3) or a country level search is performed. This sample is called the ROA-matched sample.

Differently from the measurement of short-run abnormal returns, there is no generally accepted methodology for long-run returns (see Mitchell and Stafford (2000) for a discussion). To test the long-run abnormal returns, I use the calendar-time portfolio regression approach based on a three-factor model as suggested by Fama (1998) and Mitchell and Stafford (2000).

[7] The definition of Operating Profit, Adjusted from Datastream (item 137) is: This is net profit derived from normal activities of the company after depreciation and operating provisions. For German firms item 993 (Operating Profit) is used because item 137 is not reported. The definition of item 993: profit derived from operating activities i.e. before the inclusion of financial income/expense, financial and extraordinary provisions and extraordinary profits/losses. Items 137 and 993 only differ for some British firms, but even in these cases the difference is small.

For each month from March 1990, the month of the first raider's acquisition, to December 2001, I form an equally-weighted portfolio of all firms targeted by corporate raiders. Target companies are added to the portfolio starting from the month of the first stake acquisition and dropped when the raider sold the position. The excess portfolio returns are regressed on the Fama and French (1993) three-factor model, as in Equation 1:

$$R_{p,t} - R_{f,t} = \alpha_p + \beta_p(R_{m,t} - R_{f,t}) + \gamma_p SMB_t + \delta_p HML_t + \varepsilon_{p,t} \quad (1)$$

$R_{p,t}$ is the target firms' portfolio return in month *t*; $R_{f,t}$ is the free-risk rate; $R_{m,t}$ is the market return; $SML_t$ is the difference between a portfolio of small stock and large stocks; $HML_t$ is the difference of a portfolio of high book-to-market stocks and low book-to-market stocks. The factors $SML_t$ and $HML_t$ are computed as in Fama and French (1993). The intercept $\alpha_p$ measures the average monthly abnormal return on the target firms' portfolio.

The free-risk rate used is the return of the one-month euro-mark deposit quoted in London. Heston *et al.* (1999) use the same variable as a proxy for the free-risk rate in their study of European stock return. The market return is the return of an equally weighted-portfolio composed of all stocks from Belgium, France, Germany, Italy, Sweden, Switzerland, and the UK with market values and book-to-market values available on Datastream.[8]

As in Mitchell and Stafford (2000), I estimate the expected intercept as the mean intercept from 1,000 calendar-time portfolio regressions of random samples of similar nonevent firms. Unfortunately, since I have no book-to-market ratios for some event firms, portfolios of randomly selected firms have only the same size composition of the event portfolio. Mitchell and Stafford (2000) calculate the t-statistic for the adjusted intercept, i.e. the difference between the estimated intercept $\hat{\alpha}$ and the expected intercept $\hat{\alpha}_0$, as:

$$t = \frac{\hat{\alpha} - \hat{\alpha}_0}{\hat{s}} \quad (2)$$

[8] All asset returns are converted in Deutschemark/euro.

where $\hat{s}$ is the standard error estimate of the estimated intercept.

Stock price and company account data come from Datastream. Data on the ownership structure of the firms targeted by raiders are taken from several sources: the *Lexis/Nexis Database*, *Il Taccuino dell'Azionista* (Italy), *Swiss Stock Guide* (Switzerland), *Wer gehört zu wem* (Germany), and the websites of national stock exchanges.

## 3. Preliminary evidence

Table 1, Panel A, shows the 136 initial announcements of corporate raiders' shareholding sorted by individual investor. Five investors account for 102 of the 136 observations (75%): Active Value, Brierley/GPG, Ebner, Giribaldi, and Wyser-Pratte. Raiders show a strong preference for home market companies. Only Ebner (Swiss) and Wyser-Pratte (American) bought stakes in at least three countries. Ebner bought a stake in all countries but Belgium. Wyser-Pratte held stakes in four countries. Panel B of Table 1 shows announcements by year, and Panel C reports them by country.

[Please insert Table 1 about here]

The great majority of initial purchases are carried out through open market transactions (115 of 136 observations); only 11 observations are block purchases. The remaining initial purchases are the result of mergers and acquisitions by third parties (7), mixed transactions (2), and private placement (1).[9]

Panel A of Table 2 shows the market value and the market-to-book for the firms in the raider sample and in the non-raider sample. The median market value indicates that these investors tend to invest in large companies. The sample median is almost twice the median market value of firms in the non-controversial sample. This contrasts with the evidence provided by Bethel *et al.* (1998) for activist block purchases in the USA in the 1980s. In their paper, firms targeted by activist investors tended to be smaller firms. The mean market value in both samples is very large because of a few purchases in some of the largest European

[9] A caveat is in order here. I categorize a deal as an open market transaction if I have no information that it is a block trade. As block trades are usually reported in the press, the figures should be accurate, but this approach might lead to an overestimation of the number of open market transactions.

companies. The mean book-to-market ratio of the raider sample is lower than the non-raider sample mean, but the medians are approximately the same.

[Please insert Table 2 about here]

Panel B of Table 2 compares the pre-event operating performance of the raider sample and the ROA-matched sample. The measure of operating performance is the ROA. ROA for firms targeted by raiders is higher than ROA for the matched sample, but the difference is statically significant only three years before the event. While more efficient, firms targeted by raiders report a decline in operating performance from 7.77% three years before the event to 6.23% in the year before the event. Although the economic significance of the decline is marginal, the change is statistically significant at the 5% level. A similar decline can be observed using an alternative definition of ROA, that is EBITDA over Total Assets (from 13.69% in Year -3 to 11.30% in Year -1). However, the decline in EBITDA/Total Assets is not statistically significant.

Pre-event stock price performance in Panel C does not support the hypothesis that corporate investors purchase stakes in firms with declining performance. Indeed, the adjusted alphas from the Mitchell and Stafford (2000) calendar time portfolio regression model are not significant when the pre-event period ends two or four months before the announcement of the raiders' purchases. Thus, raiders do not target firms with weak stock price performance.

## 4. **Short-run evidence**

To evaluate the target firms' stock price reaction to announcement of a raider minority investment, I conduct an event-study analysis. I estimate the simple market model using daily returns to adjust for systematic risk. The estimation period is a 300-day interval from day -349 to day -50 with respect to the event day (day 0). Cumulative abnormal returns (CARs) are computed as in Campbell *et al.* (1997).[10]

[10] I also estimate $\beta$ in the market model using the Dimson (1979) aggregate coefficient method with three lags and one lead. The results are similar to those of the OLS market model and are therefore not reported.

The average initial stake purchased by raiders is 5.58% (median 4.57%) of shares outstanding; purchases range from a minimum stake of 0.2% to a maximum of 39.3%.[11] The average size is smaller than in previous works, Banerjee *et al.* (1997) find that an average of 11.3% of shares are acquired, while Holderness and Sheehan (1985) find that 90% of the initial holdings were less than 12%. However, these studies examine only acquisitions of more than 5% of outstanding shares of one share class.

[Please insert Table 3 about here]

The average CARs to shareholders in target firms are presented in Table 3. Table 3 reports results for four samples: the full sample of raider acquisitions, the subset of raider acquisitions made through open market transactions, the subset of acquisitions by raiders for which there are no subsequent purchases by the investor within 120 days after the announcement, and the non-raider sample. Since open market transactions are the method of share accumulation more easily associated to outside minority purchases, I report the results for this subset (115 out of 136 observations).[12] The subset for which there are no purchases within 120 days after the initial announcement is important because it is possible that a raider could buy additional shares after the initial public announcement, and those purchases would impact the abnormal return after the announcement day.

Similarly to what Holderness and Sheehan (1985) found, the table shows that over the day before and the day of the first public announcement [-1, 0], stockholders in target firms earn a positive and significant abnormal return of 2.44%. However, abnormal returns over longer intervals around the announcement day are lower than in Bethel *et al.* (1998); who report 15.7% over the event-time interval [-30, 5], as opposed to 9.12% in my sample, and 14.2% over [-30, 30], as opposed to 9.3% in my sample. The results also show that there is a run-up in stock prices before the event. This run-up may be explained by the fact that the majority of the transactions are carried out through open market purchases. Sometimes it can take weeks to accumulate a stake for which an official notification is required, as some anecdotal evidence

[11] The size of the stake purchased at the time of the first announcement is significant at the 5% level when the abnormal returns on the event window [-1, 0] are regressed on a constant and the size of the initial positions.
[12] However, it is worth noting that nothing prevents raiders from buying blocks of shares from other minority stockholders.

suggests.[13] After the initial public announcement purchase is made, there is no significant increase in cumulative returns. These results support the Holderness and Sheehan (1985) finding that these investors are not driven by a pure raiding objective. That is, they do not want, at least initially, to exploit the target firms.

The CARs for open market acquisition announcements are similar to those of the whole sample. Only the average abnormal return at the time of the stockholding announcement is slightly smaller (1.74% versus 2.44%), but the difference is not statistically significant. The average positions held by the investors for this subsample is 5.02% (5.58% for the whole sample).

Column 'No Purchases' of Table 3 also shows the cumulative returns for the 91 firms that did not experience further purchases by these investors over the 120 days following the initial announcement of the stockholdings. The mean stake purchased at the event date is similar to that for the sample as a whole, 5.49% versus 5.56% (median 4.02%). For the event window [-1, 0] the abnormal return is 2.30%, highly significant and close to 2.44% of the full sample. However, over longer windows, the returns of the no purchase subsample are much less than those of the full sample. The CAR over the event window [-30, 1] is more than one-third lower than the return of the sample as a whole. CARs for the no-purchase subsample range between 3% and 5% most of the time and exhibit a late weak reversion. Barclay and Holderness (1991) find a similar reversion pattern for firms that remain independent public entities after a negotiated block trade. As they point out, the initial increase reflects an increased expectation that a takeover offer will arrive, or, at least, the controversial investor will buy more shares. When the market observes that this expectation has not been met, stock prices drift down. Applying this interpretation to the no-purchase sample, the return around the announcement date reflects the probability that a raider may engage in further purchases, which might lead to further increases in value. When no additional purchase takes place, the market adjusts its valuation, and the share price declines.

If raiders have characteristics that distinguish them from other investors as the Holderness and Sheehan (1985) hypotheses imply, the market reaction at the time of the announcement of their stockholdings should be different from the market reaction when stockholdings of non-raider investors are

[13] For example, Luigi Giribaldi disclosed a 9.1% stake in Cofide, an Italian company, on 17 February 1996 ending weeks of speculation and rumor about his involvement in Carlo De Benedetti's holding company (*Il Sole 24-Ore*). It was reported on *Les Echos* on 14 May 1999, the day of the first public announcement of Wyser-Pratte's shareholding, that the good stock price performance of Group André, a French company, in the last few weeks were due to positive half-year results and to purchases made by Guy Wyser-Pratte.

announced. Table 3 also reports the CARs of the non-raider sample. The average stake purchased in the firms included in this sample is 5.60%. This is similar to the 5.58% stake for the firms targeted by the raiders. On the event window [-1, 0], the random sample has an average abnormal return of 1.93%, which is a lower than the one for firms targeted by raiders. However, a standard t-test fails to detect a significant difference in CARs between the raider sample and the non-raider sample over this interval. However, CARs are statistically different in the event windows (-30, 1) and (-30, 5), but only at the 10% level. CARs in the event windows (-1, 0) and (-30, 30) are not different. While raiders' target firm report larger CARs than non-raider ones, the evidence is not strong enough to support the claim that the market reaction is different.

## 5. Long-run Evidence

### 5.1. *Abnormal performance in the long-run*

As raiders have usually held stakes for longer than one year, I now look at the long-run stock price performance of the target firms to determine whether these investors create value. To address this issue, I compute long-run abnormal returns using a monthly calendar-time portfolio approach as advocated by Fama (1998). To this end, I follow Mitchell and Stafford (2000). I include in the analysis only firms for which the investor's exit is known and firms for which I have information that the raider is still a stockholder on 31 December 2001 (128 observations). Calendar-time regressions are computed to the day of the raider's exit or 31 December 2001. Results for early exits are presented, too. An early exit is defined as an exit that occurs within one year of the announcement day.

[Please insert Table 4 about here]

Table 4 presents the results for three regressions. In the first, I consider all the monthly portfolios. In the second, I consider only monthly portfolios with at least five firms in each monthly portfolio. In the third, the requirement is that each monthly portfolio consists of at least ten firms. As Mitchell and Stafford (2000) point out, this requirement mitigates the heteroskedasticity problem.

The results in Panel A of Table 4 indicate that there is no evidence of abnormal performance by firms targeted by controversial investor. In fact, the results for the adjusted intercept (adjusted $\alpha$) tests are never statistically significant. When portfolios have at least five firms as shown in Panel B, target firms show abnormal returns when raiders sell their stakes. The abnormal performance is economically significant, too. In fact, the 0.98% monthly abnormal performance in Column 'Exit' results in an 11.76% abnormal return over one year. Abnormal returns are also significant when raiders exited their positions within one year of the initial purchase. However, only 33 monthly portfolios have at least five firms. Firms in which raiders were stockholders on 31 December 2001 show a negative but insignificant abnormal return.

The long-run evidence provides additional support against the raiding hypothesis. In fact, there is no evidence that minority shareholders' wealth decreases when raiders are shareholders in the company. The evidence partially supports the superior stock picking ability hypothesis. Positive abnormal returns are found when raiders sell their stakes before the end of the sample period. The CGCH is partially supported by the evidence as well. However, the results are consistent with the CGCH hypothesis only if raiders promote changes in target firms,[14] and these companies benefit from these changes. These benefits should also show up in the operating performance. I investigate these issues in the next few sections.

Given this evidence, one might wonder why corporate raiders hold positions for a long time. One explanation is that they are not always able to sell their shares, particularly when they hold a large position. I examine whether long-run performance is different when raiders hold small or big stakes in Section 5.3.

5.2. *Pre- and post-event operating performance and stock market reaction*

I have found that the initial announcement of a raider's stockholding produces an increase in the market value of the target firm. Hence, if raiders are governance champions, the market reaction at the time of the investor's stockholding announcement should be positively correlated with the post-acquisition performance. SSPH does not necessarily imply an improvement of operating performance. Under this hypothesis, the investor is merely interested in stock price performance. While better than expected operating performance may lead to a stock price increase, this is certainly not the only reason. The expectation of an acquisition,

[14] See Appendix B for more details on raiders' activities.

good market conditions, may also drive up the stock price before any improvement in operating performance shows up.

To test this hypothesis, I perform a cross-sectional regression similar to that suggested by Healy *et al.* (1992) to test for a correlation between announcement abnormal returns and a firm's future performance. The cross-sectional regression is:

$$IAOP_{post,i} = \mu + \nu IAOP_{pre,i} + \pi CAR_{(\tau,t),i} + \varepsilon_i \quad (3)$$

where $IAOP_{post,i}$ is the industry-adjusted median annual operating performance measure (ROA) for company $i$ for the years following the initial stake purchase in which the controversial investor remains shareholder in the company (maximum 5 years), and $IAOP_{pre,i}$ is the industry-adjusted operating performance measure for the same company in the year before the purchase. $CAR_{(\tau,t),i}$ is the cumulative abnormal return for target firm $i$ between days $\tau$ and $t$ around the announcement date. Industry-adjusted operating performance is the difference between the measure of operating performance for target company $i$ minus the same measure for the matching firms. The slope coefficient $\pi$ captures the correlation between the stock market reaction at the first public announcement of the controversial investor's shareholding and the post-event operating performance. The slope coefficient $\upsilon$ captures the correlation in operating performance between the year before the stake purchase and the years after, and the intercept $\mu$ is a measure of the abnormal industry-adjusted operating profit. The intercept $\mu$ is independent of pre-purchase performance.

In an unreported analysis, the regression in Equation (3) is performed for all the event windows considered. Due to missing accounting data, the regression is performed on only 66 observations. CARs are not significant in any regression, and the coefficient $\pi$ even appears with the wrong sign (negative). I find that the intercept $\mu$ is negative and never significant. The coefficient $\upsilon$ is positive (0.72) and significant at the 1% level when CARs from the event-window [0, 1] are used as dependent variable. Hence, results indicate that pre- and post-event performances are positively correlated.[15] Results are similar for all the event windows considered. Thus, the evidence suggests that the contribution of controversial investors to the

[15] There is no relevant change in the $\beta$ coefficient when the announcement abnormal return is excluded from the model.

operating performance of target firms is negligible. Results do not change if ROA is computed as EBITDA over Total Assets.

5.3. *Raider's maximum stake and abnormal returns*

Raiders usually hold a rather small block of stock when their first stockholding in a company is announced. As mentioned before, their mean initial stake is 5.58% of outstanding equity. However, after the initial purchase, raiders often increase their holdings. The size of the maximum stake held by the raiders during their time as shareholders varies greatly, from less than 5 to 100%. Given this wide variability, one cannot help wondering whether the stake held by the raider may affect the stock return in the long-run. To answer this question, long-run abnormal returns are subdivided according to the maximum size of the corporate raiders' stake. The maximum stake might also be interpreted as a proxy for an investor's commitment to a company.

[Please insert Table 5 about here]

Indeed Panel A of Table 5 shows different results for the two samples. If the maximum stake is greater than 10%, none of the adjusted $\alpha$s is significant and the coefficient is generally small. Conversely, when the maximum stake is less than 10%, there is evidence of positive abnormal returns. The magnitude of the adjusted coefficient is economically significant, 11.23% over a one-year period (0.936x12) in the first regression. The coefficient is even larger and statistically significant at 1% level when there are at least ten firms in the monthly portfolios (16.90% over a one-year period).

Table 5 reveals that the negligible abnormal stock returns shown in Panel 2 of Table 3 are mainly caused in firms in which the raider owns a large stake. Since raiders should exert more effort in monitoring target companies when they own large stakes in a company (Shleifer and Vishny, 1986), this evidence casts doubt on the CGCH.

5.4. *Corporate raider intervention and abnormal returns*

Raiders are well-known for their activist behavior in confronting incumbent managers and controlling shareholders. Contrary to Holderness and Sheehan (1985), who find that raiders are seldom passive after their initial purchase, in my sample only 49 of 136 observations account for corporate control events.

If the raider were a corporate governance champion whose intervention is aimed at improving performance, abnormal returns should be higher when an intervention takes place. In Panel B of Table 5, I find that raiders' interventions do not lead to improved stock price performance. When raiders intervene, the adjusted $\alpha$, which measures the abnormal performance in the calendar-time regression, is close to zero and not statistically significant. Conversely, there is some evidence of positive abnormal performance when the they do not intervene. These results are consistent with those reported in Section 5.3. In fact, interventions are more likely when the raiders hold large stakes in the target companies, for example 10% of the voting rights are usually required to call an extraordinary general meeting (EGM). It is worth noting that when raiders do not intervene, they are more likely to exit early.

Corporate raiders take action in roughly one-third of the observations, but their interventions do not seem to improve performance. While the evidence tends to support the hypothesis that raiders are good stock pickers, when they influence, or try to influence, the target companies' policies, raiders do not get results. Of course, it is possible that their interventions correct or prevent large declines in performance. However, the majority of the interventions happen shortly after the initial purchase and there is no negative abnormal performance before the initial stake acquisition and a positive abnormal return around the announcement date, as documented in Panel C of Table 2 and Table 3.[16]

## 6. Event study of raider exits

During my study period, raiders frequently sold their entire holdings in a company. The market reaction to their exit can be a helpful way to identify their perceived role. A non-positive market reaction is expected if the investor is believed to improve a firm's performance. A positive reaction to the exit may be interpreted as a signal that such investors have had a negative impact on the target firm, perhaps because they

[16] It is not possible to run calendar-time regression for the period before and after the intervention to examine whether the intervention is triggered by poor performance because of the limited number of monthly observations. The median time elapsed from the initial acquisition announcement to the first intervention is six months. The first intervention by a controversial investor takes place within one year of the initial purchase in three quarters of the observations.

are a costly distraction for incumbent management or because they exploit the firm in some way. Raiders are described as exiting completely from a firm when it is reported that they have sold their entire stake or no longer hold any stake in a company that requires disclosure. Table 6 presents the results. The CAR is 1.02% for the event window [-1, 0], which is significant. Results for event windows starting with day -30 are also positive and significant, indicating a significant run-up before the announcement day. The highest CAR is on day 1, and then returns stay level around 8%.

[Please insert Table 6 about here]

The way that raiders exit their investments can be a relevant factor in determining abnormal returns. For this reason, I classified the 75 exits into three types: exits due to takeover bids, to open market transactions, and to blocks trades. The last three columns of Table 6 show the results. Results in the column titled 'TO Offer' suggest that the positive abnormal returns are driven by the bids that other companies make for raiders' targets. The [-1, 0] abnormal return is 3.18% when there is a takeover bid, significant at conventional levels. Returns are very close to zero when the sale is carried out on the open market. Interestingly, block sales result in a an insignificant negative abnormal return. Conversely, when raiders sell in the market, CARs are positive and significant in the two event windows starting from day -30. Yet since all of the stock price increase takes place before day zero, it is likely that raiders choose to exit after a run-up. Thus, it seems that the raiders' exit is a consequence rather than a cause of the increase in stock-price. This is consistent with the SSPH hypothesis.

While it is not possible to know who buys the raider's shares when they are sold in the open market, the name of the investor that acquires the shares in a negotiated block trade is often available. For the 20 negotiated block trades, the number of observations for each type of investor is the following:

- Corporate raiders: three observations;
- Corporate investors: eight observations;
- Individual investor not included in the raider list: four observations;
- Controlling shareholders: two observations;
- Institutional investors: one observation;

- Unknown: two observations;

Thus, corporate raiders negotiated with different buyers. This could explain the fact that CARs for block trade are not statistically different from zero, if the reaction to the sale to different groups of investors cancels out. Unfortunately, because of the limited number of observations for each type of investor, it is not possible to examine this issue in great detail.

The above definition of exit does not take into account that sometimes the investor may still hold small stakes that do not require disclosure. This creates a potential problem since the definition of exit used also captures minor declines in the raider's ownership stake.[17] I examine the robustness of the results looking only at the sale of the entire stake. There are 56 sales of entire stakes. The 19 lost observations are all exits due to open market transactions. In the case of block trades, raiders always sold their entire stakes. The new definition of exit does not produce any significant change in the results. In fact, the average CARs are similar to those shown in Table 6 and not reported for the sake of brevity.

The definition of exit used in Table 6 has another potential drawback. Exits may be preceded by the sale of part of the raider's stake. If the market infers from the partial divestment that the investor is going to sell his stake, CARs at the time of the announced exit capture only a part of the effect of the investor's exit. To address this concern, I run the event study only with exits that are not preceded by a partial sale (62 observations). The untabulated results are similar to those of Table 6.

## 7. Country-level analysis

The dataset is composed of observations from seven different countries with different legal systems, as reported in Panel C of Table 1. The country with the highest number of stake acquisitions is the UK (47), followed by Italy (25). On the other hand, Sweden has five observations and Belgium only one observation. Differing from the other five countries, neither Sweden nor Belgium have a local investor in the 15 raiders. Since these investors mainly invest in their home market (with some exceptions), it is not surprising to find few acquisitions in these two countries. Thus, the small number of observations for these two countries has nothing to do with shareholder structures or worse news coverage. I do not consider these two countries in the analysis.

[17] Using the UK thresholds, if the investor reduces his holdings from 3.20% to 2.90%, this is considered to be an exit.

Shareholder structures may partially explain the number of purchases in each country. Ownership structures are similar in France, Germany and Italy (Faccio and Lang, 2002). These countries are characterized by few widely-held firms and a multitude of family firms. Ownership structures are less concentrated in the UK with few family firms and more widely-held firms. Ownership structures in Switzerland are somehow in between these two extremes.[18]

Ownership structures cannot alone explain why France and Italy have almost twice the observations of Germany. Again, this difference can be better understood looking at the individual investors. None of the top-five investors by number of stake acquisitions is German. These top-five investors account for 102 out of 136 observations, explaining why Germany has few observations.

It is also possible to partition the sample according to the target firm's country and the type of ownership structure. Results are not particularly surprising. Acquisitions of widely-held firms are concentrated in Switzerland (11) and the UK (7), while stake acquisitions in family-controlled companies are more likely to happen in France (18) and Italy (10). The relatively high percentage of widely-held targets in Switzerland is due to the fact that corporate raiders targeted the largest companies.

Not surprisingly, the relative size of the stake depends on the threshold triggering public notification. In fact, Italy has the lowest average (median) stake, 3.46% (2.14%), followed by the UK. Those are the only two countries that require public disclosure of stakes smaller than 5%. However, there is no clear relationship between the size of the stake and CARs for a given country.

[Please insert Table 7 about here]

The CAR for French target firms in the event window [-1, 0] is 2.53%. CARs of French targets remain substantially level after the announcement day. All the intervals considered are significant at the 1% level. Over the event window [-30, 1], the French sample has an average abnormal return of 10.51%. Studying the stake purchased by French holding and non-holding companies from 1988 to 1992, Banerjee *et al.* (1997) also find a significant positive abnormal return when the acquirer is a non-holding company, 6.18% over the event window [-30, 1].

[18] Ownership structures in Belgium and Sweden are rather similar to those in Switzerland.

Italian companies exhibit a strong run-up before the public announcement of raiders' shareholdings. After the announcement, abnormal returns decline from 13.60% in the event window [-30, 1] to 8.81% in [30, 30]. Conversely, CARs for UK firms keep increasing even after the public announcement of the first purchase and they exhibit a smaller run-up before the public announcement. Additional purchases after day 0 explain the increase, at least partially. In fact, Active Value and GPG, the two British top-five investors, usually buy additional stakes shortly after the first public announcement. CARs are significant over all the intervals reported. Returns for Swiss firms are positive and insignificant with the only exception of [-1, 0]. CARs for German firms are similar to those for acquisitions in the UK in the event windows [-1, 0], [-30, 1], and [-30, 5], but due to the sample size they are significant only at the 10% level. Returns are smaller in Germany in the event window [-30, 30].

Panel B of Table 7 presents the results for the long-run. Unfortunately, the small sample size for each country prevents to running regressions with monthly portfolios including at least ten observations. Even the requirement of having monthly portfolios with at least five observations results in the loss of more than half of the observations for Germany, Italy and Switzerland. The adjusted $\alpha$ is positive and significant in the regression for French firms. In that country, raiders have a positive and significant effect in the long-run. When there are at least five target firms in the monthly portfolios, the adjusted intercept is also significant in the regression for Italy. There is no abnormal performance for Swiss firms when the portfolios include five or more firms. German firms have a negative abnormal performance, but there are only 24 monthly portfolios with at least five firms. Raiders do not have a significant impact in the long-run in the UK. This finding raises some concerns about their monitoring role. In fact, since UK has more observations than any other country, this is probably the most reliable result. This result is similar to the evidence for pension funds in the UK provided by Faccio and Lasfer (2000), who find that long-run returns are not statistically different from zero for companies that displayed at least one relevant pension fund holding.

## 8. Ownership structures of target firms

In Europe, firm ownership structure is generally concentrated (La Porta *et al.*, 1999; Faccio and Lang, 2002), and hostile takeovers were until recently largely unheard of (Franks and Mayer, 1998). Incumbent managements are generally insulated from monitoring efforts and external acquisition attempts. As

Dherment-Ferere *et al.* (2004) also point out, it does not make sense to initiate a hostile raid when one party controls the majority of voting rights. Thus, this section analyzes whether raiders target firms with a particular type of ownership structure. Since the controlling shareholder is often (or chooses) the top executive of the company, a stake purchase made by a raider, an outsider with a reputation for annoying the incumbent management, may help to reduce the extent of managerial entrenchment.

To evaluate the effect of ownership structure on market reaction, I used ownership concentration as a proxy for managerial entrenchment. I found pre-event ownership data for 128 of 136. I categorize these firms according to the largest percentage voting block held by any investor before the initial purchase announcement: more than 10%, 20%, and 50% of voting rights at the time of the investor's purchase. I consider a company to be widely held if I do not find a single shareholder with more than 10% of voting rights. In addition, I also single out companies with a family owner (whether with more than 50% of the voting right or not).[19]

[Please insert Table 8 about here]

CARs and t-statistics are reported in Panel A of Table 8. Over days [-1, 0], widely held companies have the lowest return among the five subsamples, 1.46% as opposed to the highest return, 3.13% for companies with a majority owner. However, the limited number of observations (15) precludes drawing any meaningful inference from the majority subsample result. For event windows starting from day -30 the results are similar for the different subsamples with concentrated ownership, ranging around 10 and 12%. The only exception is a reversal after day 11 in companies with a majority shareholder. Conversely, widely-held firms exhibit positive but insignificant returns. There is no evidence of a positive relationship between the CARs and ownership concentration for ownership levels above 10%.

The difference in abnormal returns is partly explained when the size of the stake held by raiders at the time of the announcement is considered. Raiders hold an average stake of 3.77% in widely-held firms compared to 5.60% (6.46%) for firms with a 10% (20%) blockholder. Widely-held firms are much larger

[19] Notice that the subsample for which a single shareholder owns more than 10% of the voting rights includes family-owned firms, majority-owned firms, and the subsample with at least one shareholder with 20%.

than firms with concentrated ownership (€11,727 million compared to €2,135 million), explaining, at least partially, why raiders buy relatively smaller stakes.

Even if the short-term results are partially explained by the different size of the acquired stake, the evidence also supports the hypothesis that the new investor is expected to reduce the extent of managerial entrenchment, counterbalancing the large/controlling shareholder. Although they often purchase small stakes, raiders can exert influence by publicly criticizing management, for which they are notorious. Hence, announcement of the investor's stockholding drives the stock price up, because the market anticipates that the raider might at least theoretically counterbalance the influence of the large shareholder. This is consistent with previous evidence found by Denis *et al.* (1997) that outside shareholders reduce managerial entrenchment.

The short-run evidence also appears to be consistent with the argument of Burkart *et al.* (1997) that it may be costly to influence managers through monitoring. Managers are reluctant to exert more effort and to take on firm-specific investments when shareholders are likely to interfere and reverse their decisions. Yet when ownership is already concentrated, the expected benefits of the additional monitoring by raiders are larger than the costs.

Panel B of Table 8 presents the long-run returns by ownership concentration of the target firm. Unfortunately, given the small sample size, it is impossible to draw conclusions for some of the tests, in particular for widely-held firms and majority-owned firms.[20] Similarly to the market reaction at the time of the first shareholding, the impact of raiders on long-run stock price performance is generally not statistically significant for widely-held firms. In fact, while positive, the adjusted $\alpha$ coefficient is not significant. However, raiders realize the largest profits when they target firms with concentrated ownership. In fact, the coefficient is significant in the regression for firms with a 20% shareholder (with at least five firms in the monthly portfolios). There is no evidence that raiders have an impact when the firm has a majority owner. Conversely, these investors have a positive effect on family firms. The results can be explained by the ability of investors both to identify good targets (SSPH) and to improve the performance of these companies with their interventions (CGCH).

[20] No portfolio contains ten or more firms for majority-owned firms, and only six portfolios have ten or more firms when the firm is widely-held. The results are not reported.

This evidence would be consistent with the CGCH if interventions took place mainly in firms with a 20% blockholder and family firms. But consistent with the evidence in Section 5, this is not true in my sample. In fact, I find that the conditional probability of having an intervention given a particular ownership structure is similar to the unconditional probability of having an intervention (0.367).[21] The same is also true for raiders' shareholdings exceeding 10%, which are supposed to lead to a higher effort level. Thus, once again, results are more consistent with the SSPH than with the CGCH.

## 9. Conclusions

This study examines the role of 15 corporate raiders in Europe over the 1990-2001 period, both at the time of their first stake acquisition in a company and in the long-run. Target firms realize a significant positive abnormal return in the short run. This evidence calls for rejection of the raiding hypothesis, which posits that corporate raiders expropriate corporate assets. On the other hand, the positive market reaction to news regarding a controversial investor's initial stockholding is consistent both with the expectation that corporate raiders will improve target firm operating performance and with these investors being good stock-pickers.

The analysis of long-run stock price performance provides evidence that is more consistent with the superior stock picking hypothesis than the corporate governance champion hypothesis. The raiders' impact on target firms' market value is positive and significant in the long run if raiders sell off their stakes. Contrary to an effort-based story, target firms do better when raiders hold small stakes. Small stakes can be more easily considered as pure financial investments. It is also easier for investors to exit the position if the stake is small. The corporate governance hypothesis cannot explain why firms in which the raiders intervene do not exhibit abnormal performance, while the others do. While the financial press might portray raiders as excellent, aggressive investors, this portrayal does not seem to be entirely accurate. They have built a reputation as annoying investors, but they earn larger profits when they behave like passive investors. However, this aggressive behavior may pay off in some other way. For example, Active Value's reputation for aggressive strategy, made it possible for Active Value to amass $800 million from North American institutional investors in 1998. Martin Ebner exploited his notoriety as a raider to attract investors for his

[21] The conditional probabilities P(Int|Ownership type) are the following: Widely Held 0.3077, 10% Sh. 0.3823, 20% Sh. 0.3755, Majority Owner 0.5333, Family 0.40. Only the conditional probability for firms with majority owner is not close to 0.367. However, only 15 firms have a majority owner in the sample.

financial firms. He also managed to become a director on the board of two large Swiss companies (Alusuisse and ABB), not an easy task considering that Swiss boards are characterized by interlocking directorships (Loderer and Peyer, 2002). These are a sort of private benefit that does not need to reduce the wealth of minority shareholders, as argued by Holderness (2003). However, becoming an insider did not pay off in the long-run for Martin Ebner.[22]

However, if minority shareholder rights are becoming more of an issue in many European countries, at least some of the credit is due to the activities of these notorious investors.[23] Their crusades have often been in the spotlight and the attention they have attracted in the press has helped to strengthen the case for minority shareholder rights. For example, the French press wrote that 'a page of French capitalism has been turned' when Guy Wyser-Pratte and his ally ousted the CEO of Group André a French company.[24] Another example is given by ABB's share structure simplification in 1998. Insiders noted that the simplification was forced by Martin Ebner,[25] who was also involved in the 1994 UBS proxy-fight, the biggest European proxy-fight (Loderer and Zgraggen, 1999). Though I find no evidence to justify a claim that raiders are able to improve target firm performance, one cannot overlook their contributions in shaping a stronger culture of shareholder activism.

[22] Martin Ebner was forced to sell control of four publicly traded investment funds in August 2002 to reduce his debts. See for example, 'Now it's Ebner the Jinx', *Business Week*, 21 October 2002, and the 'Legal Problems Behind Him, Ebner Faces Tarnished Legacy - Swiss Court Clears Investor, But Many of His Followers Are Now Wary of Market', *Wall Street Journal Europe*, 23 September 2003.

[23] See for example *Financial Times*, 15 December 2000, for a brief account of Martin Ebner's corporate activism and *Financial Times*, 4 February 1999, about Active Value's interventions.

[24] *Les Echos*, 6 May 1999. In French: 'une page du capitalisme français a bien été tournée hier'.

[25] *Financial Times*, 5 February 1999.

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## APPENDIX A: Robustness tests using a 5% blockholder definition

My empirical analysis includes all the acquisitions disclosed by raiders in Europe during the period 1990-2001. However, sometimes investors must disclose very small positions, thanks to the very low disclosure thresholds in Italy (2%) and the UK (3%). It might be that these small positions have a negligible influence on the market value of target firms. Thus, I control the robustness of the results using a 5% block shareholder definition. This means that I include in the analysis only acquisitions of stakes greater than 5% of the target firm's equity.

Table 9 presents the average market reaction to announcements that investors have accumulated 5% or more of the target firm's equity. Raiders exceed the 5% threshold in 88 observations out of the original 136. Fifty-nine times the initial stockholding is greater than 5%. Not surprisingly, British and Italian firms composed the great majority of the remaining 29 observations, where the 5% threshold is exceeded after additional purchases.

[Please insert Table 9 about here]

Panel A shows that using the 5% blockholder definition does not change results much. The CARs for this subsample are generally larger than those for the original sample but the difference is small. I obtain similar results when I consider only the 59 observations for which the raider initial position is larger than 5% (Column 'Initial Stockholding >5%'). As for the original sample, there is no significant difference between the CARs for raiders' purchases using the 5% definition and those of the non-raider sample. Panel B reports the long-run results for the 5% positions. Results are similar to those of the original sample. Thus, the results are robust to the 5% blockholder definition.

## APPENDIX B: Corporate raiders' activities

I present evidence regarding corporate control events in 49 of the 136 companies targeted by the 15 corporate raiders. Concentrated ownership of a firm does not prevent the new investor from asking for changes. In fact, both firms with a majority shareholder and family-controlled firms report a higher percentage of corporate control events than other companies.

B.1 *Board Changes*

Raiders asked for appointment to the target company's board of directors 19 times. Not all their requests were successful. Raiders were appointed to the board ten times, while target companies rejected the raider's appointment nine times. Raiders were also offered a seat seven times. They refused the offered directorship once. Thus, they became directors 16 times. Raiders seek directorships even in family-controlled firms and these often accepted their requests. Yet the investors seldom fight for a seat on the board of a widely held company, perhaps because they often hold a small percentage of shares outstanding in large companies.

During my sample period, nine new CEOs were named in appointments due, at least in part, to raiders' pressure. Formal resolutions to oust the incumbent CEO and the chairman, who are not usually the same person in European companies, were attempted four times; only one effort failed. In one case, investors were able to displace a CEO in a majority-owned company.[26] The 15 raiders did not often ask for chairmanships (five times), but when they did, they got it. Overall, the raiders were successful to some extent in their formal moves to obtain directorships and to oust incumbent management, even though this happened rarely, in less than 20% of the target companies.

B.2 *Proxy Fights*

There were 12 proxy fights involving the raiders in the sample period.[27] One company experienced two proxy fights (Liberty Plc of the UK). Eight proxy fights took place overall in the UK. The other countries are: Switzerland (two), Sweden (one), and France (one). Seven observations concern resolutions at the Annual General Meeting (AGM), while in five cases dissident shareholders holding more than 10% of voting rights requested an Extraordinary General Meeting (EGM). All the EGMs took place in the UK. Raiders were successful in six proxy fights, three times at AGMs and three times at EGMs.

Raiders tended not to launch a proxy fight against widely held companies. In fact, only one proxy fight involves a widely held company, and it was unsuccessful (Sulzer AG, Switzerland). Proxy fights against family firms were always successful. In one case (Ascom AG, Switzerland), the raider was able to

[26] It was possible because some of the family that controlled the company sided with the investor (Active Value's Bryan Myerson in Liberty Plc of the UK)

[27] The most famous European proxy fight, the 1994 proxy fight between Ebner and UBS, is not included in the sample because Ebner bought his initial stake in UBS AG in the late 1980s. Loderer and Zgraggen (1999) examine this proxy fight.

persuade the incumbent management to accept his proposals before the vote, but in two of the three remaining proxy fights the incumbent CEOs and chairmen were ousted.

B.3 *Takeovers*

Raiders bid for the whole company in a few cases. While a raider sometimes wants to take over the target company, the bid might also be part of the investor's strategy to either boost the firm's stock price or to precipitate a bid from a third party. A company targeted by a raider can be the object of an offer by another firm, too. In this case, the raider may play an important role by either supporting or opposing the offer. Raiders made 12 bids. One offer was a partial public offer.[28] Nine offers were hostile, while in three cases the target's board of directors recommended the bid. Ten firms experienced a public offer by a raider.[29] Only two hostile bids ended successfully, including the partial offer. When the target's board recommended the offer, bids always succeeded.

Firms targeted by raiders were involved in 30 takeover attempts by other companies. Twenty-three bids were successful while seven failed. Raiders took sides in the takeover in 14 cases. As expected, they played a significant role, especially when the target company did not have a large shareholder. Raiders had a role in six of the seven failed attempts.

B.4 *Greenmail*

Greenmail is generally defined as the repurchase of target firm shares by the target firm, for a price above the market price. I identified only two instance of greenmail: Siparex (France) in December 1996, and Rheinmetall (Germany) in November 2001, both of which had Guy Wyser-Pratte as a raider. One possible explanation for having only two greenmails in the sample is that many European firms have a majority shareholder. If the largest shareholders have complete control at both the AGM and the EGM, they can ignore the raider's requests and wait until he gives up.[30]

Another possible explanation depends on the separation between who decides and who pays for the greenmail. In a widely held company, managers decide to buy back shares of stocks, but they pay for the

[28] In a partial public offer, the investor offers to buy only x % of the target company's outstanding shares.

[29] Edelman tried three times to take over Société du Louvre, a French hotel company whose majority owner was the Taittinger family.

[30] This was the strategy that the French group Taittinger used against both Wyser-Pratte and Edelman.

greenmail using company money. In a family-controlled business, there is no separation between the decision maker and the party that incurs the cost. This observation is robust to the possible criticism that ownership and control in European firms are often separated through pyramidal and complex control structures. The anecdotal evidence suggests it is usually the family holding company or a company close to the top of the control chain that carries out the purchase.

B.5 *White Squires and White Knights*

White squires intervened to help incumbent management seven times. A white squire is an investor with a friendlier attitude toward management who buys the minority stake held by the troublesome raider. In one case a white knight intervened. A white knight is a company that bids for a target firm in order to fend off an acquisition by an investor hostile to incumbent management. Mattel Inc. acted as white knight when GPG made an unsolicited offer for the UK Bluebird Toys Plc in 1998. In the end, Mattel won the takeover battle.

White squires and white knights represent defensive measures for target firms. Finding a friendly investor to supplant a raider is less expensive for the target company than resorting to greenmail. However, these options usually imply losing control of a firm. Overall, only eight of the firms in my study used these options and they were used only when the raider behaved aggressively.

B.6 *Other Requests*

Raiders do not often use proxy contests to propose a change in a firm's strategy. They typically release public statements calling for a change. The requests concern: share buy-backs or special dividends (9), spin-offs (13), changes in the equity structure of the firm (6), general proposals for restructuring (9), and divestments (9). These recommendations are often implemented. On the other hand, only three of the nine requests for share buy-backs were successful. Raiders also abstained from a vote on or voted against a company's annual report four times but the contested company reports were always approved.

Other changes may also occur when the target firm's management or large shareholder takes the initiative in anticipation of the investor's demand, or as a result of private talks between the parties. But there is no public information to support this view.

Table 1

Descriptive Statistics.

Panel A shows the initial purchases sorted by raider. Panel B shows the initial announcements by year. Panel C shows the announcements by country of the target firm.

Panel A: Initial Announcement by Raider

| *Investor* | *Nationality* | *N. Obs.* |
|---|---|---|
| Active Value Fund | UK | 18 |
| Vincent Bolloré[a] | France | 7 |
| René Braginsky | Switzerland | 2 |
| Ron Brierley/GPG[b] | New Zealand/UK | 20 |
| Martin Ebner | Switzerland | 30 |
| Asher Edelman | USA | 3 |
| WCM (Karl Ehlerding) | Germany | 5 |
| Luigi Giribaldi | Italy | 16 |
| Lord Hanson | UK | 1 |
| Ernst Müller-Möhl | Switzerland | 3 |
| Luca Padulli | Italy | 1 |
| Klaus Peter Schneidewind | Germany | 5 |
| Guy Wyser-Pratte | USA | 18 |
| Romain Zaleski | France | 3 |
| *Total* | | 136 |

Panel B: Initial Announcements by Year

| *Year* | *No. Obs* | *Year* | *No. Obs* | *Year* | *No. Obs* |
|---|---|---|---|---|---|
| 1990 | 1 | 1994 | 4 | 1998 | 24 |
| 1991 | 2 | 1995 | 7 | 1999 | 23 |
| 1992 | 1 | 1996 | 12 | 2000 | 25 |
| 1993 | 4 | 1997 | 16 | 2001 | 15 |

Panel C: Initial Announcements by Country

| *Country* | *No. Obs* | *Country* | *No. Obs* |
|---|---|---|---|
| Belgium | 1 | Sweden | 5 |
| France | 24 | Switzerland | 21 |
| Germany | 13 | UK | 47 |
| Italy | 25 | | |

[a] Vincent Bolloré is also the controlling shareholder and chairman of the Bolloré Group, a highly diversified French conglomerate. I do not include transactions deriving from the operating activity of Bolloré Group.
[b] I consider only Ron Brierley's European deals.

Table 2

Target Companies

Panel A reports mean and median values for the size of the firms in millions of euros and for the market-to-book ratio two months before the announcement day for the raiders' targets (raider sample) and the non-raider sample. The proxy for size is the market value of the firms' equity. The market-to-book ratio is computed as the market value of target firm's equity over its book value of equity at the end of the fiscal year before the announcement of an investor's stock purchase. Panel B shows descriptive statistics and pre-event operating performance for the raider sample and a matching sample (ROA-matched sample). Leverage is defined as the debt-to-equity ratio. ROA is operating profit over the book value of assets. p-values of a t-test for differences in means and of a Wilcoxon/Mann-Whitney test for equality of medians are reported in Panels A, B. Panel C reports the pre-acquisition stock price performance from 24 months before the announcement day to two and four months before the announcement day. The symbol ** indicates that the test for the difference in mean (for the equality of medians) between three (two) years before and the year before the announcement is statistically significant at 5% level.

Panel A: Size & Market-to-book

| | | *Raider Sample* | *Non-Raider Sample* | *p-value diff.* |
|---|---|---|---|---|
| Size | Mean | 3930.76 | 3624.18 | 0.78 |
| | Median | 464.94 | 238.03 | 0.56 |
| | No. Obs. | 136 | 136 | |
| Market-to-book | Mean | 2.01 | 3.80 | 0.00 |
| | Median | 1.56 | 1.75 | 0.05 |
| | No. Obs. | 116 | 96 | |

Panel B: Pre-event Operating Performance

| | | *Raider Sample* | *ROA-Matched Sample* | *p-value diff.* |
|---|---|---|---|---|
| ROA Year -3 | Mean | 7.77%** | 5.93%** | 0.044 |
| | Median | 6.16%** | 6.21%** | 0.283 |
| | No. Obs. | 85 | 85 | |
| ROA Year -2 | Mean | 7.14%** | 6.05% | 0.163 |
| | Median | 6.38 | 5.41% | 0.216 |
| | No. Obs. | 94 | 94 | |
| ROA Year -1 | Mean | 6.23% | 5.56% | 0.44 |
| | Median | 5.84% | 5.61% | 0.73 |
| | No. Obs. | 97 | 97 | |

Panel C: Pre-event Stock Price Performance

| | *Interval* | *All* | *5 firms* | *10 firms* |
|---|---|---|---|---|
| α | [-24, -2] | -0.0033 | -0.0022 | -0.0027 |
| | [-24, -4] | -0.0043 | -0.0069 | -0.0017 |
| Adjusted α | [-24, -2] | 0.0014 | 0.0020 | 0.0007 |
| | [-24, -4] | 0.0004 | -0.0029 | 0.0014 |
| t-stats | [-24, -2] | -0.6739 | -0.4458 | -0.6798 |
| | [-24, -4] | -0.9449 | -1.4543 | -0.4597 |
| Adj. t-stats | [-24, -2] | 0.2780 | 0.3966 | 0.1752 |
| | [-24, -4] | 0.0832 | -0.5955 | 0.3669 |
| No. Obs. | [-24, -2] | 147 | 117 | 92 |
| | [-24, -4] | 145 | 113 | 80 |

Table 3

CARs

The table shows the cumulative average daily abnormal returns in percentages for various event windows for the raider target firms around the announcement day of the raider's first stockholding in the company (Column All). The table also presents the CARs around the announcement day for the subsample of positions acquired by the raiders in open-market transactions (Column Open Market). CARs for the subsample of positions for which there are no subsequent purchases by the raider in the 120 days following the initial purchase are in Column No Purchases. Column Non-Raider Sample reports CARs for a random sample of positions acquired by non-raider investors around the announcement day. T-statistics are given in parentheses. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

| *Event Window* | *All* | *Open Market* | *No Purchases* | *Non-Raider Sample* |
|---|---|---|---|---|
| [-1, 0] | 2.44%*** | 1.74%*** | 2.30%*** | 1.93%*** |
| | (6.91) | (4.15) | (5.61) | (4.85) |
| [-30, 1] | 8.77%*** | 7.98%** | 5.16%*** | 4.44%** |
| | (5.59) | (2.16) | (2.81) | (2.48) |
| [-30, 5] | 9.12%*** | 8.40%** | 5.14%** | 4.56%** |
| | (5.41) | (2.10) | (2.61) | (2.36) |
| [-30, 30] | 9.30%*** | 9.44% | 3.58% | 5.52%** |
| | (3.95) | (1.53) | (1.30) | (2.03) |
| No. Obs. | 136 | 115 | 91 | 136 |

Table 4

Calendar-Time Portfolio Regressions

The table presents the results for the calendar-time portfolio regressions. For each month from March 1990 to December 2001, I form an equally-weighted portfolio of all firms targeted by corporate raiders. Target companies are added to the portfolios starting from the month of the first stake acquisition and dropped when the raider exited. The excess portfolios returns on the one-month euro-mark deposit quoted in London are regressed on the Fama and French (1993) three-factor model. The three factors are the excess return of the market; the difference between a portfolio of small stocks and big stocks, SMB; and the difference of a portfolio of high book-to-market stocks and low book-to-market stocks, HML. The factors are computed based on Fama and French (1993). The intercept α measures the average monthly abnormal return of the target firms' portfolio. The market return is the return of an equally weighted-portfolio composed of all stocks from Belgium, France, Germany, Italy, Sweden, Switzerland, and the UK with market values and book-to-market values available on Datastream. The adjusted α is the difference between the estimated intercept using the event portfolio and the average intercept estimated from 1,000 calendar-time portfolio regressions of random samples of similar (based on size) non-event firms. In Panel A, all the monthly observations are included. In Panel B, I require at least five firms in the event portfolios at each point in time. In Panel C, I require at least ten firms in the event portfolio. Regressions are also performed for portfolios in accordance to investor exits, and different holding periods. Adjusted alphas are also computed for one year, two years, and three years after the first public announcement of a raider stockholding. Regressions are also computed from the date of the initial purchase to either the day of the investor's exit or 31 December 2001. Results of the regressions for positions from which corporate raiders exit within one year of the initial announcement are presented in the last column. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

| | *All* | *1 year* | *2 years* | *3 years* | *Exit* | *12/31/01* | *Exit<1 Y* |
|---|---|---|---|---|---|---|---|
| Panel A: All Months | | | | | | | |
| α | 0.0024 | 0.0015 | 0.0012 | 0.0050 | 0.0049 | -0.0030 | 0.0208* |
| Adj. α | 0.0011 | 0.0006 | 0.0005 | 0.0042 | 0.0039 | -0.0071 | 0.0157 |
| t-stats | 0.3040 | 0.1978 | 0.1394 | 0.5607 | 0.5753 | -0.5342 | 1.8786 |
| Adj. t-stats | 0.1394 | 0.0782 | 0.0602 | 0.4727 | 0.4544 | -1.2689 | 1.4202 |
| No. Obs. | 142 | 142 | 142 | 142 | 142 | 123 | 78 |
| Panel B: Months with at least 5 firms in the portfolio | | | | | | | |
| α | 0.0091** | 0.0080** | 0.0085** | 0.0115** | 0.0128*** | 0.0012 | 0.0399*** |
| Adj. α | 0.0048 | 0.0038 | 0.0054 | 0.0087 | 0.0098** | -0.0054 | 0.0405*** |
| t-stats | 2.5544 | 2.2226 | 2.2125 | 2.0905 | 3.2732 | 0.2026 | 3.1946 |
| Adj. t-stats | 1.3602 | 1.0677 | 1.4235 | 1.5803 | 2.5046 | -0.9307 | 3.2397 |
| No. Obs. | 106 | 106 | 100 | 84 | 97 | 64 | 33 |
| Panel C: Months with at least 10 firms in the portfolio | | | | | | | |
| α | 0.0084** | 0.0062 | 0.0099** | 0.0097 | 0.0164*** | 0.0053 | |
| Adj. α | 0.0059 | 0.0035 | 0.0068 | 0.0050 | 0.0122** | 0.0018 | |
| t-stats | 2.1908 | 1.5907 | 2.3185 | 1.3425 | 3.5355 | 0.6818 | |
| Adj. t-stats | 1.5459 | 0.8992 | 1.5940 | 0.6887 | 2.6339 | 0.2329 | |
| No. Obs. | 91 | 89 | 80 | 48 | 73 | 45 | |

Table 5

Calendar Time Portfolio Regressions – Stakes and Interventions

Panel A shows the results of the calendar time portfolio regression according to the size of the maximum stake held by the corporate raiders during their shareholding. Panel B shows the regression results according to whether or not the controversial investors intervene in the target company. For each month from March 1990 to December 2001, I form an equally-weighted portfolio of all firms targeted by corporate raiders. Target companies are added to the portfolios starting from the month of the first stake acquisition and dropped when the raider exited. The excess portfolios returns on the one-month euro-mark deposit quoted in London are regressed on the Fama and French (1993) three-factor model. The three factors are the excess return of the market; the difference between a portfolio of small stocks and big stocks, SMB; and the difference of a portfolio of high book-to-market stocks and low book-to-market stocks, HML. The factors are computed based on Fama and French (1993). The intercept α measures the average monthly abnormal return of the target firms' portfolio. The market return is the return of an equally weighted-portfolio composed of all stocks from Belgium, France, Germany, Italy, Sweden, Switzerland, and the UK with market values and book-to-market values available on Datastream. The adjusted α is the difference between the estimated intercept using the event portfolio and the average intercept estimated from 1,000 calendar-time portfolio regressions of random samples of similar (based on size) non-event firms. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

| | *All* | *5* | *10* | *All* | *5* | *10* |
|---|---|---|---|---|---|---|
| Panel A: Maximum Stake Held by Raiders | | | | | | |
| | *Less than 10%* | | | *Larger than 10%* | | |
| α | 0.0122** | 0.0132*** | 0.0173*** | 0.0013 | 0.0082* | 0.0082 |
| Adj. α | 0.0094** | 0.0090** | 0.0141*** | 0.0002 | 0.0048 | 0.0034 |
| t-stats | 2.5902 | 2.9541 | 3.3166 | 0.1609 | 1.9850 | 1.4946 |
| Adj. t-stats | 1.9866 | 2.0069 | 2.6945 | 0.0245 | 1.1722 | 0.6137 |
| No. Obs. | 124 | 82 | 62 | 142 | 97 | 78 |
| Panel B: Interventions | | | | | | |
| | *No Interventions* | | | *Interventions* | | |
| α | 0.0047 | 0.0113** | 0.0181*** | 0.0026 | 0.0043 | 0.0077 |
| Adj. α | 0.0038 | 0.0086* | 0.0130** | 0.0005 | 0.0019 | 0.0034 |
| t-stats | 0.5258 | 2.4569 | 3.3317 | 0.4890 | 0.9808 | 1.3112 |
| Adj. t-stats | 0.4310 | 1.8813 | 2.3922 | 0.0944 | 0.4298 | 0.5893 |
| No. Obs. | 142 | 91 | 59 | 128 | 95 | 66 |

Table 6

CARs for Positions from which Corporate Raiders Exited

Cumulative average daily abnormal returns in percentages for various event windows for positions from which corporate raiders exit. To be included, the investor must report that he sold the entire stake or no longer hold any stake to require disclosure. The Exits column shows the CARs for all exited positions. The TO Offer column shows the CARs for the 24 positions exited following a takeover offer. The Market column shows the results for positions exited due to sale in the open market. The Block column reports CARs for negotiated block trades. T-statistics are in parentheses. The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

| *Event Window* | *Exits* | *TO Offer* | *Market* | *Block* |
|---|---|---|---|---|
| [-1, 0] | 1.02%** | 3.18%*** | 0.15% | -0.18% |
| | (2.22) | (3.52) | (0.23) | (-0.21) |
| [-30, 1] | 8.92%*** | 12.82%*** | 8.77%*** | 4.55% |
| | (4.40) | (3.17) | (3.03) | (1.25) |
| [-30, 5] | 7.53%*** | 11.95%** | 8.32%** | 1.13% |
| | (3.46) | (2.74) | (2.68) | (0.29) |
| [-30, 30] | 8.10%*** | 15.53%** | 7.68%* | -0.34% |
| | (2.67) | (2.53) | (1.81) | (-0.06) |
| No. Obs. | 75 | 24 | 31 | 20 |

Table 7

Individual Countries

Panel A presents the cumulative average daily abnormal returns in percentage for various event windows by the country of target firm. The five countries are: France, Germany, Italy, Switzerland, and the UK. T-statistics are given in parentheses. Panel B presents the results for the calendar-time portfolios regressions. For each month from March 1990 to December 2001, I form an equally-weighted portfolio of all firms targeted by raider in a given country. Target companies are added to the portfolios starting from the month of the first stake acquisition and dropped when the raider exited. The excess portfolios returns on the one-month euro-mark deposit quoted in London are regressed on the Fama and French (1993) three-factor model. The three factors are the excess return of the market; the difference between a portfolio of small stocks and big stocks, SMB; and the difference of a portfolio of high book-to-market stocks and low book-to-market stocks, HML. The factors are computed based on Fama and French (1993). The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

| | *France* | *Germany* | *Italy* | *Switzerland* | *UK* |
|---|---|---|---|---|---|
| Panel A: Short-term CAR | | | | | |
| [-1, 0] | 3.97%*** | 2.13%* | 2.23%*** | 1.77%*** | 2.63%*** |
| | (6.20) | (1.91) | (3.46) | (2.97) | (3.32) |
| [-30, 1] | 10.51%*** | 8.86%* | 13.60%*** | 2.25% | 9.04%** |
| | (3.88) | (1.86) | (5.01) | (0.88) | (2.50) |
| [-30, 5] | 10.78%*** | 9.05%* | 11.13%*** | 2.71% | 10.73%*** |
| | (3.72) | (1.77) | (3.84) | (1.00) | (2.76) |
| [-30, 30] | 11.64%*** | 5.42% | 8.81%** | 2.36% | 13.77%** |
| | (2.96) | (0.78) | (2.24) | (0.63) | (2.50) |
| No. Obs. | 24 | 13 | 25 | 21 | 47 |
| Panel B: Calendar time Portfolio Regressions | | | | | |
| | | | *All Months* | | |
| α | 0.0180** | -0.0038 | 0.0098 | 0.0151** | 0.0013 |
| Adj. α | 0.0121* | -0.0068 | 0.0083 | 0.0103* | -0.0032 |
| t-stats | 2.5839 | -0.6554 | 0.9954 | 2.5808 | 0.1632 |
| Adj. t-stats | 1.7310 | -1.1648 | 0.8400 | 1.7622 | -0.3917 |
| No. Obs. | 68 | 97 | 95 | 106 | 142 |
| | | | *Months with at least 5 firms in the portfolio* | | |
| α | 0.0214** | -0.0091 | 0.0361*** | 0.0141 | 0.0047 |
| Adj. α | 0.0180** | -0.0203** | 0.0299** | 0.0123 | 0.0018 |
| t-stats | 2.4212 | -0.9659 | 3.1814 | 1.1509 | 0.9080 |
| Adj. t-stats | 2.0320 | -2.1434 | 2.6333 | 1.0056 | 0.3477 |
| No. Obs. | 51 | 24 | 39 | 44 | 93 |

Table 8

Ownership Structures

Panel A presents CARs by ownership structure of the target firm (t-statistics in parentheses). The ownership structure categories are: widely held firms; firms having at least one shareholder who holds more than 10% of the company's voting rights; firms having at least one shareholder who holds more than 20% of the company's voting rights; firms with a majority shareholder (more than 50% of the voting rights); and family-controlled firms. Panel B presents the results for the calendar-time portfolios regressions by ownership structure of the target firm. For each month, I form an equally-weighted portfolio of all target firms with the same ownership by raiders in a given country. Target companies are added to the portfolios starting from the month of the first stake acquisition and dropped when the raider exited. The excess portfolios returns on the one-month euro-mark deposit quoted in London are regressed on the Fama and French (1993) three-factor model. The three factors are the excess return of the market; the difference between a portfolio of small stocks and big stocks, SMB; and the difference of a portfolio of high book-to-market stocks and low book-to-market stocks, HML. The factors are computed based on Fama and French (1993). The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

| | *Widely-Held* | *Sh. 10%* | *Sh. 20%* | *Majority* | *Family* |
|---|---|---|---|---|---|
| Panel A: Short-term CAR | | | | | |
| [-1, 0] | 1.46%** | 2.52%*** | 3.01%*** | 3.13%*** | 2.41%*** |
| | ( 2.06) | (6.54) | (5.93) | (3.18) | (4.19) |
| [-30, 1] | 5.08% | 9.83%*** | 11.13%*** | 10.46%** | 11.74%*** |
| | (1.60) | (5.86) | (5.09) | (2.47) | (4.75) |
| [-30, 5] | 5.23% | 10.42%*** | 11.33%*** | 10.15%** | 12.14%*** |
| | (1.54) | (5.79) | (4.84) | (2.24) | (4.59) |
| [-30, 30] | 3.35% | 11.81%*** | 12.54%*** | 6.57% | 12.10%*** |
| | (0.70) | (4.75) | (3.89) | (1.05) | (3.33) |
| No. Obs. | 26 | 102 | 56 | 15 | 40 |
| Panel B: Calendar time Portfolio Regression | | | | | |
| | | All Months | | | |
| α | 0.0138** | 0.0024 | 0.0061 | -0.0041 | 0.0068 |
| Adj. α | 0.0089 | 0.0006 | 0.0041 | -0.0061 | 0.0058 |
| t-stats | 2.5358 | 0.4810 | 1.1636 | -0.6063 | 1.1108 |
| Adj. t-stats | 1.6322 | 0.1156 | 0.7834 | -0.9136 | 0.9612 |
| No. Obs. | 106 | 123 | 123 | 123 | 123 |
| | | Months with at least 5 firms in the portfolio | | | |
| α | 0.0113 | 0.0060 | 0.0143*** | 0.0053 | 0.0216*** |
| Adj. α | 0.0081 | 0.0039 | 0.0104** | 0.0045 | 0.0175*** |
| t-stats | 1.6147 | 1.4825 | 2.9935 | 0.3611 | 3.4653 |
| Adj. t-stats | 1.1561 | 0.9635 | 2.1618 | 0.3031 | 2.8112 |
| No. Obs. | 72 | 95 | 81 | 38 | 71 |
| | | Months with at least 10 firms in the portfolio | | | |
| α | | 0.0117** | 0.0173*** | | 0.0283*** |
| Adj. α | | 0.0068 | 0.0116* | | 0.0272*** |
| t-stats | | 2.5942 | 2.8368 | | 2.8616 |
| Adj. t-stats | | 1.5094 | 1.9000 | | 2.7540 |
| No. Obs. | | 73 | 63 | | 46 |

Table 9

Five Percent Blockholder Definition

Panel A shows the cumulative average daily abnormal returns in percentages for various event windows for the announcement that the raider has a stockholding in the target company in excess of 5% (Column All Stockholding >5%). Column Initial Stockholding >5% reports the CARs for the announcement of a raider's initial stockholding in excess of 5% of the target firm's equity. Panel B presents the results for the calendar-time portfolios regressions. For each month, I form an equally-weighted portfolio of all target firms with the same ownership by raiders. Target companies are added to the portfolios starting from the month of the first stake acquisition and dropped when the raider exited. The excess portfolios returns on the one-month euro-mark deposit quoted in London are regressed on the Fama and French (1993) three-factor model. The three factors are the excess return of the market; the difference between a portfolio of small stocks and big stocks, SMB; and the difference of a portfolio of high book-to-market stocks and low book-to-market stocks, HML. The factors are computed based on Fama and French (1993). The symbols *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Short-run CARs

| *Event Window* | *All Stockholding >5%* | *Initial Stockholding >5%* |
|---|---|---|
| [-1, 0] | 2.98%*** | 3.79%*** |
| | (6.66) | (6.75) |
| [-30, 1] | 10.11%*** | 10.16%*** |
| | (5.11) | (4.04) |
| [-30, 5] | 10.85%*** | 11.12%*** |
| | (5.11) | (4.11) |
| [-30, 30] | 12.88%*** | 12.22%*** |
| | (4.34) | (3.21) |
| No. Obs. | 88 | 59 |

Panel B: Long-run Calendar Time Portfolio Regressions

| | *All Stockholding >5%* | | | *Initial Stockholding >5%* | | |
|---|---|---|---|---|---|---|
| | All | ≥ 5 | ≥ 10 | All | ≥ 5 | ≥ 10 |
| α | 0.0013 | 0.0080* | 0.0110** | 0.0087** | 0.0078** | 0.0108* |
| Adj. α | 0.0002 | 0.0048 | 0.0068 | 0.0041 | 0.0055 | 0.0062 |
| t-stats | 0.1533 | 1.9466 | 2.3017 | 2.5155 | 1.9941 | 1.8619 |
| Adj. t-stats | 0.0216 | 1.1577 | 1.4242 | 1.1910 | 1.4023 | 1.0676 |
| No. Obs. | 142 | 97 | 75 | 107 | 93 | 57 |