THE MARKET FOR PARTIAL CORPORATE CONTROL IN EUROPE: THE EVIDENCE ABOUT CORPORATE RAIDERS

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Submitted for the degree of Ph.D. in Economics at

Faculty of Economics
University of Lugano
Lugano, Switzerland

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February 2004

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Foreword

Corporate raiders are often associated with the greed and excesses of the 1980s takeover wave that reshaped the U.S. corporate landscape. They were so famous and, let me say, so much hated by public opinion that they even became the subject of an Oscar-winning Hollywood movie in the late 1980s. However, as the U.S. economy slipped into recession between the end of the 1980s and the early 1990s, raiders fell into a sort of oblivion. But, like the phoenix, a new class of corporate raiders rose from its ashes in the 1990s. While during the 1980s Europe, in particular Continental Europe, remained relatively immune to this sort of investor, corporate raiders have operated actively both in Continental Europe and in the U.K. since the mid-1990s. However, these corporate raiders are very different from the raiders that operated in the U.S. market during the 1980s. In fact, the raiders who operated in Europe during the 1990s only seldom tried to take over the companies in which they bought a stake.

Whatever the perspective adopted, even the 1990s European corporate raiders are a controversial group of investors. During the 1990s and the early 2000s European newspapers were rich in stories about the activities of these investors. Their purchases were usually accompanied by a lot of rumors and speculations. The financial press sometimes described them as investors who were interested only in short-term profits. On the other hand, raiders were also praised as corporate governance champions who shook up European boardrooms as never before. Despite their controversial role, it goes without saying that corporate raiders were key players in redefining Corporate Europe during the 1990s.

The attention that the financial press and many market participants have paid to the strategies of these investors gives rise to many questions. First, it is natural to wonder whether these investors helped to improve the performance of their target firms or whether they simply extracted corporate resources to their advantage from these companies. Second, the investors who are labelled corporate raiders are generally believed to have superior skills in spotting profitable investments. Thus, it is interesting to verify whether this common belief holds true. In fact, it might also be the case that the raiders, or at least some of them, were able to exploit the boom in the equity markets during the 1990s as thousands of small investors did. Finally, these raiders earned a reputation as troublemakers. However, this reputation may be the product either of a single important deal or of the raider's behavior in the past. Hence, a close inspection of the activities carried out by raiders following their initial purchases is needed to separate the raiders' actual behavior from the rumors surrounding it.

Although these investors got their fair share of coverage from the financial press, they went unnoticed by academic researchers. As far as I know, this dissertation is the first

attempt to examine the behavior of the particular investors called corporate raiders. This dissertation belongs to the growing body of literature exploring the market for partial corporate control in Europe. In particular, it investigates a well-defined group of investors known for their activist behavior. Thus, the contribution of the thesis is twofold. First, it provides new evidence concerning partial corporate control events in Europe. Second, it sheds some light on the question whether the investor's identity matters. Both issues are very relevant in deepening our understanding of European markets and corporations.

The dissertation documents and interprets evidence regarding the role of corporate raiders in Europe during the 1990s. To accomplish this task, I collected both short-run and long-run evidence relating to the firms in which the raiders announced their stockholding. The introductory chapter outlines both the raiders and the firms they target. Chapter 2 submits and analyzes the short-run evidence. This chapter sets out to determine the impact of the announcement of the initial stockholding by a raider on the market value of the target firm. The market reaction gives an indication of the market expectation about the impact the raiders have on target-firm performances. Chapter 3 shows the long-run evidence. As will be made clear in Section 3.1, long-run evidence plays a key role in helping to distinguish some of the hypotheses about the raiders' behavior. In contrast with Chapter 2, where I rely mainly on stock price data, Chapter 3 analyzes both stock price performances and accounting performances. A clinical study of the raiders' activities after the initial purchase completes Chapter 3.

Acknowledgements

I wish to thank Prof. Lorenzo Caprio, my thesis supervisor, to whom I owe many personal and intellectual debts. I am very grateful to Prof. Giovanni Barone-Adesi and Prof. François Degeorge for their invaluable comments and advice. I am indebted to Prof. Maurizio Murgia, Prof. Randall Morck, Prof. René Stulz, Prof. Michel Habib, Fabio Trojani, Loriano Mancini, Rosario Dell'Acquila, Francesco Fierli for their helpful comments and suggestions. Thanks are also due to Simona Cain for her patience in bringing the manuscript into accord with the rules of written English.

Chapter 1

THE CORPORATE RAIDERS OF THE LATE 1990s

1.1 INTRODUCTION

Academic researchers have been debating for at least two decades which system of corporate control is the best (Shleifer and Vishny (1997)). The alternative is between an internal mechanism of control based on board of directors, managerial ownership and large shareholders and an external system where the threat of hostile takeovers deters managers from not maximizing shareholders value (Morck, Shleifer, and Vishny (1989)). Therefore, hostile takeovers usually have a key role in the study of corporate control transactions.

Although researchers tend to focus on hostile takeovers, these were an actual threat to incumbent managers only in the U.S. and in the U.K. during the 1980s. Rossi and Volpin (2003) find that hostile takeovers are absent in 21 out of 49 countries they investigated in the period 1990-1999[1]. On top of that, when present, hostile takeovers never exceed 6.44 percent of domestic traded companies observed in the U.S. (4.39 percent in the U.K.). Until recently, hostile takeovers were practically unheard of in the majority of European countries. Management teams are often expressions of majority shareholders in Europe. Moreover, in family controlled firms, the CEO and the chairman are very often members of the controlling family. Hence, it is quite complicated to apply to Europe the *competing management team* paradigm described by Jensen and Ruback (1983).

Although takeovers are uncommon, recent empirical studies[2] have shown that in Europe there is a flourishing market for large share blocks, both in Continental Europe and in the United Kingdom. Needless to say, the market for large share stakes exists also in the United States. Barclay and Holderness (1991) claim that the central role in the trade of blocks is played by active investors and not by managers. Thus, there is ample evidence that a market for partial corporate control exists in Europe. This market is characterized by the attempt of a minority investor to influence and trigger changes in a firm's corporate policies. Although there are different types of investors who buy blocks of stocks in public

[1] The 49 countries include all the Western European countries.
[2] This literature will be discussed in Section 1.2.

companies[3], only activist investors seek to exert effort to have their proposals implemented.

As far as I know, although many papers have been published on this topic, no study has yet investigated the role of the particular class of investors that the financial press describes as *corporate raiders* in Europe. The financial press usually calls "corporate raider" both a manager that launches a hostile bid on another firm, which often operates in the same or related business, and the active investor who buys minority stakes and tries to influence the company's policies. Hostile takeovers have been investigated by numerous researchers who rightly focus their attention on the role of managers in creating shareholder value through acquisitions. Whatever the reason may be for their behaviors, managers usually end up running the firm at least for some time if their attempt is successful. Bidders tend to justify their offer with motivations such as cost reductions, synergies in some business, expansions in new markets, willingness to became global players. Since acquisitions do not always create value, academic researchers have put forward some hypotheses in order to explain the manager's behavior: agency costs (Jensen and Meckling (1976) and Jensen (1986)), entrenchment (Shleifer and Vishny 1989), hubris (Roll 1986), to name but a few. However, as already mentioned, hostile takeovers are uncommon in Europe outside the United Kingdom.

The kind of corporate raiders that I intend to study are used to purchase a minority stake in a firm. This firm is generally undervalued, at least from the raiders' point of view. These purchases are not usually agreed with the incumbent management or the majority shareholder. This type of investor is not normally interested in acquiring the full control of the company and often, but not always, cannot do so because there is a majority shareholder. Therefore, while in the 1980s U.S. raiders aimed to take over their target firms, this class of investor mainly wants to influence the firm's behavior from the outside. To some extent, these investors fall between Bethel, Liebeskind, and Opler (1998) active investors and Holderness and Sheehan (1985) corporate raiders[4]. These lines taken from a Financial Times editorial (27 June 1998) help clarify which kind of investors I am dealing with:

They have been called the corporate raiders of the late 1990s - a diverse set of investors who take direct action against underperforming companies in order to grab the prize of an enhanced share price. ... They aim to turn round underperforming companies rather than launch hostile takeovers and sell off assets. Their actions are designed to raise the pulse rate of a company rather than strip out its heart. ... Patrick McGurn, director of corporate programmes at Institutional Shareholder Services, compares activists with the raiders that launched leveraged takeovers in the 1980s. "These shareholders talk like the raiders of the 1980s but act like traditional activists. In the end, they all want to see better returns on their investment." ... In order to explain his comparison between now and then [1980], McGurn says: "Whereas once he might have bid U.S. $ 20 a share to take a company, now he takes action to get the share price up to U.S. $ 20."

It is worth noting that in the market for partial corporate control the concept of hostil-

[3]Bethel, Liebeskind, and Opler (1998) identify three categories of such blockholders: activists, financials, and strategics.

[4]I indicate the group of selected investors both with "corporate raider" and with "active investors" throughout the dissertation.

ity is not so clear-cut as in the case of takeovers where the management releases an official statement accepting or rejecting the bid. First, incumbent managements or majority shareholders do not often issue comments when it is officially announced that an investor holds a notifiable interest in their companies. Second, even if the purchase might be classified as friendly, it is possible that the relationship between raider and incumbent management takes a turn for the worse, e.g. Bouygues-Bolloré. Therefore, rather than on clear signals of hostility at the time of the initial announcement, I wish to focus on investors known for annoying incumbent management. Obviously, hostility is easier to detect after the purchase when the raider mounts a proxy-fight against the incumbent management or asks for changes by criticizing how the firm is run.

I am interested in looking at the behavior of this class of investors in Europe in the 1990s. It goes without saying that famous raiders were already present in Europe in the 1980s, for instance Sir James Goldsmith, Lord Hanson, Werner K. Rey, and Carlo De Benedetti. However, to obtain data about that period is very hard since in fact there was little transparency in most European equity markets.

My primary goal is to define the role of active investors in Europe and to study their behaviors. The role played by these investors is quite controversial. Although none of them was portrayed by the financial press in such a bad way as the six raiders studied by Holderness and Sheehan (1985), these investors are often believed to be interested only in short-term profit. For example, one U.K. investor said that the French-born U.S. arbitrageur Wyser-Pratte "*[He] gives a long spiel about responsible shareholding but he's in there to make a quick turn*"[5]. On the other hand, they are sometimes described as corporate governance champions who help introduce Anglo-Saxon shareholder value into Continental Europe[6]. Mr Wyser-Pratte is also believed to have played a key role in changing French holding companies' attitude towards minority shareholders[7].

This chapter aims at providing the background for the remaining parts of the dissertation, which are devoted to an empirical analysis. The remainder of the chapter is organized as follows. Section 1.2 reviews the literature related to the topic analyzed in the thesis. Section 1.3 gives some details about the data. Section 1.4 provides information concerning the selection of the corporate raiders. Section 1.5 briefly describes the selected raiders. Preliminary findings are reported in Section 1.6 while some information about the target firms will be presented in Section 1.7. Section 1.8 highlights the activities of the raiders after the initial purchase. Section 1.9 concludes.

1.2 REVIEW OF THE LITERATURE

This section gives a brief review of the literature concerning corporate control transactions in Europe. The relevance of the stockholder's identity in this kind of transaction is particularly emphasized.

It is a well-known fact that corporate control in Europe is marked by the dominant role

[5]Financial Times, 6 April 2000.
[6]They often describe themselves in this way as well.
[7]Les Echos, 26 March 1998.

of families and large shareholders in general with the only exception of the U.K.[8]. Thus, it is not surprising that the majority of the papers examined blockholding while the researches on hostile takeovers were almost completely overlooked, with some notable exceptions I will discuss later in this Section.

The importance of blockholding in Europe is clearly stated by Becht and Röell (1999) and in related researches by the former European Corporate Governance Network (ECGN)[9]. They find that voting power is highly concentrated in Continental Europe. For example, Becht and Böhmer (1999) report that in Germany 85 percent of all officially listed AGs have a dominant shareholder, i.e. a shareholder who controls more than 25 percent of voting rights. Franks, Mayer, and Renneboog (2001) find that in their U.K. sample only 3 percent of firms has a single majority shareholder. Although there 25 percent (24 percent of the stake are in excess of 25 percent in 1988), the level of concentration in the U.K. is low by continental standard. On the other hand, Holderness and Sheehan (1988) document that only 5 percent of firms listed on the NYSE and AMEX in 1984 had a majority shareholder.

Therefore, in such a context, it is not hard to believe that until recently hostile takeovers were substantially unheard of in Continental Europe. Franks and Mayer (1998) study the only three attempts of hostile acquisition of a nonfinancial corporation that Germany experienced in the period following the end of World War II. Conversely, the same authors (Franks and Mayer (1996)) stress that the U.K. is one of the few countries other than the U.S. whose market for corporate control can be studied (if you consider hostile full bids). They find 80 hostile bids (out of 325 bids for listed company) in only two years, 1985-1986. The absence of hostile takeovers in the 1990s is made clear by a paper by Rossi and Volpin (2003). In fact, they find that hostile takeovers are a small phenomenon compared with overall M&A activity even in countries like the U.S. and the United Kingdom. Only 4.39 percent of domestic traded firms reports an attempt of hostile takeover in the U.K., while in Germany there is just 0.3 hostile takeover attempt every 100 domestic traded firms.

Large shareholders are often in the position to extract private benefits of control. According to Barclay and Holderness (1989), a purchaser evaluates two benefit streams when trading a block: the expected stream of dividends and other cash-flows and the stream of any private benefits he can secure through his voting power. Private benefits can take the form of a psychological value for being in control of the company, perquisites, outright theft, tunnelling (Johnson, Porta, de Silanes, and Shleifer (2000)). Two recent papers, Nenova (2003) and Dyck and Zingales (2003), provide a cross-country analysis of the private benefits of control. Nenova (2003) estimates the value of control-block votes in 18 countries using dual-class firms. Dyck and Zingales (2003) propose a measure of the private benefits using privately negotiated trades of controlling blocks in listed companies for 39 countries. The average measure of private benefits is 14 percent with wide variations. Nenova (2003) finds a huge dispersion in her measure as well, ranging from zero to half of the firm's market value. As Dyck and Zingales (2003) claim, there is a remarkable similarity in the findings of the two papers[10]. The protection of minority shareholders, legal environment and law enforcement help curbing private benefits.

[8] See La Porta, de Silanes, and Shleifer (1999) and Faccio and Lang (2002).

[9] Now European Corporate Governance Institute, ECGI.

[10] Unfortunately, as shown in Section 2.5 some differences emerge when Western European countries are singled out.

Although hostile tender offers are unusual in Continental Europe, this does not imply that changes in firms' control is impossible. Both the incumbent and the would-be blockholder might negotiate an agreement to trade the block of stocks. Indeed, Franks and Mayer (2001) observe that in Germany there is a flourishing market in large share stakes. They mainly consider stakes above 25 percent because disclosure of stakes smaller than 25 percent was not compulsory in Germany in the period they look into account. Köke (2001) provides further evidence that there is a significant trading in large share blocks in Germany and that the majority of these transactions regards stakes that are likely to carry control rights. Köke observes an annual rate of 8.3 percent for control changes of listed firms over the period 1987-1994 and 10.5 percent for blocks larger than five percent compared to 6.6 percent for the U.S. (Bethel, Liebeskind, and Opler (1998)) and to 9 percent for the U.K. (Franks, Mayer, and Renneboog (2001)). The most active traders of control blocks are non-financial firms and individuals. In Köke's study, an incoming shareholder acquires a stake of 25 percent or more in 65.5 percent of cases, and the purchased block is above 50 percent in 41.5 percent of the observations.

Jenkinson and Ljungqvist (2001) present case studies for 17 hostile block purchases. Jenkinson and Ljungqvist (2001) contend the conventional view that hostility is uncommon in Germany. They suggest that there is a greater incidence of companies accumulating hostile stakes in order to gain control. This may sound strange if you assume that blockholders and investors negotiate the trade. However, this assumption falls short of including the possibility that the stake is accumulate through open-market transactions or that the selling blockholders is not the controlling one.

Germany is not the only Continental European country characterized by the presence of large shareholders. Bianco and Casavola (1999) report that in Italy in 1996 the largest shareholders in listed companies held on average 48 percent of the voting rights. France also shows a very high degree of concentration of direct ownership and voting power. Bloch and Kremp (1999) find that the share of the largest identified stake is 52 percent for listed firms and the largest blockholder holds around 20-30 percent of the voting rights in the CAC 40 firms.

Banerjee, Leleux, and Vermaelen (1997), henceforth BLV, analyze if the buyer's identity matters. BLV examine stakes purchased by French companies accounting for at least 5 percent of the total target equity but not giving majority control (less than 50 percent). For the period January 1988 - December 1992, they obtain a sample of 122 stake purchases not giving majority control. Then, a market for large share stakes exists in France as well. One interesting feature of BLV is the distinction between holding and non-holding companies. They find that purchases by holding companies do not have any impact on the market value of the target firms while those by non-holding affect it positively. This may also be interpreted as evidence of the purchaser identity's relevance, i.e. blockholders may have different abilities or incentives to exert control. This concept is also emphasized by Barclay and Holderness (1991).

Renneboog (2000) reports that there exists an active share stake market in Belgium, too. He finds that substantial changes of more than 5 percent in ownership concentration took place in more than 22 percent of Belgian listed companies. Blocking minority (stakes more than 25 percent) are sold in 7.6 percent of firms. Twenty-eight majority stakes changed hands, too. He gives evidence for Belgium that holding companies discharge themselves

from efficient monitoring of the companies they control. On the other hand, industrial and commercial companies undertake disciplinary actions when they increase their shareholdings in poorly performing companies. The largest direct shareholder controls 43 percent in the average listed company.

The owner's identity has been investigated also in the United States. Barclay and Holderness (1989) argue that buyer's identity matters, after having examined the premia paid by blockholders[11]. They think that premia call into question the assumption that shareholders are homogeneous and that corporate benefits are distributed to shareholders in proportion to their fractional ownership. Barclay and Holderness analyze the pricing of 63 block trades between 1978 and 1982 involving at least 5 percent of common stock of NYSE or AMEX corporations. They document that large percentage blocks trade at sustained premium (20.4 percent) in the United States. They also find that if the percentage of equity is under 25 percent the block premium is not affected. If the blockholder buys more than 25 percent, the premium increases. They note that individuals tend to pay a larger premium than corporations. If the block consists of a package of different securities, the premium goes down. Their evidence is consistent with the private-benefits hypothesis - i.e. investors buy large stakes at premium in order to enjoy private benefits - and is not supportive of either the hypothesis of superior information of block trading party or the overpayment hypothesis (both hubris and agency costs).

I wish to mention Holderness and Sheehan (1988) and Holderness and Sheehan (1985) as earlier seminal papers that address the question whether a purchase by a particular investor has an impact on the target firm's share price different from that of other categories of acquirers. Holderness and Sheehan (1988) claim that the identity of large shareholders is potentially important by documenting regularities different for corporate and individual majority shareholders when they buy or sell majority blocks. They find that when individuals are either buyers or sellers of majority blocks, abnormal stock price reactions are typically greater. They also note that even though majority shareholders are immune to hostile takeovers, majority ownership in their sample is associated with as least as many transfers in control as in diffuse ownership. Firms with a corporate majority shareholder experience more control changes than firms with an individual majority shareholder. Holderness and Sheehan (1988) suggest that the lower frequency of control transactions among firms with an individual majority shareholder could be explained by benefits of control that are not transferable, e.g. being in control of the company they founded, and by tax considerations. Individual majority shareholders underperform their comparison firms while corporate majority-shareholders do not. Their evidence documents extensive involvement in firm management for both individual and corporate majority shareholders.

The paper by Holderness and Sheehan (1985) (HS) is the closest in spirit to my work because of its emphasis on the role of corporate raiders. They examine the behavior of six controversial investors that financial press portrayed as corporate raiders[12]. The press used the word *raiders* to emphasize the negative features of their behavior. HS provide many example of how the press characterized the six investors, ranging from "liar of the worst

[11] Unfortunately, I cannot analyze the block premia since I have very few of these observations (see Section 1.6).

[12] BLV point out that in Holderness and Sheehan (1985) the importance of the buyer's identity is only implicitly assumed.

kind" (Irwin Jacobs) to "racketeer" (Carl Icahn). On the contrary, HS show evidence on the role played by these investors, which is is inconsistent with the purely negative definition of raiding. Corporate raiders usually bought a minority stake to start with, and then they often tried to take over the company. In HS the initial holdings of the six investors were less than 12 percent in the 90 percent of observations.

A more recent paper on activist investors and partial control transactions is Bethel, Liebeskind, and Opler (1998). They investigate the causes and consequences of activist block purchases in the U.S. in the 1980s. Bethel, Liebeskind, and Opler (1998) consider as activist shareholders those *who announce their intention of influencing firm policies or who are known for activist policies in the past.* Activist shareholders include both raiders as Carl Icahn and Irwin Jacobs and investors like George Soros. The group does not include pension funds and money managers, like for example Fidelity Investment. They find that activist investors targeted the stocks of firms that were performing poorly and were highly diversified. Anti-takeover defenses were unsuccessful in deterring investors. Target firms decrease acquisitions and increase divestitures after the purchase. Both operating profitability and stock price performances increased. Firms targeted by activist blockholders were less likely to have substantial (more than 5% of a firm's outstanding shares) insider ownership stakes[13]. Finally, firms targeted by activist investors tended to be smaller than firms that did not experience block share purchases. Bethel, Liebeskind, and Opler (1998) argue that activist shareholders were able to influence firm policies, even though takeovers typically did not take place in targeted firms. They conclude that market for partial corporate control is important in reducing the agency costs that result from the separation of ownership and control in U.S. firms.

The investor's expected behavior after the initial purchase could also generate some differences in the returns at the time of the initial purchase or announcement, as shown by Barclay, Holderness, and Sheehan (2001). Barclay, Holderness, and Sheehan (2001) try to solve the block pricing puzzle. They consider two ways to buy a large block of stock (more than 5 percent of common stock): block trades and private placements. While block trades are priced at premium (11 percent), private placements are priced at substantial discount (19 percent). Barclay, Holderness, and Sheehan (2001) argue that this difference can be explained by the different behavior that the incoming shareholders have after the initial purchase. Block-trades purchasers become involved in managements and their premiums reflect anticipated private benefits. Private-placement purchasers remain passive and help entrench management. They consider the discount as a sort of compensation for this help.

Although corporate raiding is often associated to the U.S. takeover wave in the 1980s and to the well-known financiers that shook up the market for corporate control in that country, like Carl Icahn, Victor Posner, T. Boone Pickens, Saul Steinberg and other again, the phrase is much older. Pound (1997) reports a comment by *Time Magazine* appeared in 1955 in which company raiders are described both as "shrewd investors who snap up an undervalued company with the idea of liquidating it for a quick profit" and as "investors who take over [underperforming] firms and ram through drastic changes to improve the properties and turn in bigger profits". On the other hand, always in the same comment, it is possible to read one of the first raiders to maintain that "raider is a term coined by

[13]Bethel, Liebeskind, and Opler (1998) define as insider ownership the holdings of officers and directors, their family members, founders, founding families, and founding families trust.

frightened managers", implying that this kind of investor is not different from anyone else.

However, raiders are not always considered negatively. Loderer and Zgraggen (1999) praise a famous Swiss raider, Martin Ebner, because his activities made it easier and politically more acceptable for shareholders to criticize managements in Switzerland. In Switzerland, hostile behavior towards managements was not greatly appreciated and shareholder value was not the priority of the board of directors'. Loderer and Zgraggen (1999) stress also the point that in the 1994 proxy-fight between UBS and Mr Ebner, UBS management was able to exploit UBS employees' fear in order to gain the proxy-fight. In fact, the employees were afraid that if Mr Ebner had gained, they might have been fired and voted for the management plan that caused them a loss in the value of their shares. So, despite of their positive judgement about Mr Ebner's behavior, Loderer and Zgraggen (1999) shows once more that public opinion was not in favor of raiders in Europe.

1.3 DATA

Data concerning the minority stake purchases that I investigate are not readily available from any data and information supplier. I have had to rely on daily newspaper archives. No equivalent to the Sec News Digest or Edgar Database exists in Europe, as reported in the 1997 Executive Report of the European Corporate Governance Network (ECGN) (Becht 1997).

I initially collected data from the *Financial Times (FT)*, the leading financial daily newspaper in Europe. I carried out searches with positive filters like the key-words *raider*, *activist investor* or *activist shareholder* as well as the name of each potential raider. I found the terms *predator* or *corporate predator* useless, since they identify only hostile takeovers (with the notable exception of Martin Ebner). Key-words like *block*, *stake* or *raid* were also useless because they produced too many false hits.

I checked one national daily newspaper for each country for which I have at least one potential raider: France, Germany, Italy, Switzerland, and the United Kingdom. I surveyed the following national newspapers (the years for which an electronic archive is available is indicated in parentheses):

- France: *Les Echos* (1993-2001);
- Germany: *Frankfurter Allgemeine Zeitung* (1993-2001);
- Italy: *Il Sole-24 Ore* (1990-2001);
- Switzerland: *Neue Zürcher Zeitung* (1993-2001);
- U.K.: *Financial Times* (1990-2001).

I checked through these electronic newspaper databases for every available year.

I integrated the newspaper archives with news from *Extel Database for European Company* available through *Lexis/Nexis* computer database. The oldest piece of news that appears on the Extel dates back to 1993.

Furthermore, I performed key-word searches on all the newswires available on the *Lexis/Nexis* computer database. *Lexis/Nexis* includes newswires like *Bloomberg News*, *The Regulatory News Service*, and *AFX News* as well as many European daily newspapers.

Both stock price data and company accounts data are from Datastream. Data concerning the ownership structure of the firms targeted by raiders are from several sources. These sources include: *Lexis/Nexis*, *Il Taccuino dell'Azionista* (Italy), *Swiss Stock Guide* (Switzerland), *Wer gehört zu wem* (Germany), and the websites of national Stock Exchanges.

The quality of the data depends heavily on country disclosure laws. As pointed out by Becht (1997) and Becht and Böhmer (1999), German data was very bad especially before the *Security and Trading Law (WpHG)* and the *Law for Control and Transparency in the Corporate Sector (KonTraG)* became effective respectively on January 1st, 1995 and on May 1st, 1998. It is sometimes possible only to know that an investor has a stake at a given point in time without any exact reference to when the purchase was carried out. This might be enough for an ownership structures study, but it is not sufficient for my analysis. In this case, I discard the potential observation. I am able to find the date of the first public announcement of the first raider stockholding in the majority of cases. The date is usually the day when an official public announcement is released on the market[14].

I am also forced to interpret the first official announcement as the first purchase by a given investor. Disclosure laws make a big difference here: if a holding in a company as low as 2 percent (for example in Italy) has to be disclosed, the hypothesis does not cause many troubles. When the first notification threshold is as high as it was in Germany before the Large Holdings Directive of the European Commission was implemented in January 1995 (25 percent) as part of a security trading law (WpHG) (Becht and Böhmer 1999), identifying the first purchase with the official notification is based more on an act of faith than on rationality. Luckily, all countries surveyed have quite low notification thresholds (usually 5 percent) or have reduced them during the period studied.

In general, I have been able to collect more observations from the mid-1990s. Several factors might explain this fact:

- bad or missing data in the early 1990s;
- the investors selected operate only from the mid-1990s on;
- external condition more favorable to hostile or at least not agreed deals in the second half of the 1990s;
- the coverage of investors selected grows year after year as their reputation of troublemaker and/or smart investors increases.

I think that all these factors play a role in explaining why only 16.4 percent of the observations gathered for the initial purchase are from the period 1990-1995.

[14]Using these dates does not create any problem only if I assume that the majority of market participants become familiar with the information at that moment. This assumption has clearly some unappealing features. Market participants are often able to identify who buys the stake when the trade is executed through an open-market transaction, i.e. *downstairs*. Even newspapers sometimes report that there are rumors of a likely purchase by a given investors. The worst case scenario takes place when the purchase is carried out through a sequence of small buys spread over months.

I retrieved articles from 3 out of 5 newspapers only from 1993, because articles for the whole period 1990-2001 are available only for the *FT* and *Il Sole-24 Ore*. As already mentioned above, the oldest document that I found in *Extel* dates back to 1993. Therefore, I have only partial information about the initial three sample years. In addition, as far as I know, *Extel* covers U.K. firms better than Continental ones. Further, *The Regulatory News Service* provides news about holdings in U.K. firms that are above the notifiable interest threshold. No such a newswire service exists for other countries in *Lexis/Nexis* database.

Some investors operate mainly from the mid-1990s or, to be more precise, I have news about them only beginning in the mid-1990s. For example, news concerning Active Value, a U.K. interventionist fund led by the two South-African investors Brian Myerson and Julian Treger, are reported only form late 1993[15]. Italian Monte-Carlo based raider Luigi Giribaldi started his raider activity only in 1996. In fact, he purchased his first important stake that year. He also bought a stake in Gaic-Fondiaria, an Italian company, in 1992, but it was a friendly transaction since a friend of his ran Gaic.

The coverage of raiders' activities increased through the period. This is at the same time a cause and an effect of the selection bias. The circular relationship depends on the fact that usually newspapers cover more frequently well-known firms and investors than smaller companies. Thus, it is difficult to hit the headlines for an unknown raider who buys an initial stake in a small company. Hence, the newspaper coverage increases the self-selection bias. The greater coverage is due to self-selection bias in a very natural way: investors who are able to survive in the market making good investments are more likely to make more stake purchases and so to attract media interest.

Finally, the boom in equity markets in late 1990s multiplied the chances of raiders' investments, maybe just because it is easier to make money during a bull market.

1.4 THE RAIDER SELECTION PROCESS

I focus the empirical analysis on those investors who are well known for their activist policies and who usually remain minority shareholders. Further, the investors must operate in Europe. To some extent, the investors I look for are similar to the activist blockholders described by Bethel, Liebeskind, and Opler (1998). In particular, I am not interested in investors who either become involved in a block-trade or assemble a block through a series of small open-market transactions because of possible synergic gains for their firms. To put it another way, CEOs or controlling investors of industrial companies whose acquisitions are related to their businesses are not included in the analysis[16]. The initial purchase may or may not lead to a take-over attempt. The initial acquisition does not lead to a full bid in the majority of cases observed. This is due both to the fact that an incumbent controlling shareholder often exists and because of the selection bias in choosing the investors.

[15] Since the news reported a 18 percent stake held by Active Value in Greycoat, a struggling U.K. company, it is clear-cut that Active Value made some deals even before late 1993.

[16] This explains why French businessman François Pinault is not included. He is often defined as *raider* in the press. However, Mr Pinault is an entrepreneur, not a financial raider. In addition, although he made a few hostile deals, he aimed at buying the controlling stakes and running the companies since the beginning. I am not interested in this kind of deal.

I singled out 34 possible raiders after searching both the *Financial Times (FT)* and *Business Week* on-line archives and the *Financial Times* cd-roms. The selection criterion was that the investor must have been defined as corporate raider at least once in the *Financial Times* during the period examined (1990-2001). Then, I eliminated investors that operated only outside Europe, raiders that did not operate in the 1990s (e.g. Werner K. Rey[17]), and entrepreneurs and CEOs defined as raider because they made one hostile takeover bid.

After looking for other raiders in national newspapers, I selected 15 raiders for my analysis. The only raider selected that does not appear in the *FT* list is the Italian financier Luca Padulli, who made one raiding transaction in 1994[18]. The only other potential raider that I found outside the *FT* is Verneuil Finance, an investment fund run by the French François Gontier. I did not include Mr Gontier because he often operates jointly with another investor Guy Wyser-Pratte, who is included in my selection, and the last one is usually the major partner. A list of the selected raiders is reported in Appendix A.

I need to draw attention to a possible source of problems: I found that the *FT* calls investors "raiders" only after they have already made some purchases of this kind, i.e. purchase of minority stakes, or after clashes at a company's AGM or EGM. I usually find an investor defined as raider only in the late 1990s and I had to complete backward my database. This could generate a selection bias because only successful raiders are chosen. In pointing this out, I assume here that if the first purchases of a would-be raider end up in failures, this investor does not make further purchases. Therefore, the true number of raiders' purchases may have been underestimated.

1.5 PROFILES OF THE SELECTED RAIDERS

The raiders selected are not a homogenous group. Apart from the evident differences relating to their nationality, these investors come from different backgrounds and they do business in different ways. In this section, I will sketch out the profile of some raiders.

Active Value Investment Fund is a U.K. fund set up in 1992 by two young South African investors, Brian Myerson and Julian Treger. Since 1993, U.K. Active Value has built up a reputation for intervening in underperforming companies. Active Value is one of a handful

[17]Werner K. Rey was a Swiss raider that operated in the 1980s. His company, Omni Holding went bankrupt in 1991, leaving massive debts. He was sentenced to four years in jail for fraud in the run-up to Switzerland's biggest bankruptcy (*FT*, 9 July 1999).

[18]The fact that I was able to identify almost all raiders selected from the *FT* is not so surprising if it is considered the aversion towards hostile moves spread across European countries. The word *raider* has often a negative meaning and it is associated to the well-known American raiders of the Eighties. I think that the cultural component played a role, though it may not be the key factor, in somehow restraining the newspapers from defining a local financier or investor a *raider*. This tendency is more accentuated in the early 1990s. Even today, no one likes being called a *raider*. Some of them prefer to be seen as modern corporate governance champions rather than old-fashioned corporate raiders (see, for example, Asher Edelman's interview on *FT*, 6 December 2001, and Guy Wyser-Pratte's statement in *FT*, 20 April 2000). Further, Vincent Bolloré in an interview to the Italian daily *Corriere della Sera*, 10 March 2003, refused to be defined as a raider. Mr Bolloré pointed out that a raider is just an adventurer with an unknown past whose sole interests lie in short-run profits while he is at the helm of a two-century old group.

of British investors that take stakes in apparently undervalued U.K. companies and agitate for change, hoping this will increase the value of their investments. Until 1999, Active Value targeted only funds of up to U.K. £200m on smaller U.K. companies[19]. The reputation of Active Value in the U.K. at the end of the 1990s was mixed. Many institutional investors in the City avoided them because of possible conflicts of interest with potential clients. Mr Myerson and Mr Treger's style has been defined as *buy a stake and shake it up*[20].

Sir Ron Brierley, 65, is a New Zealand-born raider whose name was well known also during the 1980s. His aggressive raiding tactics - buying stakes or bidding for underperforming companies to engineer a takeover and sell at a premium - have brought him into conflict with well-established and powerful companies[21]. Sir Ron Brierley is described by the U.K. press as the "Warren Buffet of Down Under"[22]. Sir Ron has always refused to conform to the stereotype of international financier. His reluctance to be part of high-finance world extends to its jargon. Sir Ron's investment principles are much more down to earth. Every year he pores over hundreds of annual reports and media articles in search of opportunities. He believes that clues to successful investments lie everywhere, *"even walking down the street, if you see an interesting name, there may be some investment potential"*. Once he has identified an investment candidate, he carries out in-depth research not dissimilar to formal due diligence. Like Warren Buffett, Sir Ron says he does not want to invest in dot.com and technology companies because he does not understand their business models and their valuations[23]. In the early 1990s, Sir Ron left any operating role in Brierley Investment and kept only honorary positions in this company until 2001. Since then, his main corporate interest has been Guinness Peat Group (GPG), a London based investment group[24]. GPG is well known as a share market activist in the United Kingdom. Similarly to the other U.K. investor Active Value, GPG has sought to push up the value of its portfolio by putting pressure on management[25].

René Braginsky is a Swiss raider who heads InCentive Capital, a quoted investment company. InCentive Capital tried to take-over Sulzer AG, a Swiss engineering company, in 2001.

Vincent Bolloré, 51, is regarded as one of the brightest raiders in Europe. Known as *le petit prince du cash-flow*[26], he may be considered the author of some of the most remarkable hostile corporate raids ever seen in Europe, for example those involving Bouygues, Pathé and the Lazard Frères & Co[27]. However, he is also the controlling shareholder and chairman of the almost two-centuries-old Bolloré Group, a highly diversified French conglomerate. Bolloré Group was deeply involved in various corporate restructuring plans during the 1990s triggered off by the acquisition of Rivaud Group in the early 1990s and the sale of

[19] *Financial Times*, 4 February 1999.
[20] *Financial Times*, 9 April 1996.
[21] *Financial Times*, 2 September 2000.
[22] *Unlimited Magazine*, 1 May 2001.
[23] *Financial Times*, 2 September 2000.
[24] I have considered only Sir Ron Brierley's European deals. In 1980 and early 1990 Sir Ron Brierley's Brierley Investment operates through several acquisition vehicles, the most important were IEP and Guinness Peat Group. Furthermore, IEP and Brierley Investment mainly focused on investments outside Europe.
[25] *Financial Times*, 29 January 2001.
[26] *Financial Times*, 26 January 1999, *Financial Times*, 28 November 2000.
[27] *Financial Times*, 15 May 2001.

subsidiaries[28]. Mr Bolloré dislikes being called a raider[29]. He describes his corporate raids saying that: "from time to time the group has a little spare cash we can put to use in the stock market"[30]. In fact, Mr Bolloré is keen to stress that it is the industrial empire built up by generations of his family that occupies the great majority of his time[31].

The Swiss Martin Ebner is probably the most famous European raider. The secretive Mr Ebner, 58, is credited with shaking up Swiss corporate governance[32]. After earning a business doctorate at the University of Florida, Mr Ebner joined Bank J. Vontobel & Co. In 1984, he told Chairman Hans Vontobel that he wanted to succeed Mr Vontobel's son as CEO of the bank. Mr Vontobel did not agree and Mr Ebner quit the company[33]. After leaving Vontobel, Mr Ebner set up BZ Bank in 1985[34]. Mr Ebner rose to public attention when he made a failed attempt to acquire Bank Leu in 1988, but he became famous when he mounted a proxy-fight against Union Bank of Switzerland in 1994. Although he did not succeed to win the proxy-fight[35], he kept on harassing the management of Union Bank of Switzerland until it merged with Swiss Bank to form UBS in 1997. Mr Ebner shook up several leading Swiss companies, including also Credit Suisse, ABB, Alusuisse-Lonza, and Winterthur to name but a few. He invested also in companies outside Switzerland, like HSBC Plc (U.K.), Pirelli (Italy), and Investor (Sweden). His *modus operandi* was to buy large stakes in a handful of companies and then push for change. As his public profile grew, Mr Ebner started to lobby to become a board member in the biggest Swiss companies in the late 1990s. Although companies like Roche and Credit Suisse rejected his proposals, he joined the boards of some of the companies he invested in, such as ABB and Alussuisse-Lonza. It is believed that this was the beginning of his problems. As an insider, he could not immediately sell his stake in ABB when the company's fortunes started to sour. Despite that, Mr Ebner's biggest mistake was to believe that stocks were cheap in 2000. Hoping for an increase in stock prices, he borrowed large amounts of money. When Mr Ebner's stocks plunged in 2002, creditors seized most of his investment portfolio. He was forced to sell control of his four investment funds, known as *Visions*, to Switzerland's Zürcher Kantolbank. In July 2003, BZ sold its last significant shareholding, a stake in Swiss machinery maker Rieter AG, to settle its debts[36].

Asher Edelman, 64, is a New York raider who became famous for his takeover bids in the 1980s. He moved to Lausanne, Switzerland, in 1988. After retiring from business, he founded a modern art museum in Pully, near Lausanne, in 1991. However, he got bored and returned to hunt out undervalued assets in the late 1990s[37]. He tried to take over the French Societé du Louvre but the Taittinger family rebuffed his offers. An attempt to take over Baumgartner, a little known Swiss company, failed as well.

[28] Since I am not interested in transaction deriving from the operating activity of Bolloré Group, Mr Bolloré's only purely financial transactions are included in the analysis.
[29] *Financial Times*, 15 May 2001, *Corriere della Sera*, 10 March 2003.
[30] *Business Week*, The Stars of Europe, 11 June 2001.
[31] Despite that, he gets many more headlines from his raiding activity, at least outside France.
[32] *Business Week*, A Maverick loses his touch, 12 August 2002.
[33] *Wall Street Journal Europe*, 26 September 2003.
[34] *Business Week*, Rebel in a Bow Tie, 18 March 2002.
[35] See Loderer and Zgraggen (1999) for details about the proxy-fight.
[36] *Wall Street Journal Europe*, 26 September 2003.
[37] *Financial Times*, 8 June 2001

WCM Holding and Property is the main investment vehicle of Karl Ehlerding, 60, a German investor. Mr Ehlerding dislikes being considered as a corporate raider and sees himself as a German Warren Buffet, a seeker of undervalued assets. In the 1990s, Mr Ehlerding bought and resold grocery chain Spar and a stake in Wünsche[38]. WCM, 65 percent controlled by Karl Ehlerding, buys stakes in underperforming German companies and extracts value by breaking them up or pushing them into mergers. Investors like Mr Ehlerding are rare in Germany, where business life is still characterized by a cosy network of long-standing cross shareholdings[39].

Lord Hanson's activity as a raider is almost entirely concentrated in the 1970s and 1980s. He was defined "Britain's most feared corporate raider"[40]. Only one deal (I.C.I., 1991) is included in my sample.

The Swiss Ernst Müller-Möhl worked as Martin Ebner's deputy at BZ Group from 1985 to 1992. Subsequently, he set up Bank am Bellevue in 1993 and A&A Aktienbank in 1997. A&A Aktienbank was specialized in acquiring stakes in small and medium companies. Mr Müller-Mohl died in 2000 at the age of 42[41].

Luigi Giribaldi, 78, used to be an industrialist. In the early 1990s, he sold the transport business he had founded in 1950, the Italian firm Traco, to the Australian group TNT, pocketing U.S. $150 million[42]. Then, Mr Giribaldi moved to Montecarlo, where he stayed quiet for some years. He started taking on the Italian Establishment in 1996, when he launched a high-profile raid against Mr De Benedetti's two holding companies, CIR and Cofide. He sold out in March 1998, netting profits of close to U.S. $175 million. His strategy is usually a sort of hit-and-run behavior, but he sometimes remained as a shareholder in a company for a longer period, as for example in CIR and Cofide and Snia and IT Holding. He is not liked by Italian industrialists, mostly because of his style of investing. In fact, at the time of the Snia deal, Cesare Romiti, the former chairman of Italian auto-maker Fiat, left Snia saying "I do not want to deal with raiders"[43]. Mr Giribaldi stated that his goal is just to make money, not becoming a hero[44]. He invested in several Italian companies, ranging from industrial firms to fashion groups.

Klaus-Peter Schneidewind and Clemens Vedder are two very secretive investors from Northern Germany. They forged their profitable partnership in the early 1980s. Mr Schneidewind and Mr Vedder, both in their mid-fifties, launched their first raid in the mid-1980s when they took a large stake in AVA, a German food retailer. In 1995 they pulled off their biggest coup to date after building up and selling a large stake in Spar, then Germany's seventh-largest supermarket. They earned an estimated DM800m-DM1.2bn (U.S. $ 390m-U.S. $ 580m) profit when they arranged a takeover of the Spar chain by Intermarché of France. But it was the pressure on Commerzbank that focused attention on Klaus Peter

[38] WCM sometimes buys large stakes in friendly transactions that take place outside the market. The purchase is often not direct but through a purchasing vehicle. In a few cases, the stake sales/purchases are simply a transfer from one WCM subsidiary to another. WCM and Mr Schneidewind and Vedder often invest in the same firms. I deal with all these problems in the empirical analysis.

[39] *Financial Times*, 30 January 2001.

[40] *Financial Times*, 10 July 1991.

[41] *Il Sole 24-Ore*, 5 May 2000.

[42] *Business Week*, Raiders rising, 29 January 1999.

[43] *Il Sole-24 Ore*, 30 September 2000. In Italian, "Non intendo giocare con gli scalatori".

[44] *Business Weak*, Raiders rising, 29/01/1999.

Schneidewind and Clemens Vedder. Backed by a small group of Northern German millionaires and billionaires, the two men used their Netherlands-based holding company Rebon to accumulate a 9.9 percent stake over several months[45].

Luca Padulli is an Italian financier that in the mid-1990s bought a stake in Montedison, which was undoubtedly the darling of the raiders that operated in Italy. The raid attracted a lot of attention because of the target firm involved and the lack of information that initially surrounded the name of the purchaser. In fact, Mr Padulli purchased the stake through a complex structure of off-shore companies.

A French-born U.S. arbitrageur, Guy Wyser-Pratte, 62, opened his own firm in New York in 1991, Wyser-Pratte & Co., after having worked as head of the arbitrage operation of the former Bache & Co. (now Prudential). Mr Wyser-Pratte, a former U.S. marine corps captain, claims he has helped create more than U.S. $39 billion in market value for shareholders in companies where he owns stakes in the United States[46]. His goal is to create value for himself and other shareholders, while he thinks that "Europe's business elite run companies for themselves"[47]. Mr Wyser-Pratte describes his style of investment as "street warfare"[48]. He combines legal action, proxy voting and the implicit support of large institutional investors. Mr Wyser-Pratte claims that he is not a corporate raider but a corporate governance specialist who restores shareholder value. But some investors who have worked alongside him do not see him in quite the same light, claiming his interventions are characterized by aggressive stake building, highly publicized criticisms of management and rich rewards[49]. Since the early 1990s, he has started to take stakes in European companies, mainly in France, where he tried to restructure the Taittinger family empire. He made also a few acquisitions in Germany with mixed results, good in Rheinmetall AG and bad in Mobilcom AG[50].

The French Romain Zaleski, 70, moved to Italy in 1984 to turn around a near-bankrupt Italian industrial group, Carlo Tassara. Zaleski bought the majority stake in Tassara in 1989. It was Mr Zaleski who engineered the take-over of Montedison by a consortium of firms led by EDF, the French state-owned electricity monopolist, defeating Mediobanca and its allies in 2001[51].

Tito Tettamanti, a Swiss lawyer and former politician, was chairman and largest shareholders in Saurer AG, a Swiss industrial company, until the mid-1990[52]. His U.K.-based investment vehicle, Sterling Investment Holdings Plc., completed several purchases, in particular in the real-estate sector.

[45] *Financial Times*, 14 June 2000.
[46] *Business Week*, A U.S. raider's "iron fist in a velvet glove", 4 February 2002.
[47] *Forbes*, 5 March 1999.
[48] *Financial Times*, 27 June 1998.
[49] *Financial Times*, 6 April 2000.
[50] Although not included in the analysis because the first public announcement was in 2002, Mr Wyser-Pratte bought a stake in Babcock-Borsig, the now bankrupt engineering company.
[51] *Business Week*, Romain Zaleski: The Frenchman who is shaking up Italy Inc., 18 June 2001.
[52] Given their industrial nature, I ignore all the deals made by Mr Tettamanti during this period.

1.6 PRELIMINARY ANALYSIS

I identify 159 public announcements of initial stake purchases in European listed firms. However, only 136 out of the 159 observations collected are included in the empirical analysis[53]. Table 1.1, Panel A shows how the 136 initial announcements are subdivided by individual raider. Table 1.1, Panel B shows the subdivision by year and Table 1.1, Panel C presents the purchase distribution by country.

As shown in Table 1.1, five raiders (Active Value, Brierley/GPG, Ebner, Giribaldi, and Wyser-Pratte) account for 75% of the observations, i.e. 102 out of 136. It is worth noting that all but six purchases happened in the five countries whose national newspapers I checked. This supports the decision to limit the number of countries investigated to the selected five. Further, Swiss investor Martin Ebner was the buyer in the five Swedish purchases, therefore Swiss newspapers reported the news[54].

The striking fact is the almost perfect match between the deals in a given country and the deals carried out by raiders that operate mainly in the same country, with the exception of Switzerland. Indeed, all raiders show a strong preference for home market companies[55].

The great majority of purchases is carried out through open-market transactions (115 out of 136 observations), while only 11 observations come from block purchases. The remaining initial purchases are the consequences of public tender offers by firms not related to the raiders (2), mergers and acquisitions (5), mixed transactions (2), and a private placement (1). A caveat is in order here: I consider as an open-market transaction every deal for which I have no information that a block-trade happened. Since block trades are usually reported in the press, the figures seem quite accurate. However, it is not possible to rule out that this procedure could lead to overestimating open-market transactions. Unfortunately, the limited number of observations for block purchases makes it meaningless to perform an event study for such a sub-sample in Chapter 2. Moreover, I cannot even compute a measure of block premia similar to the one of Barclay and Holderness (1989), that is the difference between the block-trade price and the post-announcement exchange price, due to missing block-trade prices.

[53]Two observations are deleted because two investors bought a stake in the same company on the same day. To avoid a duplication and a bias in the results, I left these observations out. Two initial stakeholdings were due to spin-offs and dropped by the analysis. I do not take into account a purchase made just a few days after the IPO of the target company as well as three observations in which the target company was already facing a bid by other companies. I eliminated the remaining observations because of either missing or incomplete stock price data on Datastream.

[54]The missing purchase was made by the U.S. raider Guy Wyser-Pratte in Belgium. I found information about this deal in the newswires.

[55]The only raiders that bought stakes in at least three countries are Mr Ebner and Mr Wyser-Pratte. Mr Ebner bought a stake in at least one company in 6 out of 7 countries, that is all countries but Belgium. Wyser-Pratte held stakes in companies of four countries.

Table 1.1: **Descriptive Statistics**

Panel A reports the initial announcements subdivided according to the raider who announced the stockholding. Panel B reports the reports the initial announcements subdivided according to the year in which the announcement took place. Panel C reports the reports the initial announcements subdivided according to the country of the target firm.

Panel A: Initial Announcements by Raider

Raider	*Nationality*	*No. Obs.*
Active Value Fund	U.K.	18
Vincent Bolloré	France	7
René Braginsky	Switzerland	2
Ron Brierley/GPG	New Zealand/U.K.	20
Martin Ebner	Switzerland	30
Asher Edelman	U.S.	3
WCM (Karl Ehderling)	Germany	5
Luigi Giribaldi	Italy	16
Lord Hanson	U.K.	1
Ernst Müller-Möhl	Switzerland	3
Luca Padulli	Italy	1
Klaus Peter Schneidewind	Germany	4
Tito Tettamanti	Switzerland	5
Guy Wyser-Pratte	U.S.	18
Romain Zaleski	France	3
Total		136

Panel B: Initial Announcements by Year

Year	*No. Obs.*
1990-1992	4
1993	6
1994	4
1995	7
1996	12
1997	16
1998	24
1999	23
2000	25
2001	15
Total	136

Panel C: Initial Announcements by Country

	BEL	*FRA*	*GER*	*ITA*	*SWE*	*SWI*	*U.K.*	*Total*
No. Obs.	1	24	13	25	5	21	47	136

1.7 SOME INFORMATION ABOUT THE TARGET FIRMS

1.7.1 Descriptive Statistics

This section aims at providing some information about the firms that were targeted by the raiders in the period analyzed. To start with, Table 1.2 describes the distribution of raider purchases by industry. The industry classification is based on two-digit SIC industry code. As it is clear from the table, the majority is in old economy sectors, like manufacturing. Between the manufacturing industry, chemicals and allied products is the sector with more purchases. This result can be explained by the fact that Martin Ebner invested heavily in this sector through Pharma Vision[56]. Finance and Insurance is the industry with most block purchases. However, the table shows that the raiders are active in many sectors and there in no obvious clustering in the sample.

Table 1.3, Panel A presents the mean and median market value of the target firms two and six months before the initial announcement of a raider stockholding. Although the mean is very high, the median has a much smaller value, indicating that some outliers can drive the result. Indeed, raiders sometimes purchase very small stakes in the biggest European companies. However, the median indicates that raiders are not used to buy stocks of very small companies. In fact, the median is almost twice the median market value of a group of firms in which other kind of investors bought a stake, defined as Random Sample[57].

Table 1.3, Panel B shows the market-to-book value for both the firms targeted by the raiders and for the random sample mentioned above. Also in this case, the medians offer a better point of view because of outliers. Medians are remarkably similar between the two groups. Although the difference between the averages might be interpreted as evidence that raiders avoid high market-to-book firms, i.e. growth firms, this explanation does not survive further analysis. In fact, the high average for the random sample is driven by a handful of firms with very low value of book equity due to bad performances[58].

Table 1.4 provides some descriptive statistics about the target firms. The three variables are the number of employees, leverage, and ROA. The leverage is defined as a debt-to-equity ratio while the ROA is operating profit over the book value of assets. Further details are given in Chapter 3. The same descriptive statistics for a matching sample of firms are shown in Table 1.4 as well. The matching sample is described in Chapter 3 and it is a totally different group of firms with respect to the Random Sample. While more accurate analyses are postponed to Chapter 3, none of these variables is different between the two samples. Raiders seems to target very ordinary companies.

1.7.2 Pre-acquisition Stock Price Performance

After showing descriptive statistics, there remains to check the stock price performance of firms targeted by raiders before the stake acquisition. The discussion about the buy-and-

[56] Seven out of the 15 purchases are made by Mr Ebner.

[57] The Random Sample is described in more details in Chapter 2 and in the Appendix B.

[58] When such firms are dropped from the sample, the difference in the means is no more significant.

Table 1.2: **Distribution of Raider Purchases by Industry**

The table shows the distribution of raiders' announcements by two digit SIC industry code. The sample consists of the 136 announcements of a raider's stockholding in the period 1990-2001.

Description	**Sic Codes**	**No. Obs.**
Construction	15-17	3
Food Products	20	4
Apparel and textile mill products	22, 23	4
Furniture and fixtures	25	2
Paper and allied product	26	1
Chemicals and allied products	28	15
Rubber and Plastics	30	1
Stone, clay, and glass products	32	3
Primary products and metals	33, 34	6
Industrial machinery	45	9
Electronic/electric equipment	36	4
Transportation equipment	37	3
Miscellaneous manufacturing	39	1
Transportation, communication, electric, gas and sanitary services	40-49	7
Wholesale trade	50, 51	5
Retail trade	52-59	14
Finance, Insurance	60-64	24
Real Estate	65	5
Holding and other investment offices	67	12
Services	70-89	13

Table 1.3: **Size and Market-to-Book**

Mean and Median values for the size of the firms in millions of Euros two months and six months before the announcement day is documented in Panel A. The size is proxied by the market value of the firms equity (Datastream item MV). P-values of a t-test for the difference in means and of a Wilcoxon/Mann-Whitney test for equality of medians are reported. Mean and Median values for the market-to-book ratio of the firms two months and at the end of the fiscal year before the announcement day is reported in Panel B. Market-to-book ratio is computed as the firm's market value of target firm's equity (Datastream item MV) over the book value of equity for the same company (Datastream item 305) at the end of the fiscal year before the announcement of an investor's stockholding. P-values of a t-test for the difference in means and of a Wilcoxon/Mann-Whitney test for equality of medians are reported.

Panel A: Size

	Active Investors	*Random Sample*	*p-values*
2 Months			
Mean	3930.76	5812.65	0.50
Median	464.94	238.03	0.05
No. Obs.	136	137	
6 Months			
Mean	3768.06	5656.91	0.51
Median	447.39	240.74	0.08
No. Obs.	136	137	

Panel B: Market-to-Book

	Active Investors	*Random Sample*	*p-value*
2 Months			
Mean	2.08	3.53	0.01
Median	1.56	1.61	0.36
No. Obs.	116	87	
Year -1			
Mean	2.05	2.68	0.16
Median	1.53	1.48	0.99
No. Obs.	116	86	

Table 1.4: **Employees, Leverage, and ROA**

Panel A shows descriptive statistics for the firms targeted by the raiders and a matching sample described in Chapter 3. Panel B shows the *p-values* of the t-test for difference in means between the two samples and of the Wilcoxon test for equality of the medians between the two samples. The leverage is defined as a debt-to-equity ratio, i.e. Total Debt (Datastream item 1301) over the book value of equity (Datastream item 305). ROA is measured as operating profit (Datastream item 137(933)) over the book value of assets (Datastream item 392). The number of employees, leverage, and ROA are taken at the end of the fiscal year before the initial announcement.

Panel A: Descriptive Statistics

	Raiders	Matching Sample
Employees		
Mean	22,728	16,877
Median	6,101	5,603
Observations	107	104
Leverage		
Mean	1.08	0.85
Median	0.68	0.67
Observations	102	99
ROA		
Mean	6.28%	5.59%
Median	5.94%	5.70%
Observations	96	96

Panel B: Tests

	Employees	Leverage	ROA
T-test	0.25	0.33	0.43
Wilcoxon	0.76	0.48	0.72

hold abnormal returns is postponed to Section 3.4.

Table 1.5, Panel A documents no significant difference for firms targeted by raiders with respect to the control sample built following Barber and Lyon (1997). The comparison between the returns that end at the announcement day and those that end two months before clearly indicate a run-up[59]. The pre-acquisition market-adjusted average returns show in Table 1.5, Panel B some evidence that target firms underperform the market in the period starting from two years before the announcement date and ending two months before. However, the abnormal return is not statistically different from zero when the pre-acquisition period starts one year before the announcement, meaning that target firms were already recovering before the raider's entry. Medians provide evidence supporting the view that raiders' targets are underperforming as well. Conversely, the findings for medians in Table 1.5, Panel B document that target firms close the gap with the market only in the two months preceding the public announcement.

Despite this last result, by and large, the evidence does not support the view that raiders target firms with a weak stock price performances in the years preceding the purchases.

1.8 AN OVERVIEW OF RAIDERS' ACTIVITIES

The investors analyzed are well known for their activist behavior in confronting the incumbent management teams and the controlling shareholders. It is widely known that shareholder activism can take many forms. Shareholders can propose resolutions to vote at the AGM or even serve requisition of an EGM on a given firm, i.e. to mount a proxy-fight. Shareholders can ask to be appointed to a company's board of directors or give suggestions on corporate policies. Raiders might also launch a take-over bid for the company in which they previously purchased a toehold. They can even sue the company to settle their disputes. The company may repurchase the raider's shares with a targeted buy-back, i.e. greenmail.

Holderness and Sheehan (1985) study the activities of their six investors in target firms for the two years following the initial purchase. They found that the raiders are seldom passive and the evidence provides no support for the raiding hypothesis. Bethel, Liebeskind, and Opler (1998) look at the effects of block share purchases on CEO turnover[60] but do not analyze in details what the activist shareholders do once the purchase has taken place.

In this section, I will introduce the activities raiders are expected to trigger off. A more detailed analysis of this issue is postponed to Section 3.7.

It is believed that raiders often ask to be appointed to the target company's board of directors. Moreover, raiders can also force the incumbent CEO and/or chairman to leave the company. Obviously, raiders' requests are not always successful. When a change takes place, it can follow from either formal resolutions or just from growing pressure. On the other hand, they are sometimes offered a seat on a company's board. As Section 3.7.1 documents, these beliefs are not supported by the empirical evidence. In fact, raiders do

[59] Indeed, in Chapter 2, the event window [-30,1] reports a cumulative abnormal return of 8.77%, while for the event window [-1, 0] the CAR is 2.44%. Event windows starting from day -10 document a run-up, too.

[60] They find an higher but not statistically significative turnover rate after activist block share purchases.

Table 1.5: **Pre-acquisition Stock Price Performance**

Pre-acquisition Buy-and-Hold Abnormal Returns (BHARs) for raider's target firms. Panel A shows the BHARs using the matching sample approach. Panel B reports the market-adjusted BHARs. Column I documents the BHARs from two years and one year before the announcement day (2Y and 1Y, respectively) to the announcement day. Column II documents the BHARs from two years and one year before the announcement day (2Y and 1Y, respectively) to two months before the announcement day. Column III documents the BHARs from two years and one year before the announcement date (2Y and 1Y, respectively) to two days before the announcement day. A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero.

Panel A: Matching Sample

	I		II		III	
	2Y	1Y	2Y	1Y	2Y	1Y
Mean	1.43%	8.14%	-8.56%	0.04%	-2.10%	6.42%
p-value	0.90	0.30	0.29	0.99	0.84	0.40
Median	-0.53%	0.85%	-7.11%	-3.99%	0.67%	0.96%
p-value	0.99	0.32	0.19	0.42	0.84	0.59
No. Obs.	132	136	132	136	132	136

Panel B: Market Adjusted

	I		II		III	
	2Y	1Y	2Y	1Y	2Y	1Y
Mean	-5.40%	4.63%	-14.74%	-4.36%	-8.00%	3.67%
p-value	0.58	0.47	0.03	0.34	0.37	0.56
Median	-19.54%	-3.53%	-27.08%	-14.70%	-17.39%	-7.38%
p-value	0.00	0.31	0.00	0.00	0.00	0.17
No. Obs.	132	136	132	136	132	136

not appear to be particularly interested on a seat in the board of directors and the dismissal of the CEO is uncommon.

Raiders, or more generally shareholders, have the possibility to make their proposals to the incumbent management and to other shareholders at the AGM or EGM. The management does not generally agree with these external plans that frequently require dismissing the CEO or the chairman. The result is often a proxy-fight at AGMs or EGMs. Proxy-fights can also be generated by a board of directors' proposal contested by one or more shareholders who try to defeat the management team collecting proxies. It is worth noting that the most famous European proxy-fight, the 1994's proxy-fight between Ebner and UBS, is not included in the sample because Mr Ebner bought the initial stake in UBS AG in the late 1980s. Loderer and Zgraggen (1999) examine the UBS proxy fight.

Since proxy-fights are a very costly control mechanism, it seems quite strange that raiders sometimes commit themselves to fight battles in which they have no chance succeed. In fact, there is no clear incentive for raiders to throw away money and waste time in proxy-fights when their proposals will be certainly defeated. Of course, it is possible to argue that raiders just provoke the proxy-fights, the share prices goes up on "battle noises" and than they run away selling their shares. However, if this were the case, it would not make sense to wait for the results of the proxy-contest. The raiders should exit before the uncertainty is resolved. Section 3.7.2 provides evidence of proxy-fights. The main finding is that every now and again raiders get involved in proxy-fights.

Raiders do not use very often proxy-contests to propose a change in a firm's strategy. They are used to releasing public statements calling for some change. These public statements might be followed by private talks between raiders and incumbent management. The requests made by the raiders usually concern: share buy-backs/special dividends; spin-offs; equity structure changes; restructuring plans; disinvestments.

Changes might equally stem from a target firm's initiative. Although there is no information that the raider put pressure on the management, changes can be triggered either by raider's stockholding, i.e. to anticipate a raider's demand, or by private talks between the two parts. Section 3.7.3 gives circumstantial evidence concerning the raider's requests.

Raiders usually buy a minority stake in the target firm. However, they could bid for the whole company in some cases. The offer can have two goals: either the raider wants really take the target company over or the bid is just a part of the raider's strategy to boost the firm's stock price or to precipitate a bid of a third part. In fact, raiders are not the only ones to be interested in bidding for a given target company. The target company may be the object of an offer by other industrial or financial firms. When an offer for the company arrives, the raider can play an important role. Indeed, the raider can either support or interfere with the offer. For example, Mr Ebner was strongly in favor of Credit Suisse AG's bid for Winterthur AG, a Swiss insurance company, but he was the main reason why the merger between Alusuisse AG of Switzerland and Viag AG of Germany failed. Hence, it is important to see if the raiders take a position about the takeover when a third part makes a bid. Consistent with the claim that the selected investors do not usually try to take the target company over, Section 3.7.4 reports few bids made by the raiders. Conversely, the number of bids from other firms or investors is substantially larger.

Greenmail, defined as targeted share repurchases by target firm for a price above the market of its own shares (Loderer and Zgraggen 1999), is not always possible in Europe.

Loderer and Zgraggen (1999), for instance, report that greenmail is not possible in Switzerland, because Swiss law requires firms to treat all shareholders equally. This is of course a very limited interpretation of greenmailing. Taking into account the European ownership structure, it is possible to consider the purchase of the active investor's blockholding by another company owned by the target firm's controlling shareholder (usually the family holding company) as a greenmail.

Greenmailing is a defensive option for target firm, but it offers great incentives to short-term raiders, too. In fact, being greenmailed can be the raider's goal if he seeks short-run profits. A fact that play against the use of greenmailing in Europe is the lack of separation between who decides and who pays the greenmail. In a widely-held company, managers decide to buy-back the block of stock but they pay the greenmail with the company's money. In a family-controlled business, there is no such a separation between who pays and the decision maker. This separation can create a strong deterrent against greenmails. Indeed, Section 3.7.5 documents only two greenmails in a sample of firms whose ownership structure is usually concentrated[61].

Sometimes a so-called *white-squire* buys the minority stake previously held by the raider. The white-squire is an investor with a friendlier attitude to the incumbent management (or controlling shareholder). In addition to the purchases made by white-squires, there might also be the possibility that a *white-knight* intervened. The white knight is another company which the target firm prefers as acquirer because of greater compatibility, promises that the incumbent management will not be fired or that the target firm will have more freedom. White knights and white squires are certainly defensive measures for target firms. Finding a friendly investor to substitute for a raider is obviously less expensive for the target company than resorting to a greenmail. Section 3.7.6 supports this intuition. In fact, purchases by white-squires and white-knights outnumber greenmails.

1.9 THE STRUCTURE OF THE DISSERTATION

The remaining two chapters of the dissertation will present the empirical analysis of the deals involving the selected raiders. Chapter 2 aims at determining whether the initial announcement of the first raider's stockholding produces a significant change in the market value of the target firm. In fact, the chapter is devoted to the analysis of how the market reacts to the first public announcement of stockholding by one of the selected investors. The stock price response to this news may be considered a measure of the market expectation about the impact the raiders have on target firm performances. I am interested also in establishing if the raider's stockholding announcement has a true information content as well. Although the very nature of these investors can be unveiled only after examining their behavior throughout the whole period they hold a stake in a company, the market response to the initial purchase can lead to useful insights about the role of these raiders.

Chapter 3 provides long-run evidence both for stock price performance measures and for accounting performance measures. Clinical evidence concerning the activity of the raiders after the initial purchase is reported as well. This chapter investigates the impact of a

[61] See Section 2.6 for details regarding the ownership structure of the target firms.

raider's stockholding in the long-run. This is a necessary step in order to uncover the real role of the raiders. Further, this analysis permits to verify whether the long-run performances of the target firms are consistent with the market expectation at the time of the announcement of the first stockholding by a raider.

Chapter 2

SHORT RUN EVIDENCE

2.1 INTRODUCTION

This chapter primarily aims at determining whether the initial stake purchase by the raider produces a significant change in the market value of the target firm. I investigate the market reaction to the first public announcement of stockholding by one of the selected investors in Europe during the period January 1990 to December 2001. The stock price response to this news may be considered a measure of the market's expectation about the impact the raiders have on target-firm performances. The raiders' behavior after their initial stock purchases will be studied in Chapter 3.

I am interested also in establishing if the raider's stockholding announcement has a true information content. To this end, I provide evidence mainly based on event studies. As it is widely known, the event study methodology permits to measure the effect of an event on the value of the firm.

An implicit objective of this chapter is to gather evidence regarding the relevance of the blockholder's identity. As Section 1.2 points out, blockholder's identity is usually found to be important. However, I have no knowledge of any study that investigates the role of this particular class of investors in Europe. A related paper that provides evidence for a European country is Banerjee, Leleux, and Vermaelen (1997), but the authors focus merely on holding and non-holding companies. Using Gorton and Kahl (2002)'s own words, raiders can be different from other investors because they provide *agency-cost free capital*. Since they invest their own wealth, raiders have a bigger incentive to provide a more effective monitoring than other investors, like institutional investors or industrial corporations.

The role played by these investors is quite controversial. If markets believed that raiders are only interested in short-term profits to be largely achieved to the detriment of other stockholders, the stock price of the target firm would go down the moment the raider's initial announcement is announced. Following Holderness and Sheehan (1985), I call this hypothesis *raiding hypothesis*.

Conversely, a positive market response can be explained by the remaining hypotheses formulated by Holderness and Sheehan (1985): the *superior stock picking hypothesis*, that is raiders are good at picking winners, and the *corporate governance champion hypothesis*, that is raiders help improve the target firm's performance. However, a rise in the stock market price of the target might equally be generated by either price-pressure (Harris and

Gurel (1986)) or by a downward-sloping demand curve (Shleifer (1986)).

The evidence suggests that markets do not believe in the raiding hypothesis. This result is consistent with Holderness and Sheehan (1985), who reject the raiding hypothesis, and with Bethel, Liebeskind, and Opler (1998) as well. Target firms earn statistically significant positive abnormal returns when the raider's stockholding is announced. This evidence would be consistent both with the view that these investors become shareholders in a company in order to try to improving the target firm's performance and with the superior stock-picking hypothesis. However, when compared to a random sample, there is no evidence that raiders' targets earn larger abnormal returns. This casts doubt on the two hypotheses. The price-pressure hypothesis is also rejected because there is no evidence of a quick reversal in share prices. The findings support the downward sloping demand curve hypothesis.

Individual evidence for for single investors is provided as well. Differences between the investors studied are found. In particular, no significant positive abnormal return is observed for companies targeted by Martin Ebner.

Since Europe is composed of many countries with differences in legal systems and in the degree of investor protection (see La Porta, de Silanes, Shleifer, and Vishny (1998) and La Porta, de Silanes, Shleifer, and Vishny (2000)) I bring evidence about single countries as well. The results closely track the ones for single investors due to the high correlation between target firm's country and single investors. The possibility to perform event studies at country level gives me a chance to gauge if abnormal returns are linked to the measure of the private benefits of control. Dyck and Zingales (2003) and Nenova (2003) provide recent empirical estimates of such a measure. No clear link between privates benefits and CARs at country level emerges from my analysis.

The reaction of the markets is stronger when raiders target companies with a large shareholder. In fact, abnormal returns for widely-held companies are very close to zero.

The remainder of the chapter is organized as follow. Section 2.2 analyzes the hypotheses in more details. Section 2.3 discusses the methodology and presents the empirical evidence. Section 2.4 provides evidence at individual level for five raiders. Section 2.5 documents the results at country level. Section 2.6 shows evidence based on the ownership structure of the target firms. Section 2.7 deals with the ex-post interaction between corporate raiders and either incumbent management or controlling shareholders. Section 2.8 presents a test for the no-information based hypotheses. Section 2.9 concludes.

2.2 HYPOTHESES

As mentioned in Section 1.2, the paper by Holderness and Sheehan (1985) is the closest in spirit to my research. They identify three basic hypotheses:

- *Raiding hypothesis* (RH): the raider expropriates corporate assets to the detriment of other stockholders. Raiders can achieve this result through greenmails, private benefits or in other ways. The raider is usually interested in short-run profits.

- *Superior stock picking hypothesis* (SSPH): raiders have a greater ability in evaluating and buying underperforming firms at the right time, i.e. when the stock is underpriced.
- *Corporate governance champion hypothesis* (CGCH): raiders are useful because they improve target firm management.

Under RH, the target stock price response to the first public announcement that a raider has purchased a stake in the company is negative. Anticipating that the raider will transfer corporate resource to herself, stockholders sell their stocks causing a decrease in the firm's stock price[1].

A positive stock price change is predicted both by the SSPH and the CGCH[2]. The SSPH states that the selected investors purchase systematically under-priced stocks. This can be due to either private information or to higher skills in interpreting public information. The CGCH holds that raiders are helpful in triggering managerial changes that increase target firm's value. To put it another way, they provide a sort of public good to the benefit of every stockholder in the company. Moreover, if the raider has incentives that are aligned with those of the other minority shareholders, managers have fewer incentives to make proposals harmful to minority shareholders.

Although it is not a primary goal of this chapter, it is worth noting that the recent empirical literature concerning international comparison of private benefits of control (Dyck and Zingales (2003) and Nenova (2003) can help separate Holderness and Sheehan (1985)'s hypotheses[3]. In fact, if the investor's objective is merely to expropriate corporate resources, she will find it easier to have it done in countries where private benefits of control are higher, i.e. countries with poor protection of minority investors and a low degree of law enforcement. Hence, a negative relationship between the change in the target's firm market value and a measure of private benefits is expected. Conversely, if the active investor is believed to be a corporate governance champion, a positive relationship is expected. This is due to the fact that the monitoring role played by the raider is more valuable in a country with poor investor protection. No clear link between private benefits and SSPH is expected.

However, all the hypotheses put forward by Holderness and Sheehan (1985) rest on the assumption that the raider's stockholding announcement brings new information to market participants. Although it may sound unlikely, the possibility that the stockholding announcement does not convey any information to the market cannot be discounted. Assuming no information[4], a change in stock price can be explained by the price-pressure hypothesis (PPH). Harris and Gurel (1986) argue that passive suppliers of liquidity must

[1] It is worth noting that when the raider does not want to (or cannot) gain full control of the target company, raiding is possible only if the incumbent management or controlling shareholder accommodates the raider's request. From the incumbent player's point of view, this leads to a reputation problem. However, I leave this issue out of my analysis.

[2] Differently from this chapter, Holderness and Sheehan (1985) try to distinguish between the various hypotheses. They fail to identify which of the two explanations prevails in their analysis, even after having looked at the activities following the initial stake purchase. Concern over this issue appears also in Bethel, Liebeskind, and Opler (1998) (see page. 631), even though here the more accurate analysis makes the problem less severe.

[3] This is possible in my research because more than one country is considered. Further, the countries considered include both high private benefit countries, e.g. Italy, and low private benefit ones, for example the United Kingdom.

[4] Note that the efficient market hypothesis is not consistent with a stock price change given no information.

be compensated for their service. Therefore, the price rises (drops) when there are large purchases (sales). When demand returns to its normal level, prices should return to their full-information levels, too. Put differently, the long-run demand curve is as flat as under the efficient market hypothesis. As emphasized by Kaul, Mehrotra, and Morck (2000), the PPH provides an easily testable prediction. PPH implies that abnormal returns in the event period are completely offset by subsequent returns.

Another explanation consistent with a change in stock price even in the case of absence of information is a downward-sloping demand curve (DSH) (Shleifer (1986)). Under DSH, long-term demand is not perfectly elastic. This hypothesis differs from price-pressure because price reversals are not expected since the new price is a new equilibrium. Thus, the change is expected to be permanent under DSH. Conversely, the change is expected to be only temporary under PPH. Recent empirical evidence (Kaul, Mehrotra, and Morck (2000) and Wurgler and Zhuravskaya (2002)) supports Shleifer (1986)'s view that the demand curve for stock slopes down.

It is important to stress that some of the hypotheses are not mutually exclusive. For example, a positive market response may be due to either the CGCH or a downward sloping demand curve[5].

2.3 EMPIRICAL FINDINGS

2.3.1 Methodology

In order to throw light on the role played by active investors, or to be more precise, on the role that markets believe these investors have, I evaluate the effect of the stake acquisition on the market value of the target company. To this end, I provide evidence mainly based on event studies. As it is widely known, such a methodology allows to measure the effect of an event on the value of the firm.

I report results over several time intervals: [-1,0], [-30,1], [-30,5], [-30,10], [-30,30], [-30,100], [-10,-2]. The event window [-1,0] stems from the fact that some announcement data are from daily newspapers. Daily newspapers report the purchase the day after the news is released. Since it is possible that at least some market participants are able to get information about the deal before the public announcement, event windows starting from day $t = -30$ are also used. Both Bethel, Liebeskind, and Opler (1998) and Banerjee, Leleux, and Vermaelen (1997) use an event window starting from day $t = -30$. These event windows take into consideration the possibility of an information leakage over a longer interval. Event window [-10, -2] tests for an anticipative run-up in price before the event becomes publicly known.

I estimated the simple market model with OLS technique to adjust for systematic risk:

$$R_{it} = \alpha_i + \beta_i R_{mt} + e_{it} \tag{2.1}$$

[5]Obviously, some hypotheses are simply incompatible, e.g. raiding hypothesis and price pressure because the first requires both purchases and negative returns while the second associates purchases with price increases.

where R_{it} is the return to firm i at time t, R_{mt} is the market return at time t, and e_{it} is an *i.i.d.* error. α and β are the parameters to be estimated. The estimation period is a 300-day interval from day -349 to day -50 with respect to the event day (day 0). I followed the procedure described in Campbell, Lo, and MacKinlay (1997) in order to compute CARs and related statistics.

Since thin trade could generate biases in the estimation of $\hat{\beta}_i$, a market model with betas from Dimson (1979) aggregate coefficient method is also computed and presented. In particular, I use the specification of the aggregate coefficient method with three lags and one lead. Thus, the regression equation is

$$R_{i,t} = \alpha_i + \sum_{i=-3}^{1} \beta_i R_{m,t+i} + e_{i,t}. \tag{2.2}$$

According to Dimson (1979), a consistent estimate of β is obtained aggregating the slope coefficients from Equation 2.2. The estimated β is given by:

$$\hat{\beta}_D = \sum_{i=-3}^{1} \hat{\beta}_i. \tag{2.3}$$

The standard procedure I used estimates the variance of the aggregate CARs with past returns. This could lead to ignore the so-called *event-induced variance* problem discussed by Böhmer, Musumeci, and Poulsen (1991), that is the given event is accompanied by increases in the cross-sectional dispersion of stock returns. To address this issue, t-statistics using both the ordinary cross-sectional method and the standardized cross sectional method are computed for event window [-1,0].

Clustering[6] is generally not an issue with daily price, as Brown and Warner (1985) point out. In addition, Böhmer, Musumeci, and Poulsen (1991)'s method is robust with respect to clustering. Furthermore, my sample does not present clear proof of clustering. These considerations lead me to the conclusion that clustering is not a relevant problem. Therefore, I do not take into account clustering in the following analysis.

2.3.2 Results

The average initial stake purchased by active investors at the time of their first public announcement is 5.71 percent[7]. In Banerjee, Leleux, and Vermaelen (1997) the average percentage of shares acquired is 11.3, while Holderness and Sheehan (1985) find that 90 percent of the initial holdings were for less than 12 percent. However, these papers take into consideration acquisitions of more than 5 percent of the outstanding class of one security. In my sample, smaller acquisitions are included as well.

The average cumulative abnormal return to shareholders in target firms over the period [-30,100] is plotted in Figure 2.1 and the CARs over the different event windows are presented in Table 2.1.

[6] Clustering is present when the event windows of the included securities overlap in calendar time. Clustering prevents that abnormal returns on individual securities are uncorrelated in the cross section (see Campbell, Lo, and MacKinlay (1997), chapter 4).

[7] The median stake is 4.57 percent, the minimum stake is 0.2 percent and the maximum is 39.3 percent.

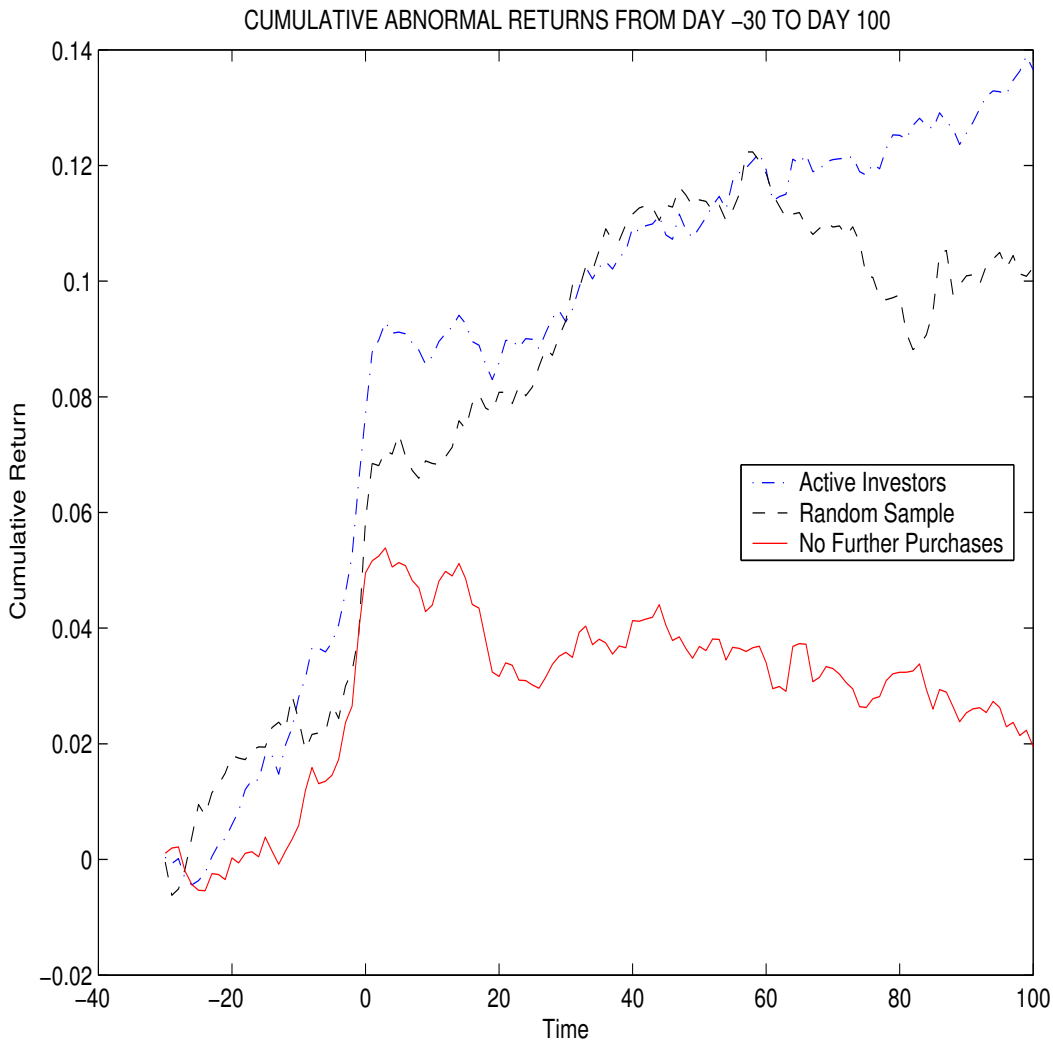

Figure 2.1: **CARs from 30 Days Before to 100 Days After the First Public Announcement of an Investor's Stockholding**

Cumulative average daily abnormal returns from 30 days before to 100 days after the first public announcement of an investor's stockholding for the active investors' targets (No. Obs. 136), for the random sample (No. Obs. 137), and for the sub-sample of active investors' targets when there is no further purchase in the 120 days following the initial purchase (No. Obs. 91).

Table 2.1: **CARs**

Cumulative average daily abnormal returns in percent for various event windows for the active investor's target firms, the firms targeted by the random sample of investors, and for the sub-sample of active investors' targets when there is no further purchase in the 120 days following the initial purchase (t-stats are given in parentheses).

Event Window	*Active Investors*	*Random Sample*	*No Purchases*
[-1, 0]	2.44	2.61	2.30
	(6.91)	(5.19)	(5.61)
[-30, 1]	8.77	6.85	5.16
	(5.59)	(2.93)	(2.81)
[-30, 5]	9.12	7.36	5.14
	(5.41)	(2.91)	(2.61)
[-30, 10]	8.70	6.85	4.40
	(4.76)	(2.48)	(2.06)
[-30, 30]	9.30	9.31	3.58
	(3.95)	(2.58)	(1.30)
[-30, 100]	13.65	10.24	1.95
	(3.40)	(1.58)	(0.41)
[-10, -2]	2.98	0.42	2.31
	(3.88)	(0.37)	(2.58)
No. Obs.	136	137	91

The findings in Table 2.1 show that on the days before and the day of the first public announcement there is a positive abnormal return of 2.44 percent earned on average by the stockholders in target firms. The abnormal return is highly significant from a statistical point of view. This return is higher than the one reported by Holderness and Sheehan (1985) (2.44 percent vs 1.77 percent). On the other hand, the abnormal return is considerably lower than the CAR reported in Barclay and Holderness (1989) for NYSE- or AMEX-listed corporations that experienced a negotiated block trade of at least 5 percent of the common stock (5.1 percent on [-1, 0], where day 0 is the initial public announcement of the block trade). However, the difference largely disappears when Barclay and Holderness (1989) consider only firms remaining independent one year after the block-trade announcement. Barclay, Holderness, and Sheehan (2001) find an abnormal return of 5.9 percent from day -1 to day 1 for the announcement of block investments.

Abnormal returns around the announcement day of a raider's stockholding are surprisingly low when compared to the changes in share price after block share purchases by an activist investors for the firms studied by Bethel, Liebeskind, and Opler (1998). When an activist investor announces the block purchase, the target firm's share price reports an increase of 15.7 percent over the event-time interval [-30,5] and of 14.2 percent over [-30,30]. Conversely, firms targeted by raiders show CARs of 9.12 percent and 9.30 percent in the two event-time intervals considered by Bethel, Liebeskind, and Opler (1998). This difference is hard to explain. One possible explanation concerns the time period. Bethel, Liebeskind, and Opler (1998) analyze block purchases in the U.S. during the 1980s, a period characterized by the hostile takeover wave. Thus, the higher returns of Bethel, Liebeskind, and Opler (1998) can be explained by the bigger increase in the probability of becoming a target of a hostile takeover bid[8]. To support this view, it is worth noting that firms targeted by the activist shareholders of Bethel, Liebeskind, and Opler (1998) experienced both more takeovers and LBOs than other firms in the two years following the block purchase[9]. Strangely enough, Bethel, Liebeskind, and Opler (1998) do not provide the average of the stake purchased. However, it is possible to compute the average stake from their dataset available on the *Journal of Finance* World Wide Web site. The average is 11.73 percent for the block share purchases recorded for activist shareholder (213 observations)[10], roughly twice the average purchase of the raiders studied here. Since the CARs are positive in any of the event windows considered, this event study gives no support to the raiding hypothesis.

Both Figure 2.1 and Table 2.1 document a run-up in stock prices before the event. This may be due to the fact that the vast majority of the transactions is carried out through open-market purchases. It can take some months to accumulate a stake for which an official notification is required. Anecdotal evidence supports this explanation[11]. However, it is worth stressing that a run-up in price is perfectly consistent both with the price-pressure hypothesis and with a long-run downward sloping demand curve if the stake accumulation

[8] It is worth noting that the activist investors of Bethel, Liebeskind, and Opler (1998) include the U.S. corporate raiders, who were well-known for launching hostile bids.

[9] See Bethel, Liebeskind, and Opler (1998), Table III, page 616. I will come back on this point in Section 2.3.5.

[10] Bethel, Liebeskind, and Opler (1998) use only 244 block purchases for their analysis. The average stake for the other investors is roughly similar, 10.41 percent for financial investor and 12.31 for strategic investor.

[11] It is easy to read on the newspapers after the official announcement of a raider's stockholding that the stake was accumulated slowly over a period of weeks or even months.

takes place over a long time interval. One relevant feature of Figure 2.1 is that, after the purchase is made, there is no significant increase in cumulative returns. CARs from day 1 to day 100 are only 4.88 percent, not significantly different from 0 over a 99 days period. Indeed, the plot for CARs after the announcement date shows a weak upward drift. The absence of a price reversal is also a warning against the price-pressure hypothesis.

Figure 2.1 plots also the CARs of the random sample, whose relevant CARS and t-stats are shown in Table 2.1, too. The random sample consists of 137 observations of announcements of the initial stake purchase made by investors not included in my raider list in Europe during the period 1993-2001. The random sample includes purchases by industrial firms, institutional investors, as well as individual investors who do not adopt a public activist position. Further details about the composition and selection criteria of the random sample are in Appendix B.

The average stake purchased in the firms included in the Random Sample is 7.59 percent. A standard two-tails t-test for the difference in means between firms targeted by the Active Investors and the Random Sample is highly significant (*p-value* 0.00).

On the event window [-1,0], the random sample has an average abnormal return of 2.61 percent that is higher than the one for firms included in the Active Investors' sample. However, over longer intervals, the Active Investor sample generally dominates (see Figure 2.1). Interestingly, the CARs for the two samples are remarkably similar from day 30 to day 60. Random Sample's CARs are not statistically different from zero in the time interval [-30, 100] (return 10.24 percent). The findings show that there is no run-up in [-10, -2] for Random Sample's firms.

Despite this difference in average returns, a standard t-test fails to detect a significant difference between Active Investors and Random Sample over any interval considered as Table 2.2 shows.

The results support Holderness and Sheehan (1985)'s finding that these raiders are not driven by the pure raiders hypothesis, i.e. the investors do not want, at least initially, simply to exploit the target firms. However, these results also indicate that the market is not particularly interested in the identity of the stockholder. If confirmed, this is a serious blow to the information-based hypotheses.

I cannot exclude that an active investor buys further stakes after the initial public announcement. These additional purchases might have an impact on the abnormal return after day 0 and explain the absence of a price reversal.

The continuous line in Figure 2.1 presents the cumulative returns for firms in the Active Investors' Sample that did not experience further purchases by these investors over the 120 days following the initial announcement of stockholding. 91 observations fulfill this requirement. When the initial stockholding is not increased, the mean stake purchased at event date is similar to the one for the sample as a whole (5.49 percent vs 5.71 percent)[12]. This difference is not statistically significant. Conversely, the test is statistically highly significant when this subsample is compared to the Random Sample[13].

The results are shown in Table 2.1, Column 3. These results seem to provide support for the hypothesis that an initial stake purchase does not increase target firm value through time if not supported by other actions. Although on the event window [-1,0] the abnormal

[12] The median is 4.02 percent.

[13] *p-value* 0.00 for a standard two-tail t-test.

Table 2.2: **Differences in Means and Associated T-stats**

Differences in means and associated t-stats for differences in means between the CARs for the active investors' targets (No. Obs. 136) and for the random sample (No. Obs. 137), and between the CARs for the subsample of active investors' targets when there is no further purchase in the 120 days following the initial purchase (No. Obs. 91) and for the random sample (t-stats in parentheses).

Event Window	*Act. Inv.- RS*	*No Further Purchases-RS*
[-1, 0]	-0.17	-0.31
	(-0.21)	(-0.34)
[-30, 1]	1.93	-1.68
	(0.77)	(-0.60)
[-30, 5]	1.76	-2.22
	(0.65)	(-0.73)
[-30, 10]	1.85	-2.45
	(0.65)	(-0.76)
[-30, 30]	-0.02	-5.73
	(0.00)	(-1.29)
[-30, 100]	(3.42)	(-8.29)
	0.46	-1.00

return is highly significant and close to 2.44 percent, target firms that did not experience further purchases show a sort of reversion effect. The cumulative returns over the event window [-30, 1] are more than one-third less than those of the sample as a whole, too[14].

CARs for Active Investors' subsample oscillate between 3 and 4 percent most of the time and exhibit a late reversion towards zero. A similar pattern is found in Barclay and Holderness (1991) for firms remaining independent public entities after a negotiated block trade. As Barclay and Holderness (1991) point out, the initial increase reflects an increased expectation that minority investors' shares will be acquired. When the market observes that this expectation has not come true, stock prices drift down.

Following this interpretation, the return around the announcement date reflects the probability that a raider may engage in further purchases leading to further increases in value. When no additional purchase takes place, the market adjusts its valuation and the share price declines in response to the limited purchase[15]. Alternatively, the decrease in prices might also be explained by the fact that the market is somewhat fooled by these investors on the public announcement day. Subsequently, the market punishes the target firms if it does not observe further purchases. The initial purchase by one of these raiders is not seen by the market as a credible commitment to improve target firm performance.

Table 2.2, Column 2, shows the results of simple t-tests for differences in means between this sub-sample and the Random Sample. When only target firms without further buys are considered, the Active Investors's Sample underperforms the Random Sample. The maximum difference between the CARs of the two series is 8.00 percent at day 57. The t-stats for differences in means are not significant. Therefore, the evidence rejects the pure raiding hypothesis and confirms that markets do not seem to be interested in the stockholder's identity.

2.3.3 Additional Tests

Although the values of the t-stats and the associated p-values give clear results concerning the rejection of the null hypothesis that the CAR is zero, performing additional non-parametric tests can further strengthen the findings in Section 2.3.2.

To begin with, Table 2.3 shows the number of CARs that turns out to be positive in the time intervals considered. Roughly 70 percent of the firms targeted by corporate raiders have an abnormal return greater than zero (69 percent) on [-1,0]. As event windows become longer, the percentage slightly decreases but it remains well above one half[16]. The p-value of the sign test is highly significant in any interval. The results are consistent with Table 2.1 leading to the rejection of the raiding hypothesis.

The evidence for the random sample is also consistent with Table 2.1 with the only exception of [-30, 5] where only 57 percent of the observations present a positive CAR. Results for firms in which no purchase is made in the period following the announcement date are weaker than in Table 2.1 apart from in [-30, 30] where the sign test is significant and

[14]Given the results of the event studies, it comes as no surprise that the coefficient of a dummy for additional purchases is always highly significant when the CARs for the 136 announcements of raiders' stockholding are regressed on this dummy variable and a constant. The only exception is when the dependent variable is the CAR over the period (-1,0).

[15]I wish to thank Michel Habib for suggesting this line of thought to me.

[16]65 percent over [-30,100].

Table 2.3: **Sign Test**

Number of positive CARs in the various time intervals considered for the active investors' targets (No. Obs. 136), for the random sample (No. Obs. 137), and for the sample of active investors' targets without purchases in the 120-day interval following the announcement date (No. Obs. 91). The p-values of the associated sign tests are reported.

	[-0,1]	[-30,1]	[-30,5]	[-30,10]	[-30,30]	[-30,100]	Total
A. I.	94	91	92	92	90	89	136
	0.00	0.00	0.00	0.00	0.00	0.00	
R. S.	84	85	78	82	83	77	137
	0.01	0.01	0.12	0.03	0.02	0.17	
No P.	57	56	55	56	55	50	91
	0.02	0.04	0.06	0.04	0.06	0.40	

the t-test is not. The hypothesis that the median is zero is tested also with the Wilcoxon signed-rank test. The results are substantially identical to the ones obtained with the standard t-test and therefore omitted for the sake of brevity[17].

The tests for differences in means carried out in Section 2.3.2 do not provide any strong evidence supporting the three hypotheses of Holderness and Sheehan (1985). Additional tests are performed to check the robustness of the results.

Table 2.4, Panel A reports the median CARs over the different time intervals considered for both the firms targeted by raiders, the random sample, and firms targeted by raiders that did not experience any additional purchase in the 120 days following the initial announcement. Moreover, Table 2.4, Panel B reports also the p-values of the tests for equality of medians between the samples (Wilcoxon/Mann-Whitney test).

Two facts stand out from the comparison of the results of the test between firms targeted by corporate raiders and those included in the Random sample (Table 2.4, Panel B, Column "Ac. Inv. vs RS") and the findings of Table 2.2. First, the difference on the event date most closely related with the announcement [-1,0] is no longer negative. However, the equality between the two medians is not rejected at conventional level. Second, the medians are not statistically different at conventional levels. Hence, the broad picture is remarkably similar to that of Table 2.2. In fact, while firms targeted by raiders earn larger returns, they are generally not significant from a statistical point of view.

Differently from Table 2.2, firms targeted by raiders that did not experience any additional purchase in the 120 days following the initial announcement do not have always a smaller median than the firms in the random sample. However, the hypothesis that medians are equal for the two groups of firms is not rejected in any time intervals considered.

[17] Results are available from the author.

Table 2.4: **Medians**

Panel A shows the median CARs for the active investors' targets (No. Obs. 136), for the random sample (No. Obs. 137), and for the sample of active investors' targets without purchases in the 120-day interval following the announcement date (No. Obs. 91). Panel B reports the p-values for the Wilcoxon/Mann-Whitney tests for equality of medians between the CARs of the active investors' targets (Ac. Inv.) and the CARs of the random sample (RS) (Column Ac. Inv. vs. RS) and between the CARs of the active investors' targets without purchases in the 120-day interval following the announcement date and those of the random sample (Column No Purch. vs Rs).

Panel A: Median CARs			
Event Window	*Active Investors*	*Random Sample*	*No further Purchases*
[-1, 0]	2.01	0.89	1.62
[-30, 1]	6.17	3.31	4.17
[-30, 5]	7.89	2.75	3.92
[-30, 10]	7.24	5.34	4.18
[-30, 30]	5.44	5.27	2.34
[-30, 100]	11.00	3.36	2.76

Panel B: Wilcoxon/Mann-Whitney Tests		
Event Window	*Ac. Inv. vs RS*	*No Purch. vs RS*
[-1, 0]	0.13	0.55
[-30, 1]	0.29	0.75
[-30, 5]	0.19	0.86
[-30, 10]	0.32	0.62
[-30, 30]	0.56	0.33
[-30, 100]	0.19	0.72

Table 2.5: **Kolmogorov-Smirnov Test**

P-values of the Two-sample Kolmogorov-Smirnov goodness-of-fit hypothesis test. In Column I, the test determines whether CARs from the Active Investors and the Random Sample are drawn from the same underlying continuous population. In Column II, the test determines whether CARs from the firms without further purchases in the 120 days after the announcement of a raider's stockholding and those of the Random Sample are drawn from the same underlying continuous population.

	I	II
[-1, 0]	0.11	0.44
[-30, 1]	0.32	0.87
[-30, 5]	0.19	0.86
[-30, 10]	0.57	0.56
[-30, 30]	0.81	0.44
[-30, 100]	0.30	0.55

It is worth taking a look also at the empirical distribution of abnormal returns. Figure 2.2 shows the empirical distribution of CARs for the firms targeted by raiders and the random sample of purchases of other investors. Further, the subsample of the purchases in which the raiders do not increase their holdings is presented in the Figure 2.3.

A test is performed in order to compare the whole empirical distribution of the CARs of raiders' purchases and those of the random sample. Table 2.5 reports the results of the two-sample Kolmogorov-Smirnov goodness-of-fit hypothesis test. The test is used to determine whether independent random samples are drawn from the same underlying continuous population. When the purchases of the selected raiders are compared to those of other investors (Column I), the test does not reject the hypothesis that the two sample are from the same distribution at any conventional level. In Column II, the test is between CARs from the firms without further purchases in the 120 days after the announcement of a raider's stockholding and those of the Random Sample. No test is significant in Column II, too.

2.3.4 Size and Market-to-Book

It is possible that firms targeted by the raiders and those in the random sample have different sizes and market-to-book values. If this were true, the results could be driven by either a size or a market-to-book effect. Thus, it is worth taking a look at these two variables. The size of the firms is the market value of the equity the firms. The market-to-book is computed as the firm's market value of the target firm's equity (Datastream item MV) over the book value of equity for the same company (Datastream item 305) at the end of the fiscal year before the announcement of the raider's stockholding. Table 2.6 reports mean and median values for these two variables.

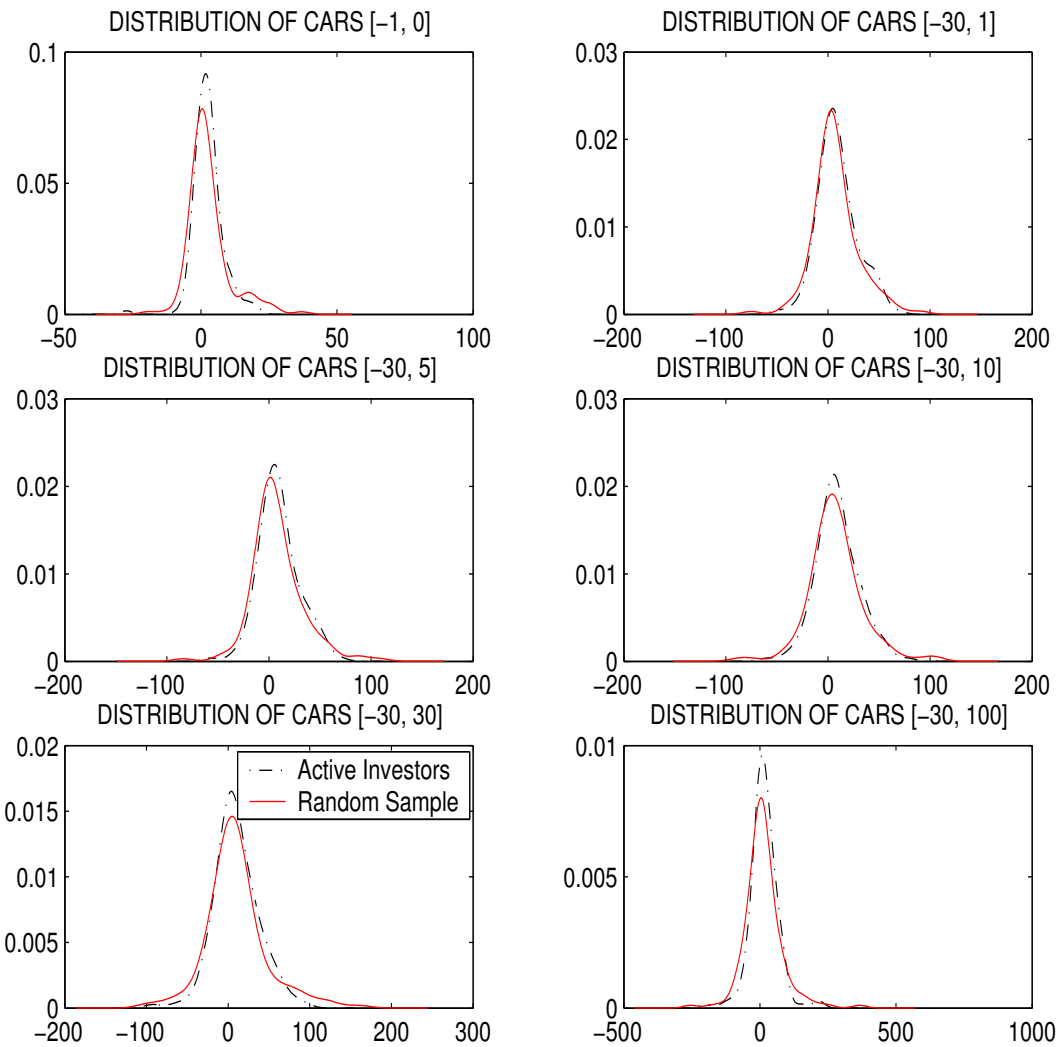

Figure 2.2: **Empirical Distribution of CARs - Raiders vs Random Sample**
Empirical distribution of cumulative abnormal returns on various time intervals for the firms targeted by raiders (No. Obs. 136) and the random sample (No. Obs. 137). Probability density is on the vertical axis.

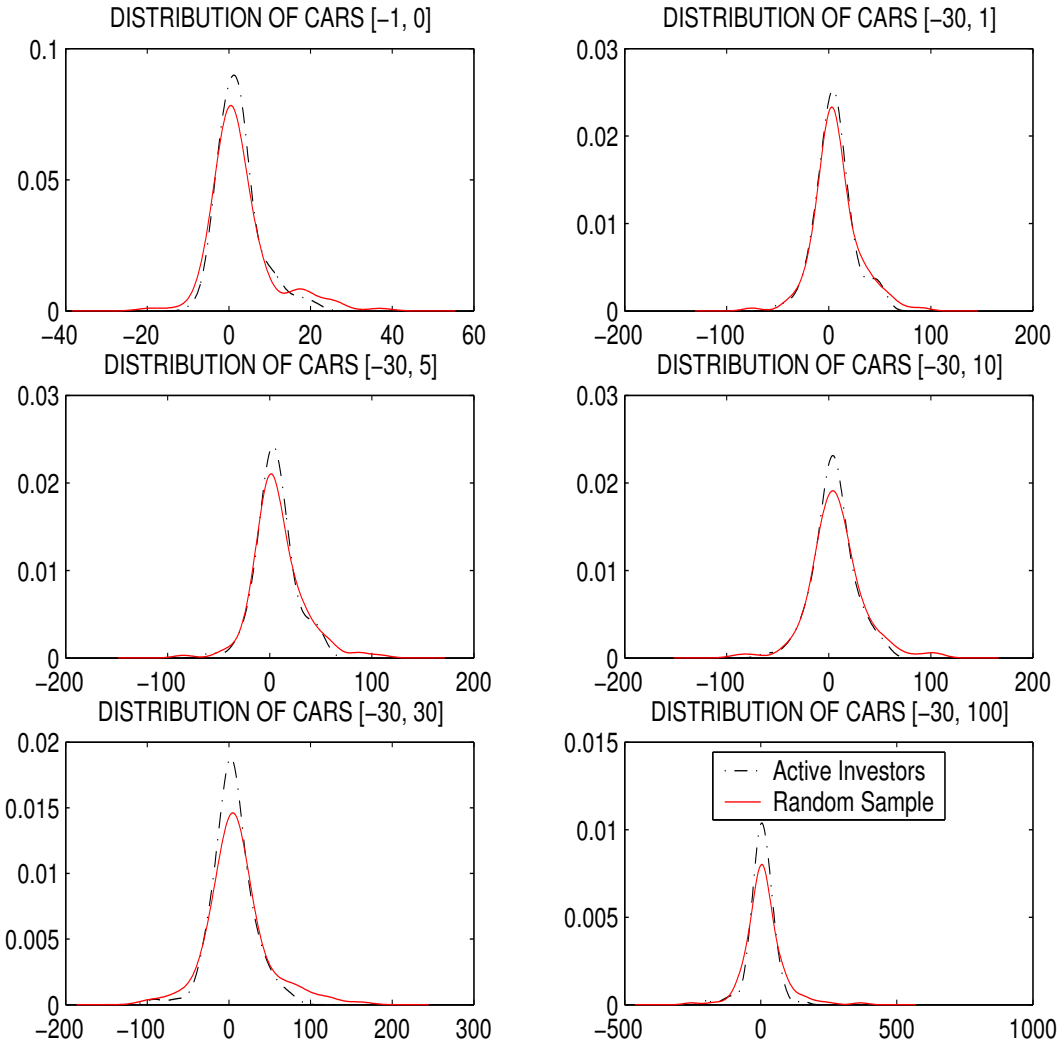

Figure 2.3: **Empirical Distribution of CARs - No Purchases vs Random Sample**
Empirical distribution of cumulative abnormal returns on various time intervals for the firms targeted by raiders without further purchases (No. Obs. 91) and the random sample (No. Obs. 137). Probability density is on the vertical axis.

Table 2.6: **Size and Market-to-Book Descriptive Statistics**

Mean and Median values for the size of the firms two and six months before the announcement of the investor's stockholding is documented in Panel A (millions of Euros). The size is proxied by the market value of the firms equity. P-values of a t-test for the difference in means and of a Wilcoxon/Mann-Whitney test for equality of medians are reported. Mean and Median values for the market-to-book ratio of the firms two months and at the end of the fiscal year before the announcement is reported in Panel B. Market-to-book ratio is computed as the firm's market value of target firm's equity (Datastream item MV) over the book value of equity for the same company (Datastream item 305) at the end of the fiscal year before the announcement of an investor's stockholding. P-values of a t-test for the difference in means and of a Wilcoxon/Mann-Whitney test for equality of medians are reported.

Panel A: Size			
	Active Investors	*Random Sample*	*p-values*
2 Months			
Mean	3930.76	5812.65	0.50
Median	464.94	238.03	0.05
No. Obs.	136	137	
6 Months			
Mean	3768.06	5656.91	0.51
Median	447.39	240.74	0.08
No. Obs.	136	137	

Panel B: Market-to-Book			
	Active Investors	*Random Sample*	*p-value*
2 Months			
Mean	2.08	3.53	0.01
Median	1.56	1.61	0.36
No. Obs.	116	87	
Year -1			
Mean	2.05	2.68	0.16
Median	1.53	1.48	0.99
No. Obs.	116	86	

Table 2.6, Panel A highlights an interesting point: raiders do not have a stronger preference for small firms than the other types of investors have. In fact, the median market value of the raider's target firm is larger than the median size for the random sample. Means are greater than medians because of very small purchases in very large companies in both groups. There is no big difference between the market value taken two months before the announcement date and the one taken six months before.

Market-to-book ratios[18] are similar when the medians are taken into account. A few outliers drive the results for means[19].

Table 2.7 reports the results of the cross-sectional regression of CARs on size and market-to-book. Concerning the firms targeted by raiders, Panel A documents that no variables is significant when $CAR_{-1,0}$ is used as the dependent variable (Column I to III). Conversely, $Size$ turns out to be significant when the dependent variable is $CAR_{-30,30}$ (Column IV to VI). The sign of the coefficient of the variable $Size$ is always negative or zero, implying that the bigger the size, the lower the abnormal return. The results using the other event-windows as the dependent variable are similar to those using $CAR_{-30,30}$ and are not reported in the sake of brevity. Panel B gives the results of the same regressions for the random sample. The variable $Size$ is relevant also when it is the only dependent variable in the regression (Column I and IV). However, it is not significant when the dependent variable is $CAR_{-1,0}$ when M/B appears in the regressions. Once again, M/B is never significant.

Broadly speaking, there is some evidence supporting the claim that size is important. On the other hand, it seems that the market-to-book of the target firms is almost useless in explaining the CARs. Despite this evidence, the results that are more interesting for the paper are in Panel A, Column VII and VIII. Here, observations from both samples are included. In addition to $Size$ and M/B, a dummy variable indicating whether the announcement is made by a raider is added. Indeed, I am interested in testing whether this dummy variable is significant. If the variable were significant, the finding that CARs are similar between the two samples in section 2.3.2 could be due to $size$ or M/B. However, Column VII and VIII clearly show that this is not the case. Thus, the hypothesis that the returns for both samples are similar due to either a size or a market-to-book effect is rejected.

2.3.5 Takeovers

Abnormal returns for the firms targeted by raiders and the firms included in the Random Sample may be driven by the expectation of a takeover. Table 2.8 shows the number of firms taken over within two years of the announcement of an investor's stockholding and before Dec. 31st, 2001. It is worth noting that the takeover can be launched by another firm as well as by the same investor who announces the blockholding. The number of firms taken over before Dec. 31st, 2001 is shown as well. Looking at Column I, it is evident that the number of firms taken over in the two samples is similar. Thus, corporate raiders and the other types of investors do not differ with respect to this measure. There are more firms

[18] The number of observations drops substantially in both samples. This is for two reasons: Datastream has no company accounts data for some of the firms included in the two groups and I delete the observations when Datastream reports a negative book value of the equity.

[19] When these outliers are removed, means become very similar as well. Outliers are mainly due to a very low book-value of equity.

Table 2.7: **CARs, Size, and Market-to-Book**

In Panel A, I estimated the OLS regression of CARs on a constant, size, and the market to book for the firms targeted by raiders (Columns I to VI). Columns VII and VIII report the results of the pooled OLS regression of CARs on a constant, size, and the market-to-book, and the dummy Raider for both the firms targeted by raiders and the random sample. In Panel B, I estimated the OLS regression of CARs on a constant, size, and market-to-book for the firms in the random sample. The dependent variable is $CAR_{-1,0}$ in Column I, II, III, and VII and $CAR_{-30,30}$ in Column IV, V, VI, and VIII. The market-to-book value of the firm is computed at the end of the fiscal year before the announcement date. *Size* is the log of the market value of the firm two months before the announcement of a raider's purchase. The dummy Raider takes the value one is a the announcement was made by a raider and zero otherwise. White Heteroscedasticity-consistent Standard Error & Covariance are used. p-values for t-stats are shown in parentheses under the coefficients.

Panel A: Active Investors and Pooled Regression

	I	II	III	IV	V	VI	VII	VIII
Intercept	0.05	0.02	0.04	0.28	0.09	0.30	0.05	0.39
	(0.00)	(0.00)	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.00)
Size	0.00		0.00	-0.03		-0.03	0.00	-0.05
	(0.13)		(0.14)	(0.03)		(0.02)	(0.08)	(0.00)
M/B		0.00	0.00		0.01	0.01	0.00	0.00
		(0.69)	(0.62)		(0.78)	(0.64)	(0.82)	(0.73)
Raider							0.00	0.01
							(0.92)	(0.85)
R^2	0.02	0.00	0.02	0.05	0.00	0.07	0.02	0.11
Prob(F-stats)	0.14	0.62	0.32	0.01	0.65	0.02	0.30	0.00
No. Obs.	136	116	116	136	116	116	202	202

Panel B: Random Sample

	I	II	III	IV	V	VI
Intercept	0.06	0.09	0.05	0.40	0.12	0.49
	(0.00)	(0.00)	(0.07)	(0.00)	(0.02)	(0.00)
Size	-0.01		0.00	-0.05		-0.06
	(0.04)		(0.25)	(0.00)		(0.00)
M/B		-0.01	0.00		-0.01	-0.01
		(0.14)	(0.54)		(0.43)	(0.31)
R^2	0.04	0.01	0.02	0.12	0.01	0.15
Prob(F-stats)	0.02	0.38	0.38	0.00	0.48	0.00
No. Obs.	137	86	86	137	86	86

Table 2.8: **Takeovers**

In Column I, the number of firms taken over within two years of an announcement of a block purchase and before Dec. 31st, 2001 is reported both for firms targeted by active investors and for firms included in the Random Sample. Column II shows the number of firms taken over before Dec. 31st, 2001 both for firms targeted by active investors and for firms included in the Random Sample.

	I	II	No. Obs.
Active Investors	19	29	136
Random Sample	15	37	137

taken over up to Dec. 31st, 2001 when the investor announcing the stockholding is not a raider. However, this measure is less significant than the previous one, since in this case the takeover could happen even ten years after the original block purchase.

It is possible to compare the figures in Table 2.8, Column I with the fraction of firms disappearing within two years of a block purchase in Bethel, Liebeskind, and Opler (1998). While only 14 percent of the firms targeted by raiders in Europe during the 1990s underwent a takeover, 24 percent of firms in Bethel, Liebeskind, and Opler (1998) sample experienced either a LBO or a takeover. This difference can explain the higher abnormal returns in Bethel, Liebeskind, and Opler (1998)[20], jointly with the higher stakes purchased. Conversely, the fraction of takeovers is similar but the return in Bethel, Liebeskind, and Opler (1998) sample is definitely lower than the ones in the Random Sample.

2.3.6 Structural break?

Since the period analyzed is quite long, it is possible that the market responds differently to some announcements simply because they take place in different years. In fact, it is widely known that the late 1990s and the beginning of year 2000 were characterized by a boom in the stock markets. Conversely, the early 1990s were characterized by a recession. To take into account the possibility of a structural break during the 1990s, I separate the observations into two groups according to the year in which the announcement takes place. I choose Dec. 31st, 1997 as the watershed. The reason is twofold: first, in Europe the great increase in the stock markets took place after 1997; second, this date guarantees enough observations in both samples. Given the considerations mentioned above, I expect to find larger returns in the second sample.

Table 2.9 shows the results in the two samples. Against expectation, abnormal returns for the two samples do not differ very much. Indeed, they are both similar to the results for the sample as a whole. Table 2.10 confirms this findings. No difference is significant.

Table 2.11 reports the results of the regression of the CARs in the event-window [-30, 30] on the announcement year dummies and other variables. The main remark concerns the 1999 dummy. An announcement in year 1999 triggers larger returns and the coefficient is

[20] See Section 2.3.2

Table 2.9: **CARs - 1990-1997 vs 1998-2001**

Cumulative average daily abnormal returns in percent for various event windows for the active investors' target firms around the announcement day of their first stockholdings in the 1990-1997 and 1998-2001 periods (t-stats are given in parentheses).

Ev. Window	*90-97*	*98-01*
[-1, 0]	2.31	2.51
	(3.55)	(6.06)
[-30, 1]	7.39	9.43
	(2.47)	(5.28)
[-30, 5]	8.08	9.66
	(2.51)	(5.05)
[-30, 10]	7.45	9.46
	(2.13)	(4.58)
[-30, 30]	8.37	9.78
	(1.83)	(3.72)
[-30, 100]	13.33	13.97
	(1.67)	(3.20)
[-10, -2]	2.59	3.37
	(1.82)	(3.77)
No. Obs.	49	87

Table 2.10: **T-test - 1990-1997 vs 1998-2001**

Differences in means and associated t-stats for differences in means between the CARs for the active investors' target firms for announcement in the 1990-1997 and 1998-2001 periods (t-stats in parentheses)

Event Window	*90-97* vs *98-01*
[-1, 0]	-0.2
	(-0.21)
[-30, 1]	-2.04
	(-0.60)
[-30, 5]	-1.58
	(-0.45)
[-30, 10]	-2.01
	(-0.54)
[-30, 30]	-1.41
	(-0.29)
[-30, 100]	-0.64
	(-0.07)

Table 2.11: **Time Effects**

The table reports the results of the OLS regression of $CAR_{(-30,30)}$ on announcement year dummies, stake, market-to-book and size with White Heteroskedasticity-Consistent Standard Errors & Covariance. $Y96$, $Y97$, $Y98$, $Y99$, $Y00$, $Y01$, are the announcement year dummies for 1996, 1997, 1998, 1999, 2000, 2001, respectively. *Stake* is the size of the stake held by the raiders at the time of the announcement. M/B is the market-to-book ratio of the target firm at the end of the fiscal year before the announcement day. *Size* is the log of the market value of the target firm equity. Coefficients of the variable *Stake* are multiplied by 100. p-values of the t-statistics for the coefficients are in parentheses.

Indep. Var.	I	II	III	IV	V
Intercept	0.04	0.06	0.07	0.22	0.25
	(0.56)	(0.57)	(0.58)	(0.18)	(0.19)
Y96	0.12	0.12	0.17	0.10	0.15
	(0.24)	(0.30)	(0.25)	(0.39)	(0.33)
Y97	0.04	0.03	0.02	0.06	0.07
	(0.67)	(0.75)	(0.89)	(0.54)	(0.58)
Y98	-0.07	-0.08	-0.14	-0.05	-0.08
	(0.44)	(0.46)	(0.32)	(0.63)	(0.55)
Y99	0.19	0.19	0.18	0.22	0.21
	(0.05)	(0.08)	(0.18)	(0.04)	(0.10)
Y00	0.06	0.05	0.04	0.09	0.08
	(0.50)	(0.59)	(0.77)	(0.37)	(0.52)
Y01	0.02	0.01	-0.01	0.08	0.08
	(0.81)	(0.91)	(0.96)	(0.41)	(0.49)
Stake		-0.12	0.00	-0.21	0.00
		(0.77)	(0.71)	(0.60)	(0.52)
M/B			0.00		0.01
			(0.86)		(0.04)
Size				-0.03	-0.03
				(0.05)	(0.76)
R^2	0.10	0.10	0.13	0.14	0.18
Prob(F-stat)	0.03	0.07	0.07	0.02	0.01
No. Obs.	136	133	114	133	114

Table 2.12: **CARs - Dimson (1979) AC Method**

Cumulative average daily abnormal returns with Dimson's betas (3 lags and 1 lead) in percent for various event windows for the active investors' targets, for the random sample, and for the sub-sample of active investors' targets when there is no further purchase in the 120 days following the initial purchase (t-stats are given in parentheses).

Event Window	*Active Investors*	*Random Sample*	*AI No further buys*
[-1, 0]	2.46	2.36	2.28
	(6.78)	(4.48)	(5.38)
[-30, 1]	9.34	5.95	6.10
	(5.79)	(2.41)	(3.20)
[-30, 5]	9.67	6.45	6.05
	(5.58)	(2.41)	(2.96)
[-30, 10]	9.35	5.79	5.51
	(4.98)	(1.98)	(2.48)
[-30, 30]	10.69	8.46	5.66
	(4.41)	(2.20)	(1.97)
[-30, 100]	16.05	7.24	5.31
	(3.88)	(1.05)	(1.08)
[-10, -2]	2.97	-0.39	2.25
	(3.76)	(-0.34)	(2.43)
No. Obs.	136	137	91

significant in four out of the five specifications. The coefficients for the other year dummies are not significant. All of them are positive but year 1998. Unreported regressions for the event window [-30, 1] show similar results. However, no year dummies is significant when the dependent variable is the abnormal return on [-1, 0][21]. This findings confirms that CARs are generally not time-dependent, with the notable exception of year 1999.

2.3.7 Results with Dimson (1979) AC Method

Discussing the methodology, I mentioned the thin trade problem. Since this is likely to be an issue for at least some of the companies included in both the Active Investors' Sample and Random Sample, Figure 2.4 and Table 2.12 report the results for the event studies using Dimson (1979) betas with three lags and one lead.

As both Figure 2.4 and Table 2.12 show, the main findings are robust when the betas in the market model regressions are estimated with Dimson's Aggregate Coefficient Method with 3 lags and 1 lead. The CARs from AC Method are slightly higher for the Active Investors Sample over long windows but are indistinguishable on the event window [-1,0]. The t-test results are almost identical. The Random Sample exhibits a decrease around day 60. Figure 2.4 shows no downward drift for the sample of Active Investors' buys without further purchases. This casts doubt on what it was argued earlier about the reversal for

[21] These results are available from the author.

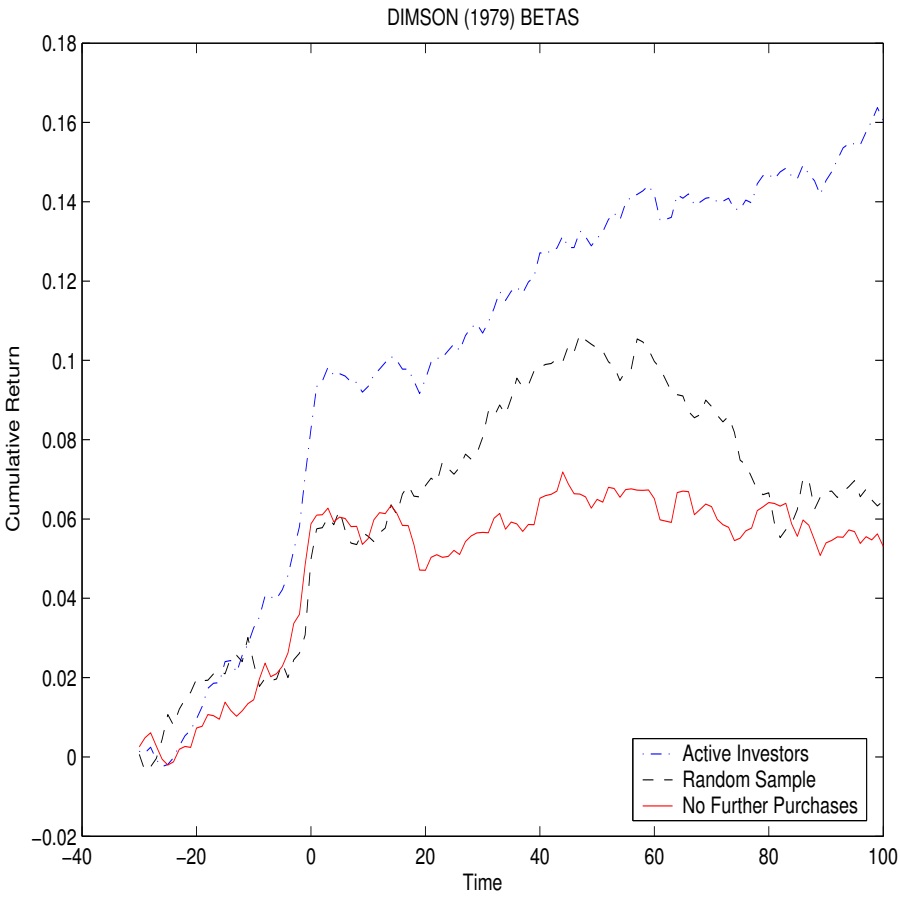

Figure 2.4: **CARs - Dimson (1979)**

Cumulative average daily abnormal returns for target firms from 30 days before to 100 days after the first public announcement of stockholding with Dimson's betas (3 lags and 1 lead) for the active investors' targets (No. Obs.136), for the random sample (No. Obs. 137), and for the sub-sample of active investors' targets when there is no further purchase in the 120 days following the initial purchase (No. Obs. 91).

Table 2.13: **T-tests - Dimson (1979) AC Method**

Differences in means and associated t-stats for differences in means between the CARs with Dimson's betas (3 lags and 1 lead) for the active investors' targets (No. Obs. 136) and for the random sample (No. Obs. 137), and between the CARs with Dimson's betas (3 lags and 1 lead) for the subsample of active investors' targets when there is no further purchase in the 120 days following the initial purchase (No. Obs. 91) and for the random sample (t-stats in parentheses).

Event Window	*Act. Inv's- RS*	*No Further Purchases-RS*
[-1, 0]	0.10	-0.08
	(0.12)	(-0.08)
[-30, 1]	3.38	0.14
	(1.29)	(0.05)
[-30, 5]	3.21	-0.41
	(1.12)	(-0.12)
[-30, 10]	3.55	-0.29
	(1.14)	(-0.08)
[-30, 30]	2.23	-2.80
	(0.53)	(-0.58)
[-30, 100]	8.81	-1.93
	(1.13)	(-0.22)

this sub-sample. Price-pressure does not seem to be consistent with the evidence shown.

T-tests for the differences in means between Active Investors and the Random Sample are not statistically significant. When only target firms without further purchases are considered in the Active Investors Sample, no interval is significant. Results are shown in Table 2.13.

2.3.8 Event-Induced Variance

Table 2.14 reports the t-stats when event-induced variance is taken into account for both Active Investors and the Random Sample. The findings show that the abnormal return on the event window [-1, 0] remains highly significant using both ordinary cross-sectional method and the Böhmer, Musumeci, and Poulsen (1991) standardized cross-sectional method.

2.3.9 Endogeneity

The results in the previous sections strongly support the view that identity does not matter. Indeed, returns for corporate raiders on the one hand and corporate and institutional investors on the other hand are similar. However, the analyses carried out so far have always considered the investor's identity as an exogenous variable.

Demsetz (1983) and Demsetz and Lehn (1985) argue that the structure of corporate ownership is hardly exogenous. In particular, Demsetz and Lehn (1985) claim that the ownership structure varies systematically in ways that are consistent with value maximization. Thus, it is possible that a corporate investor chooses to buy a large stake in a given

Table 2.14: **Event-Induced Variance**

The table shows the value of the t-statistics associated with the t-test for CARs different from 0 using cross-sectional method and standardized cross-sectional method with event-induced variance for the cumulative daily abnormal returns in the event window [-1,0]. Results for both the firms targeted by the active investors and for the random sample are reported

	Cross-Sectional Method	*Stand. Cross-Sec. Method*
Active Investors	5.26	5.34
Random Sample	4.03	3.52

company just because of potential synergies. Conversely, a raider may not invest in that company simply because it cannot draw any gain from synergies.

In order to address the endogeneity problem, I first estimate a probit model where the dependent variable is a dummy for the identity of the investor and the independent variables are a set of control variables related to the target firms' characteristics. Then, I regress the CARs on target firms' characteristics and the fitted probability of the probit model. The fitted probability is included in the regression to take into account the investor's identity given the target firm's characteristics. The regression equations are:

$$Prob(ID_i = 1) \;=\; \Phi(\alpha \;+ \sum_{i=1}^{n} \beta_i \; y_{ji}) \tag{2.4}$$

$$CAR_{-30,30,i} \;=\; \gamma + \sum_{z=1}^{m} \delta_j \; x_{zi} \;+\; \eta \; I\hat{D}_i + \epsilon_i \tag{2.5}$$

where $\Phi(.)$ is the standard normal distribution, ID_i is the dummy for the investor's identity (one if the investor is a raider, and zero otherwise) of firm i, y_{ji} is one of the j firms' characteristics used in the probit model, $CAR_{-30,30}$ are the target firm's cumulative abnormal returns in the event window [-30, 30], x_{ji} is one of the z control variables, $I\hat{D}_i$ is the fitted probability of the probit model of firm i, ϵ_i are errors[22].

Table 2.15 reports the results for two different sets of firms' characteristics. However, the coefficient of $I\hat{D}$, η is never significant. Further, the sign of η is negative only when the size of the firm, the market-to-book ratio, the size of the stake, the leverage and a measure of operating performance are included in X. It becomes positive when dummies for industry and country are included. Hence, according to these results, the findings of the previous section seem to be robust to the endogeneity of the investor's identity.

2.4 EVENT STUDY BY INDIVIDUAL INVESTOR

I run an event study for any individual investor for which I collected more than ten observations. As Holderness and Sheehan (1985) point out, investors do not act as a group. Therefore, it makes sense to conduct empirical investigations at individual level. Five out of

[22] It is worth noting that $I\hat{D}_i$ and ϵ_i are uncorrelated.

Table 2.15: **Endogeneity**

This table reports the results of the cross-sectional regression:

$$CAR_{-30,30,i} \;=\; \gamma + \sum_{z=1}^{m} \delta_j \; x_{zi} + \; \eta \; I\hat{D}_i + \epsilon_i$$

where $I\hat{D}_i$ is the fitted probability value from the probit regression:

$$Prob(ID_i = 1) \;= \Phi(\alpha \; + \sum_{i=1}^{n} \beta_i \; y_{ji})$$

where $\Phi(.)$ is the standard normal distribution.
In column I, I estimate the OLS regression of $CAR_{-30,30,i}$ on the market-to-book ratio, the size of the firm, the size of the stake held at the time of the announcement, the leverage, a measure of operating performance (ROA), and $I\hat{D}$. In Column II, dummies for industry (SIC1 to SIC8) and for countries are added to the regression. y_{ji} is one of the j control variables of the probit model 2.4. In Column I, these variables are: a constant, the market-to-book ratio, the size of the firm, the leverage, and ROA. In Column II, dummies for industry (SIC1 to SIC8) and for countries are added to the regressions as well. SIC6 and U.K. dummies are not included to avoid multicollinearity. The size of the firm is the market value of the firm two months before the announcement of a raider's purchase. The market to book value of the firm is computed at the end of the fiscal year before the announcement date. The size of the firm is the log of market value of the firm two months before the announcement of a raider's purchase. The dummy ID_i takes the value one is the announcement was made by a raider and zero otherwise. ROA is measured as operating profit (Datastream item 137(933)) over the book value of the firm's assets (DS item 392). Leverage is defined as Total debt (DS item 1301) over the book value of equity (item 305). Robust standard errors are in parentheses.

	I		II	
INTERCEPT	0.76	(0.39)	0.04	(0.91)
M/B	-0.02	(0.36)	0.00	(0.89)
SIZE	-0.05	(0.01)	-0.06	(0.00)
STAKE	-0.01	(0.69)	0.01	(0.15)
LEVERAGE	0.01	(0.01)	0.01	(0.00)
ROI	-0.27	(0.45)	-0.57	(0.19)
SIC1			0.34	(0.01)
SIC2			0.13	(0.20)
SIC3			0.08	(0.27)
SIC4			0.16	(0.14)
SIC5			-0.13	(0.54)
SIC7			0.01	(0.94)
SIC8			-0.17	(0.50)
BELGIUM			-0.06	(0.53)
FRANCE			0.02	(0.80)
GERMANY			-0.14	(0.20)
ITALY			0.00	(0.96)
SWEDEN			-0.21	(0.36)
SWITZERLAND			-0.15	(0.16)
$I\hat{D}$	-0.43	(0.71)	0.55	(0.26)
R^2	0.14		0.24	
Prob(F-statistic)	0.00		0.00	
No. Obs.	171		171	

the 15 investors considered have more than ten purchases (see Table 1.1). These raiders are the following: Active Value, Martin Ebner, GPG, Luigi Giribaldi, and Guy Wyser-Pratte.

Figure 2.5 plots the cumulative abnormal return over the event window [-30, 100] for the five investors, while Table 2.16 reports the average CARs over the seven time intervals examined. The CARs of the whole sample of firms targeted by Active Investors is reported, too, to make comparisons easier.

I find no statically significant negative return for any of the five investors studied on the event window [-1,0]. Given the evidence shown in Section 2.3.2, this result is hardly surprising. However, the CARs are very different between the five of them. The firm targeted by Giribaldi experienced the highest abnormal return (3.82 percent) while the ones targeted by Mr Ebner beat the market only by 0.76 percent.

It is worth noting that Mr Ebner's sample includes some very small purchases that in all likelihood were bought by his bank or his Visions mainly for portfolio reasons. To address this issue, abnormal returns are recomputed considering only the firms in which ex-post anecdotal evidence suggests that Mr Ebner adopted an activist position. The results are very similar to those presented before[23].

Moving back to the analysis of the other raiders, they reported positive abnormal return in all the intervals considered apart GPG in the run-up interval [-10, -2] (-0.72 percent). Conversely, returns for the other three remaining investors present a very strong run-up in prices during this period. Although this common run-up, while returns for Active Value[24] and Mr Wyser-Pratte keep increasing[25], prices for firms targeted by Mr Giribaldi decrease slightly over time. The t-stats for Mr Giribaldi and Mr Wyser-Pratte are highly significant except for the event window [-30, 100] where only Mr Wyser-Pratte's is significant. Active Value does not present significant returns in event windows starting from [-30, 10].

GPG's targets show rather different results. First, there is no run-up in prices before the announcement date. This is quite surprising since GPG is used to buy stakes through open-market transactions. Second, prices rise sharply during the period [-30, 100]. This could be explained by the fact that GPG often buys further stakes after the public announcement date: 12 out of 19 observations included in the event study experienced further purchases. At day 100, the average cumulative return is an astonishing +43.01 percent. The average return with Dimson (1979) AC Method with three lags and one lead is similar, 41.17 percent[26]. However, no event window is statistically significant except [-1, 0] and [-30, 100].

Broadly speaking, the evidence at individual investor level does not support the raiding hypothesis. Target firms earn positive abnormal returns in four out of five cases, and in

[23] I computed also the cumulative returns with Dimson's (1979) betas for firms targeted by Mr Ebner. The results are very similar to those shown in Table 2.16. For the sake of brevity, I do not present these results.

[24] When AC Method is used in computing the cumulative returns for Active Value's targets, CARs turn out to be very different from the results presented. CARs for the event window [-30, 100] is 35.86 percent against 19.82 percent obtained with OLS betas. The differences are pronounced along all the event window period. The comparison between the betas leads to the conjecture that a couple of firms generate this huge difference.

[25] However, a return of 13.42 percent out of a total increase of 18.30 percent over [-30, 100] is concentrated in [-30,1].

[26] The table and the plots with Dimson's betas are omitted.

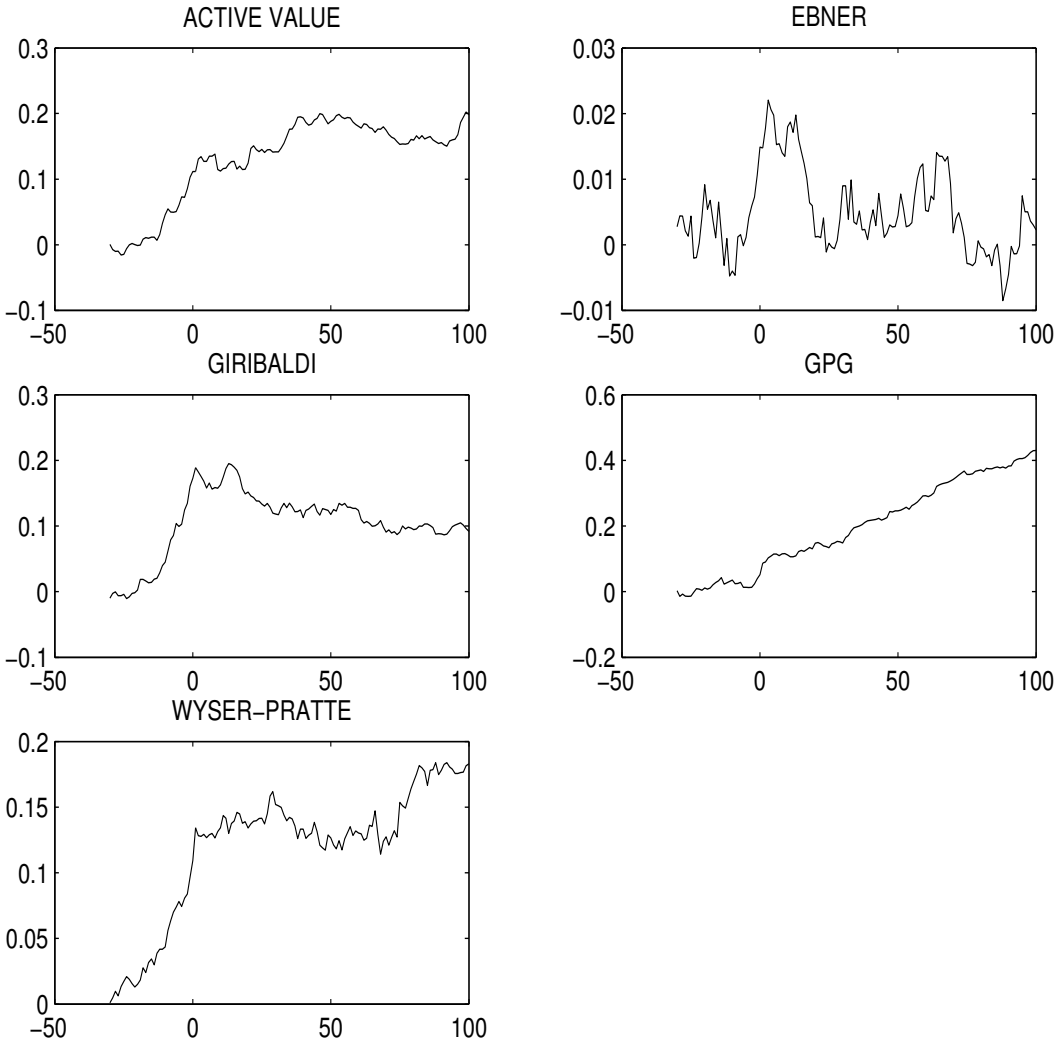

Figure 2.5: **CARs by Individual Raider**

Cumulative average daily abnormal returns for target firms from 30 days before to 100 days after the first public announcement of stockholding for five raiders. The five raiders are: Active Value (U.K.), Martin Ebner (SWI), Luigi Giribaldi (ITA), GPG (U.K.), and Guy Wyser-Pratte (U.S.).

Table 2.16: **CARs - Individual Raiders**

Cumulative average daily abnormal returns in percent for various event windows by individual raider (t-stats for CARs different from 0 are given in parentheses). The five raiders are: Active Value (U.K.), Martin Ebner (SWI), Luigi Giribaldi (ITA), GPG (U.K.), and Guy Wyser-Pratte (U.S.).

Ev. Wind.	*All*	*AV*	*Ebner*	*Giribaldi*	*GPG*	*Wyser*
[-1, 0]	2.44	2.62	0.76	3.82	2.81	2.53
	(6.91)	(1.95)	(1.85)	(4.53)	(2.17)	(3.00)
[-30, 1]	8.77	11.17	1.47	18.88	8.73	13.42
	(5.59)	(1.81)	(0.85)	(5.31)	(1.47)	(3.76)
[-30, 5]	9.12	12.72	1.97	15.79	11.45	12.68
	(5.41)	(1.91)	(1.06)	(4.15)	(1.79)	(3.32)
[-30, 10]	8.70	11.22	1.80	16.29	11.20	13.42
	(4.76)	(1.55)	(0.90)	(3.98)	(1.61)	(3.27)
[-30, 30]	9.30	14.15	0.90	11.84	14.84	15.20
	(3.95)	(1.50)	(0.36)	(2.30)	(1.63)	(2.94)
[-30, 100]	13.65	19.82	0.23	9.18	43.01	18.30
	(3.40)	(1.20)	(0.06)	(1.10)	(2.70)	(2.18)
[-10, -2]	2.98	5.27	1.20	9.50	-0.72	4.21
	(3.88)	(1.80)	(1.36)	(5.25)	(-0.25)	(2.32)
No. Obs.	136	18	30	16	20	18

the last one the effect of a raider's stockholding is of no importance. A rather quick price reversal is found for firms targeted by Mr Ebner indicating the possibility of a price-pressure effect.

The above analysis takes into consideration abnormal returns. However, it is useful to give a quick look also to the gross return earned by the target firms during the time-intervals around the announcement. Table 2.17 provides means and medians of the unadjusted returns. Apart from GPG, all the raiders have both average and median positive gross returns. Two interesting things stand out. First, the positive gross return for Mr Ebner in the event window [-30, 100] disappears when the measure is corrected to take into account the market. Second, results for GPG are surprising. In fact, GPG has very large abnormal returns as shown in Table 2.16. If the market model is the right proxy for the expected returns, this means that a GPG's announcement prevents losses, but it does not generate any substantial increase in the stock price of the target firms.

Broadly speaking, the evidence at individual investor level does not support the raiding hypothesis and the gross returns confirm this intuition. Target firms earn positive abnormal returns in four out of five cases, and in the last one the effect of a raider's stockholding is of no importance. A rather quick price reversal is found for firms targeted by Mr Ebner indicating the possibility of a price-pressure effect.

2.5 EVENT STUDY BY COUNTRY

Table 2.6 presents the 136 initial purchases included in the event study according to the target firm's country. Active investors bought stakes in companies of seven European countries. The vast majority of these deals is concentrated in just five countries, since Belgium has only one observations and Sweden five. As Table 2.18 documents, there is a high correlation between raiders and target firm countries. The considerations on Section 1.6 still apply.

Given this close relationship between raiders and target firms' nationality, it comes as no surprise that the plots for single countries shown in Figure 2.6 closely track the ones of the main investor in that country. However, a closer inspection of Table 2.19 permits to spot some differences.

The CARs for French target firms in the event window [-1,0] is higher than that of Mr Wyser-Pratte's targets, 3.97 percent vs 2.53 percent[27]. On the other hand, after the purchase was publicly disclosed, Wyser-Pratte's targets outperformed the French targets, of which 15 out of 24 are companies that experienced a purchase by Wyser-Pratte. Notice that the CARs of French targets remain substantially level after the event date. All the intervals considered but [-30, 100] are significant at 1 percent level.

Results for France can be compared, to some extent, to Banerjee, Leleux, and Vermaelen (1997)'s findings. Banerjee, Leleux, and Vermaelen (1997) study the stake purchase by French holding and non-holding companies. They find that when the acquirer is a non-holding company the average abnormal return is 6.18 percent over the event window [-30, 1], significant at 1 percent level. Over the same event window, my French sample has an average abnormal return of 10.51 percent, 4.33 percent greater than Banerjee, Leleux, and

[27] Mr Wyser-Pratte's targets are all but three French companies.

Table 2.17: **Gross Returns - Individual Raiders**

Cumulative gross returns in percent for various event windows by individual raider. The five raiders are: Active Value (U.K.), Martin Ebner (SWI), Luigi Giribaldi (ITA), GPG (U.K.), and Guy Wyser-Pratte (U.S.).

	[-1, 0]	[-30, 1]	[-30, 5]	[-30, 10]	[-30, 30]	[-30, 100]
			Ebner			
Mean	0.99%	3.07%	4.13%	3.89%	3.80%	9.04%
Median	1.10%	3.93%	4.89%	3.89%	2.33%	13.77%
			Active Value			
Mean	2.49%	11.61%	12.38%	10.78%	13.60%	17.29%
Median	2.04%	8.78%	10.35%	10.48%	16.65%	20.79%
			Giribaldi			
Mean	4.21%	19.20%	16.83%	16.57%	11.15%	8.38%
Median	2.66%	14.08%	11.52%	16.07%	9.75%	8.91%
			GPG			
Mean	2.09%	-0.37%	1.27%	-0.49%	-2.64%	4.88%
Median	2.02%	2.46%	3.12%	2.52%	2.59%	6.48%
			Wyser-Pratte			
Mean	2.72%	14.92%	14.48%	15.50%	17.14%	20.23%
Median	1.30%	11.66%	10.52%	9.86%	10.11%	15.09%

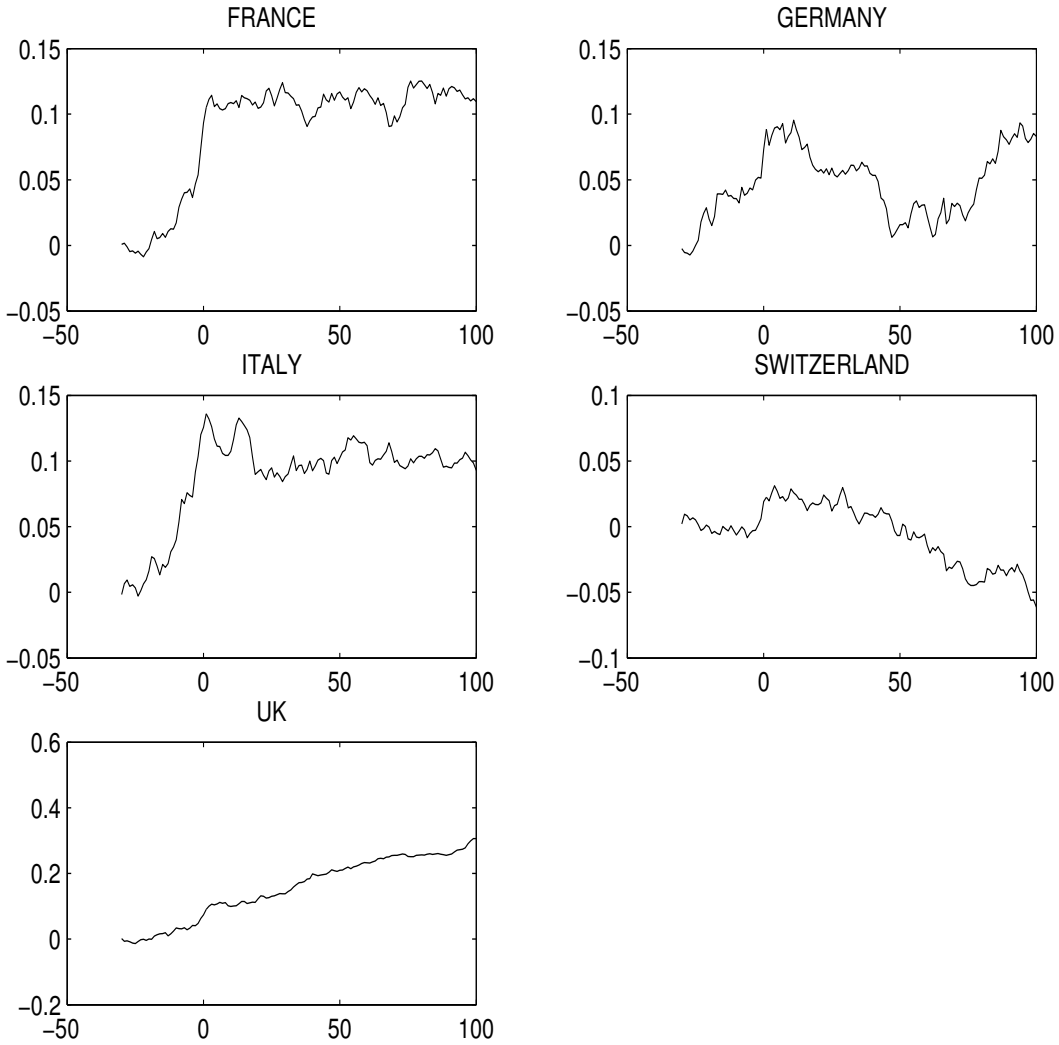

Figure 2.6: **CARs by Individual Country**

Cumulative average daily abnormal returns for target firms from 30 days before to 100 days after the first public announcement of stockholding by the country of the target firm. The countries are: France, Germany, Italy, Switzerland, and the United Kingdom.

Table 2.18: **Correlation Matrix**

Correlation Matrix between five raiders and the country of the target firm.

Raider/Country	*FRA*	*GER*	*ITA*	*SWE*	*SWI*	*U.K.*
Active Value	-0.18	-0.13	-0.19	-0.08	-0.17	0.54
Ebner	-0.20	-0.05	-0.07	0.37	0.51	-0.27
Giribaldi	-0.17	-0.12	0.77	-0.07	-0.16	-0.27
GPG	-0.17	-0.13	-0.19	-0.08	-0.17	0.55
Wyser-Pratte	0.68	0.02	-0.19	-0.08	-0.17	-0.28

Vermaelen (1997)'s sample. Banerjee, Leleux, and Vermaelen (1997) do not specify further which kind of investor they include, so the acquirer can be any of the three types identified by Bethel, Liebeskind, and Opler (1998) as financial, strategic and active investors. By construction, my sample includes only active investors. Since the main finding in Bethel, Liebeskind, and Opler (1998) is that active investors' targets do better than firms targeted by other types of investors, this might explain the difference between Banerjee, Leleux, and Vermaelen (1997)[28] and my evidence for France. However, this explanation would not be consistent with the results shown in Section 2.3.2. Moreover, the two papers investigate different periods of time. I run the event study for French targets with Dimson's AC Method with three lags and one lead. The results are no different from the ones shown, and so they have been omitted.

Italian target companies exhibit a strong run-up in period [-10, -2]. The peak is reached at day 1. After this date, there is no strong evidence of abnormal returns similar to what found for France. All the event periods considered are highly significant except for [-30,100].

Conversely, CARs for U.K. target firms keep increasing even after the public announcement of the first purchase. Since purchases in U.K. firms are made almost exclusively by Active Value and Guinness Peat Group (GPG), it is not surprising that CARs for the U.K. are a sort of weighted average between the cumulative returns of these two investors. U.K. CARs are significant over all the intervals reported but in the run-up event window [-10, -2]. As in the GPG case, further purchases after day 0 can explain this pattern.

Switzerland shows a negative abnormal return over the long interval, i.e. [-30, 100], although this return is not statistically significant. Returns are positive over any other event windows but they remain not significant with the only exception of [-1, 0]. By and large, this is the same evidence collected for Mr Ebner.

Germany presents an unexpected plot. There is a marked run-up starting well before day -10 and a sharp reversal after day 11. This is the strongest evidence supporting the price-pressure hypothesis found in this chapter. All abnormal returns are disappeared on

[28] Banerjee, Leleux, and Vermaelen (1997)'s sample is larger than mine. They have 48 observations when the acquirer is a non-holding company, exactly twice the size of my sample.

Table 2.19: **CARs - Individual Countries**

Cumulative average daily abnormal returns in percent for various event windows by the country of target firm. The five countries are: France, Germany, Italy, Switzerland, the United Kingdom. T-stats of the test that the CAR is different from 0 are given in parentheses.

Ev. Wind.	*All*	*FRA*	*GER*	*ITA*	*SWI*	*U.K.*
[-1, 0]	2.44	3.97	2.13	2.23	1.77	2.63
	(6.91)	(6.20)	(1.91)	(3.46)	(2.97)	(3.32)
[-30, 1]	8.77	10.51	8.86	13.60	2.25	9.04
	(5.59)	(3.88)	(1.86)	(5.01)	(0.88)	(2.50)
[-30, 5]	9.12	10.78	9.05	11.13	2.71	10.73
	(5.41)	(3.72)	(1.77)	(3.84)	(1.00)	(2.76)
[-30, 10]	8.70	10.90	8.59	10.74	2.87	9.97
	(4.76)	(3.50)	(1.56)	(3.44)	(0.98)	(2.36)
[-30, 30]	9.30	11.64	5.42	8.81	2.36	13.77
	(3.95)	(2.96)	(0.78)	(2.24)	(0.63)	(2.50)
[-30, 100]	13.65	10.96	8.31	9.30	-6.13	30.58
	(3.40)	(1.72)	(0.73)	(1.46)	(-0.99)	(3.18)
[-10, -2]	2.98	4.14	1.60	6.89	0.44	2.33
	(3.88)	(3.01)	(0.66)	(4.98)	(0.34)	(1.34)
No. Obs.	136	24	13	25	21	47

Table 2.20: **Dyck and Zingales (2003) and Nenova (2003) Private Benefits Measures**

The estimates are from Table VI of Dyck and Zingales (2003). Nenova (2003) estimates the value of control using the price difference between classes of shares with differential voting rights. Dyck and Zingales (2003) use control block transactions. In the fixed effect estimates Nenova (2003) control for differences in the dividend rights between the classes of stock, difference in liquidity, and the presence of a conversion option. Fixed-effect estimates for Dyck and Zingales (2003)) are taken from their Table V colomn 2.

	Raw Data		**Estim. country fixed effects**	
Country	*Nenova*	*Dyck-Zingales*	*Nenova*	*Dyck-Zingales*
France	0.281	0.019	0.282	0.084
Germany	0.095	0.095	0.148	0.041
Italy	0.294	0.369	0.345	0.349
Switzerland	0.054	0.063	0.054	-0.051
U.K.	0.096	0.014	0.090	0.02

day 45. Then, a new rise in prices takes place. It is difficult to ascribe this second increase to the initial purchase, even if only two German firms reported a second purchase by the raiders during this period. Although the limited number of observations calls into question the robustness of these results, this second rise is worth more future investigation. A clinical study could help explaining this evidence[29].

Table 2.5 reports estimates of control premia measures for the countries studied in this section from Dyck and Zingales (2003) and Nenova (2003). The two papers differ in their approach to the measurement of private benefits. Dyck and Zingales (2003) apply the approach advanced by Barclay and Holderness (1989) to measure the magnitude of private benefits of control across countries, that is they measure the difference between the price per share paid by the acquirer and the price quoted in the market the day after the sale's announcement. On the other hand, Nenova (2003) estimates the value of private benefits of control using the price difference between two classes of stock with similar dividend rights but different voting rights. As Dyck and Zingales (2003) note, the differences are mainly due to the percentage of companies with two classes of shares traded.

Although Dyck and Zingales (2003) claim that there is a remarkable similarity in the results of the two papers, unfortunately this is not true for some European countries. In particular, France has very different control premia depending on the measurement method chosen.

When Dyck and Zingales (2003)'s approach is used, the evidence is mixed[30]. CARs for

[29] I have only limited information about German deals.

[30] The high correlation between results for countries and individual investors could cast doubts on this conclusion. However, Dyck and Zingales (2003) show that acquirer's identity is not relevant. Therefore,

Italy, the highest private benefit country, are of a magnitude very similar to the French ones, the lowest but one private benefits country starting from the event window [-30, 5]. Further, while the results for the U.K. give some evidence of a negative relationship between private benefits and CARs, those of Switzerland, a relatively low private benefits country, leans towards a positive relationship[31]. Nenova (2003)'s measure gives some support to the hypothesis that a positive relationship exists, but only when U.K. abnormal returns are ignored.

By and large, it does not seem that the differences in the private benefits of control play a relevant role in explaining the differences in the abnormal returns between countries. Of course, this conclusion does not imply that private benefits do not exist. The lack of clear evidence concerning private benefits weakens both the raiding hypothesis and the corporate governance hypothesis.

2.6 EVENT STUDY BY TARGET TYPE

The separation between ownership and control has been receiving a great deal of attention by academic researchers. It is also widely known that family-owned companies are common across all European countries but the United Kingdom. The market might react differently to the news that an active shareholder has bought a stake in a company according to the ownership structure of the target company. In this section I investigate how the market reacts to the first public announcement of the raider's purchases by dividing the target firms into sub-samples built on the basis of their ownership structure.

To perform such a task, I collected information about the ownership structure for the 136 firms included in the event study. I was able to recover the ownership structure of the target firms before the raider's stake purchase for 128 out of 136 firms[32].

I establish whether a company had at the time of the raider's purchase a shareholder with more than 10, 20, and 50 percent of voting rights. I consider a company widely-held if I do not find any single shareholder with more than 10 percent of voting rights in that company. Ten percent and 20 percent are standard cut-off levels in ownership studies[33]. In addition, I single out the companies in which a family owner was present (either with more than 50 percent of the voting right or less).

CARs over the interval considered are reported in Table 2.21 with the relative t-stats. Figure 2.7 presents the plot of the cumulative returns for each ownership structure of the target firm.

On the event date [-1, 0], the widely-held companies are the ones with the lower return, 1.46 percent against the 3.13 percent registered for companies where a majority owner is present. The event windows starting from day -30 show similar results among the different sub-samples with the only exception of a reversal after day 11 in companies with a majority

their measure should not depend on the identity of the acquirer.

[31]It is worth noting that the negative CAR in the longest event window for Switzerland is somehow consistent with the fact that Dyck and Zingales (2003) report a negative premia when their fixed effect estimates are taken into account.

[32]The missing observations concerns mainly firms in which the raider's purchase took place in the early 1990s.

[33]See La Porta, de Silanes, and Shleifer (1999) and Faccio and Lang (2002).

Table 2.21: **CARs - Ownership Structure**

Cumulative average daily abnormal returns in percent for various event windows by the ownership structure of the target firm (t-stats in parentheses). The following ownership structure are considered: widely-held firms, firms with at least a shareholder with more than 10 percent of the company's voting rights, firms with at least a shareholder with more than 20 percent of the company's voting rights, firms with a majority shareholder (more than 50 percent of the voting rights), and family-controlled firms.

Ev. Wind.	*All*	*Family*	*Majority*	*Widely-held*	*Sh. 10%*	*Sh. 20%*
[-1, 0]	2.44	2.41	3.13	1.46	2.52	3.01
	(6.91)	(4.19)	(3.18)	(2.06)	(6.54)	(5.93)
[-30, 1]	8.77	11.74	10.46	5.08	9.83	11.13
	(5.59)	(4.75)	(2.47)	(1.60)	(5.86)	(5.09)
[-30, 5]	9.12	12.14	10.15	5.23	10.42	11.33
	(5.41)	(4.59)	(2.24)	(1.54)	(5.79)	(4.84)
[-30, 10]	8.70	12.35	9.77	6.02	9.74	11.47
	(4.76)	(4.33)	(2.00)	(1.63)	(5.01)	(4.53)
[-30, 30]	9.30	12.10	6.57	3.35	11.81	12.54
	(3.95)	(3.33)	(1.05)	(0.70)	(4.75)	(3.89)
[-30, 100]	13.65	18.05	4.11	-3.07	20.45	16.30
	(3.40)	(3.00)	(0.39)	(-0.37)	(4.91)	(3.04)
[-10, -2]	2.98	3.72	2.99	3.07	3.46	4.47
	(3.88)	(3.00)	(1.41)	(1.99)	(4.14)	(4.08)
No. Obs.	136	40	15	26	102	56

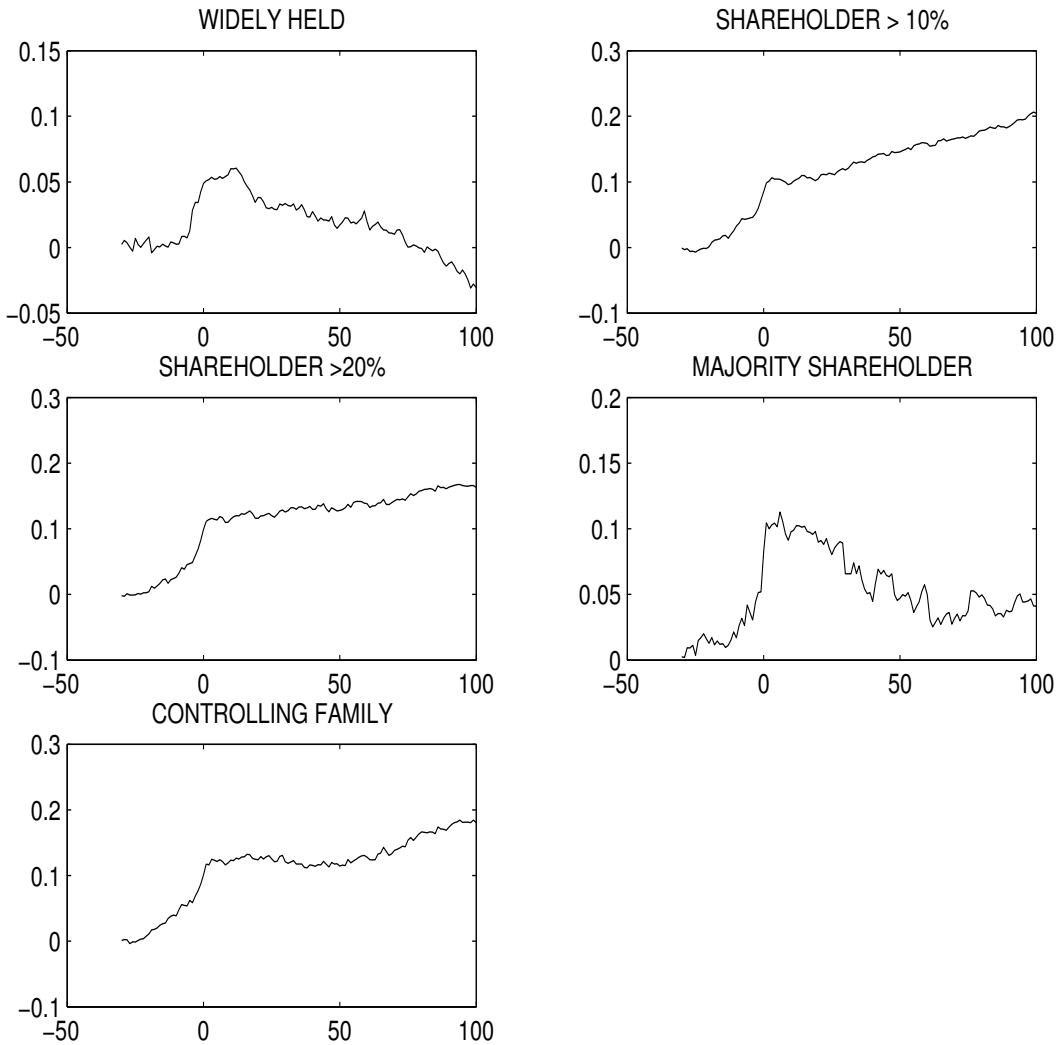

Figure 2.7: **CARs by Ownership Structure of the Target Firm**

Cumulative average daily abnormal returns for target firms from 30 days before to 100 days after the first public announcement of stockholding by the ownership structure of the target firm. The following ownership structure are considered: widely-held firms, firms with at least a shareholder with more than 10 percent of the company's voting rights, firms with at least a shareholder with more than 20 percent of the company's voting rights, firms with a majority shareholder (more than 50 percent of the voting rights), and family-controlled firms.

Table 2.22: **T-test - Widely-Held vs Concentrate Ownership**

Differences in means and associated t-stats for difference in means between the CARs of the target firms with at least a stockholder holding more than ten percent of voting rights (No. Obs. 102) and the CARs of widely-held target firms (No. Obs. 26) (t-stats in parentheses).

Event Window	*Sh. 10% - Widely-Held*
[-1, 0]	1.06
	(0.88)
[-30, 1]	4.75
	(1.18)
[-30, 5]	5.19
	(1.25)
[-30, 10]	3.72
	(0.86)
[-30, 30]	8.47
	(1.52)
[-30, 100]	23.52
	(2.42)

shareholder. In the event window [-10, -2], the abnormal return is always significant except for firms with a majority shareholder.

A single shareholder with at least 10 percent of voting right seems to be important in explaining the abnormal returns of a company. The t-stats for the difference in mean returns between targets with a shareholder with more than 10 percent of voting rights and widely-held companies are presented in Table 2.22. The t-stats confirms partially the previous conjecture since the statistic for the interval [-30, 100] is highly significant.

It is worth remembering that the sub-sample of target firms where there is a single shareholder owning more than 10 percent of the voting rights includes also family-owned firms, majority-owned firms, and the sub-sample with at least one shareholder with 20 percent[34]. However, the results do not seem to be driven by the inclusion of any of the sub-groups mentioned above as the cumulative returns in Table 2.21 easily document. I do not find any evidence about a positive relationship between the CARs and ownership concentration for levels above 10 percent.

Another interesting features is the anomalous pattern followed by the majority owned firms. Since ten out of the 15 observations in this sub-sample are family firms, the difference in the long event window with respect to family firms is striking. However, the limited number of observations precludes any meaningful inference about this result.

The fact that target firms with at least one large shareholder outperform widely-held firms after a raider's purchase does not support the hypothesis that raiders are helpful because they concentrate ownership. Indeed, this evidence appears to be consistent with Burkart, Gromb, and Panunzi (1997)'s claim that constraints on managers through monitoring may be costly. Burkart, Gromb, and Panunzi (1997) argue that a trade-off between

[34]This is due to the fact that the sub-samples are not mutually exclusive.

control and managerial initiative exists. Managers are reluctant to exert more effort and to take on firm-specific investments when shareholders are likely to interfere and reverse their decisions. On the other hand, when ownership is already concentrated the additional overmonitoring by the raider, or *"killing managerial initiative hypothesis"*, is likely not to be an issue. This is because incumbent managers already suffer from the monitoring effort of the large shareholder. Here, the raider is perceived by the markets as possible destroyer of the status-quo. Although they often purchase very small stakes, the raiders are notoriously prone to criticize publicly the incumbent management. Hence, the announcement of the raider's stockholding drives the stock price upward because the raider could at least theoretically counterbalance the influence of the large shareholder reducing the benefits of control (Bloch and Hege (2001)).

2.7 EX-POST INTERACTION

I extend my analysis of the raider's initial purchase by studying whether the impact can be explained by subsequent public interaction between the raider and the incumbent management. I subdivided firms into two samples according to a dummy variable for interaction using data I gathered from newspapers and newswire retrieval services. Notice that my interaction variable does not take into account possible private talks between the two parties. While anecdotal evidence suggests that this is not the normal strategy for at least some of the raiders selected[35], it is not possible to exclude this possibility. However, I can only rely on public information for my analysis and, therefore, I ignore the private interaction issue.

Raiders and target firms interact if I find any news relating to the two parts. Typically, news reporting calls for break-ups, special dividends or share buy-backs, board changes, changes in the equity structure, are found. It is worth pointing out that inclusion in the interaction sub-sample does not imply that raiders actually make any effort to improve target firms' performances.

Assuming that the market is able to distinguish between a speculative purchase and a purchase aimed at improving performances, I should find higher abnormal returns for the group where the parts interacted.

The hypothesis turns out to be supported by the data. As Table 2.23 documents, the interaction group exhibits a 3.57 percent abnormal return against 1.28 percent of the no-interaction sample. The difference (2.29 percent) is statistically significant at 1 percent level. The t-stats are reported in Table 2.24. Although the firms where interaction is found outperformed the no-interaction firms in every event window (see also Figure 2.8), differences in mean starting from day -30 are statistically significant at conventional levels only for the events windows up to day 10.

The evidence presented generally confirms the previous findings about the irrelevance of the investor's identity. Indeed, as long as the interaction variable is a proxy for some characteristics of the target firm, abnormal returns seem to be mainly driven by these characteristics and not by the stockholder's identity. The plot for the no-interaction sub-sample suggests that price-pressure is unlikely to be the right explanation for the positive stock

[35] See for example the article about Guy Wyser-Pratte on *Financial Times*, 20 April 2000. It is reported that *"...his [Mr Wyser-Pratte's] interventions are typified by ... highly publicised criticisms of management..."*.

Table 2.23: **CARs - Interaction**

Cumulative average daily abnormal returns in percent for various event windows for target firms in which the raider interacts with the incumbent management/controlling shareholder after the initial purchase (interaction) (No. Obs. 69) and for target firms in which no such interaction is found (no interaction) (No. Obs. 67). T-stats for CARs different from 0 are given in parentheses.

Ev. Wind.	*All*	*Interaction*	*No Interaction*
[-1, 0]	2.44	3.57	1.28
	(6.91)	(7.32)	(2.48)
[-30, 1]	8.77	12.27	5.04
	(5.59)	(5.80)	(2.17)
[-30, 5]	9.12	12.54	5.56
	(5.41)	(5.53)	(2.22)
[-30, 10]	8.70	12.35	5.03
	(4.76)	(5.04)	(1.85)
[-30, 30]	9.30	12.48	5.98
	(3.95)	(3.99)	(1.69)
[-30, 100]	13.65	19.85	7.45
	(3.40)	(3.78)	(1.22)
[-10, -2]	2.98	4.47	1.67
	(3.88)	(4.24)	(1.49)
No. Obs.	136	69	67

Figure 2.8: **CARs - Interaction vs No Interaction**

Cumulative average daily abnormal returns for target firms from 30 days before to 100 days after the first public announcement of stockholding for target firms in which the raider interacts with the incumbent management/controlling shareholder after the initial purchase (interaction) (No. Obs. 69) and for target firms in which no such interaction is found (no interaction) (No. Obs. 67) (t-stats in parenthesis).

Table 2.24: **T-test - Interaction vs No Interaction**

Differences in means and associated t-stats for differences in means between the CARs of target firms in which the raider interacts with the incumbent management/controlling shareholder after the initial purchase (interaction) (No. Obs. 69) and CARs of target firms in which no such interaction is found (no interaction) (No. Obs. 67) (t-stats in parentheses).

Event Window	*Interaction - No Interaction*
[-1, 0]	2.29
	(2.51)
[-30, 1]	7.23
	(2.25)
[-30, 5]	6.98
	(2.09)
[-30, 10]	7.32
	(2.09)
[-30, 30]	6.50
	(1.41)
[-30, 100]	12.40
	(1.42)

price response. This sub-sample cannot by definition be affected by any new information connecting raiders and incumbent managements. As the plot shows, no significant price reversal is found.

Markets seems able to identify with which firms the raiders interact after the initial announcement. Thus, it is helpful to control if some target firm's characteristics help explaining this result. A probit model is estimated in order to determine which variables help forecasting the future interaction at the time of the announcement. The model is the following:

$$\begin{aligned} Prob(Int_i = 1) &= \Phi(\beta_0 + \beta_1 M/B_i + \beta_2 Size_i + \beta_3 Leverage_i + \beta_4 ROA_i \\ &+ \beta_5 Ebner_i + \beta_6 AV_i + \beta_7 GPG_i + \beta_8 Giribaldi_i + \beta_9 Wyser_i \\ &+ \beta_{10} Stake_i + \beta_{11} WH_i + \beta_{12} WH_i * Size_i + \beta_{13} U.K._i) \end{aligned} \quad (2.6)$$

where Int_i is a dummy variable whose value is one when the target firm i and the raider interact and zero otherwise, $\Phi(.)$ is the normal cdf, M/B_i is the market-to-book ratio of the target firm one year before the announcement, $Size_i$ is the log of the market value of the target firm two months before the announcement, $Leverage_i$ is the debt-equity ratio (book value) the year before the announcement. ROA is operating profit over total assets at the end of the fiscal year preceding the announcement, $Ebner_i$, AV_i, GPG_i, $Giribaldi_i$ e $Wyser_i$ are dummies variables whose value is one when the raider announces the stockholding, $Stake_i$ is the size of the stake held by the raider at the time of the announcement, WH_i is a dummy variable whose value is one when the firm has no shareholder with at least 10

percent of the target firm equity, and $U.K._i$ is a dummy variable whose value is one when the target firm is from the United Kingdom.

The results in Table 2.25 are rather surprising. None of the variables included in the regression except the market value of the target firm in Column IV is significant. The larger the size of the firms, more likely is the intervention. It is worth noting that this relationship is true only for firms with a concentrated ownership. Indeed, the coefficient of the variable $WH * Size$ is negative and not significant. The increase in the likelihood of a raider's intervention associated with a large firm with concentrated ownership may be explained by the fact that an intervention in a small company is more likely to go unnoticed. When facing a widely-held company, the evidence suggests that markets anticipate that raiders are less interested in asking for changes. This supports the *lock-in effect hypothesis* described in Maug (1998), i.e. liquidity decreases the probability of an active investor's intervention because it is easier to sell the shares. This lock-in effect turns out to dominate the size effect[36]. Concerning the other variables, the dummies for the five raiders are not significant. This findings supports the previous claim that the interaction variable is not related to the investor's identity. However, the model fails to provide an exhaustive explanation to the plot in Figure 2.8. The reasons behind the larger returns for interaction firms are still largely unclear[37].

2.8 TESTS ON NO INFORMATION BASED HYPOTHESES

In the previous sections, I found very little support for the price-pressure hypothesis, while data do not reject the downward-sloping demand curve hypothesis. In this section, I present further evidence in order to sustain this claim.

To begin with, it is worth stressing a point. I investigate an event that is not by definition devoid of information like for example the inclusion in the Standard and Poor's 500 Index as in Shleifer (1986) or the redefinition of float on the Toronto Stock Exchange 300 Index as in Kaul, Mehrotra, and Morck (2000). This uncertainty about the information content of the event makes very difficult to disentangle the effect properly due to no-information based hypotheses, like price-pressure, and the effect due to downward-sloping demand curve.

A first step is to analyze the behavior of a company's trading volume. Indeed, if the raiders were able to hide their purchases through a series of small open-market transactions or even to buy the stock outside the exchanges, no abnormal volume would be found, at least not the one caused by raiders. Obviously, without abnormal demand, it would be possible to support neither PPH nor DSH. Of course, the excess volume permits to understand if and when the demand for stock subsidizes and returns to normal value. This is particularly important to test the PPH.

The measure of excess volume adopted reflects the impossibility to obtain the trading volume for market indexes. The excess volume is defined as the ratio of the daily trading

[36] I estimate the model including also a dummy for a concluded takeover within two years from the announcement as independent variable. Since there is no change, the results are not reported.

[37] In an unreported regression, the probit model has been estimated including dummies for the target firm industry. No insight stems from this regression.

Table 2.25: **Probit Regressions Predicting Interaction**

The sample consists of 86 firms targeted by the raiders whose accounting data are available on Datastream. The dependent variable equals one when the raider interacts with the incumbent management/controlling shareholders following the announcement (and zero otherwise). M/B is the market-to-book ratio of the target firm one year before the announcement. $Size$ is the market value of the target firm two months before the announcement. $Leverage$ is the debt-equity ratio (book value) the year before the announcement. ROA is operating profit over total assets at the end of the fiscal year preceding the announcement. $Ebner$, AV, GPG, $Giribaldi$ e $Wyser - Pratte$ are dummies variables whose value is one when the raider announces the stockholding. $Stake$ is the size of the stake held by the raider at the time of the announcement. $Widely - Held$ is a dummy variable whose value is one when the firm has no shareholder with at least 10% of the target firm equity. $U.K.$ is a dummy variable whose value is one when the target firm is from the United Kingdom. $p - values$ of the t-test that the coefficient is different from 0 are in parentheses. Huber/White (QML) standard errors are used.

	I		II		III		IV	
Intercept	-1.21	(0.18)	-1.82	(0.06)	-1.11	(0.22)	-1.71	(0.08)
M/B	-0.06	(0.61)	-0.08	(0.49)	-0.06	(0.62)	-0.08	(0.50)
Size	0.16	(0.17)	0.26	(0.05)	0.16	(0.19)	0.25	(0.06)
Leverage	0.13	(0.16)	0.14	(0.13)	0.14	(0.14)	0.15	(0.12)
ROA	0.35	(0.91)	2.14	(0.53)	1.08	(0.75)	2.69	(0.44)
Ebner	-0.46	(0.40)	-0.53	(0.33)	-0.53	(0.36)	-0.58	(0.30)
Active Value	0.61	(0.26)	0.50	(0.35)	0.97	(0.14)	0.81	(0.23)
GPG	0.28	(0.56)	0.28	(0.56)	0.23	(0.62)	0.24	(0.61)
Giribaldi	0.28	(0.63)	0.28	(0.63)	0.21	(0.72)	0.22	(0.71)
Wyser-Pratte	0.49	(0.33)	0.45	(0.36)	0.39	(0.45)	0.37	(0.47)
Stake	0.03	(0.34)	0.03	(0.35)	0.03	(0.41)	0.03	(0.42)
Widely-held	-0.24	(0.59)	1.47	(0.27)	-0.20	(0.65)	1.40	(0.30)
Widely-held*Size			-0.25	(0.16)			-0.24	(0.19)
U.K.					-0.48	(0.40)	-0.40	(0.49)
Model p-value	0.75		0.65		0.76		0.69	
McFadden R^2	0.06		0.08		0.07		0.09	
No. Obs.	86		86		86		86	

volume to the stock's normal daily trading volume minus one. The normal trading volume is computed as the median of the time interval [-90, -31] with respect to the announcement date[38].

Abnormal volume can also be detected with an event study methodology[39]. In all likelihood, event study methodology would provide a more accurate measure of the abnormal volume. Unfortunately, this methodology cannot be implemented because turnover by volume for market index is generally not available on Datastream[40]. Some observations are lost due to the fact that turnover by volume is not available for some companies on Datastream. The number of observations for the three groups is reduced to 115, 114, 77 respectively.

Table 2.26 shows the results. Median daily excess volumes are plotted in Figure 2.9. The figures makes a point clear. Although there is a positive abnormal trading volume in the days before the announcement[41], the peak is clearly from day -1 to day 2 for the firms targeted by raiders and in day 0 for the Random Sample. After day 2, the excess volume decreases sharply and does not present any further peaks of the same magnitude as in period [-1,2]. As expected, the daily excess volumes for the whole sample of firms targeted by raiders are higher after day 0 than the ones for firms without purchases. In fact, it is natural to suppose that these additional purchases can have at least a minimum impact. This evidence provides an almost ideal set up to test for price pressure, in particular when the firms targeted by raiders do not experience any further purchase. Since demands subsided almost immediately, abnormal returns on the event date [-1, 0] should be offset in a very short time.

A caveat concerns the timing of the raiders purchases. Since there is usually a time lag allowed by national financial authorities and Stock Exchanges between the moment of the purchase and the moment of the public notification, it is not certain that the abnormal volume on the event date is really due to the raiders' purchases. Unfortunately, a systematic analysis of the timing of the investors' purchases is unfeasible because of the lack of data. However, anecdotal evidence from *The Regulatory News Service*, which reports the transaction data for the U.K., does not rule out the hypothesis that raiders purchase, at least partially, their stakes on the announcement date or very close to it. In fact, when reported, the date of transaction is often the business day before the day in which the news appears on *The Regulatory News Service*. Sometimes the news appears on the newswires even the same day of the transaction. No such evidence is available for other countries. Hence, on the basis of this anecdotal evidence, it is not possible to claim that the excess volume is not due to the raider's purchases.

The role of size of the stake purchased is evident when the abnormal returns on [-1,0] are regressed on a constant and the size of the initial holding. Generally, the regression equation for any event window studied is the following:

[38] This measure does not correct for market trends.

[39] See Ajinkya and Jain (1989), Sanders and Zdanowicz (1992), Michealy and Murgia (1995).

[40] Further, data for the market index available, e.g. the Milan Comit General Index, do not cover all the time period considered.

[41] Positive abnormal trading volumes before the announcement date are consistent with the run-up documented in Figure 2.1.

Table 2.26: **Median Volumes**

Median daily excess volume for firms targeted by raiders, the random sample, and the firms targeted by raiders without purchase in the 120 following the initial announcement around the announcement date. Volume is the daily trading volume of a firms. Excess volume is the ratio of the daily trading volume to the stock's normal daily turnover (median of the time interval [-90, -31] with respect to the announcement date) minus 1.

Day	Active Investors	Random Sample	No Purchases
-30	0.09	-0.04	0.06
...	...	...	...
-20	0.06	-0.02	0.06
...	...	...	...
-10	0.32	-0.10	0.20
...	...	...	...
-5	0.13	0.13	0.13
-4	0.29	0.22	0.31
-3	0.72	0.31	0.48
-2	0.48	0.23	0.20
-1	0.93	0.30	0.84
0	0.79	1.24	0.82
1	0.62	0.50	0.34
2	0.84	0.40	0.41
3	0.28	0.14	0.08
4	0.40	0.01	0.14
5	0.29	-0.04	0.18
6	0.18	0.08	0.17
7	0.28	0.06	0.18
8	0.08	-0.13	0.03
9	0.14	0.12	-0.08
10	0.05	-0.13	0.06
20	-0.14	0.04	-0.20
...	...	...	...
30	0.05	-0.12	0.05
...	...	...	...
50	0.03	-0.04	0.01
...	...	...	...
75	-0.10	0.08	0.02
...	...	...	...
100	-0.10	0.11	-0.25
No. Obs.	115	114	77

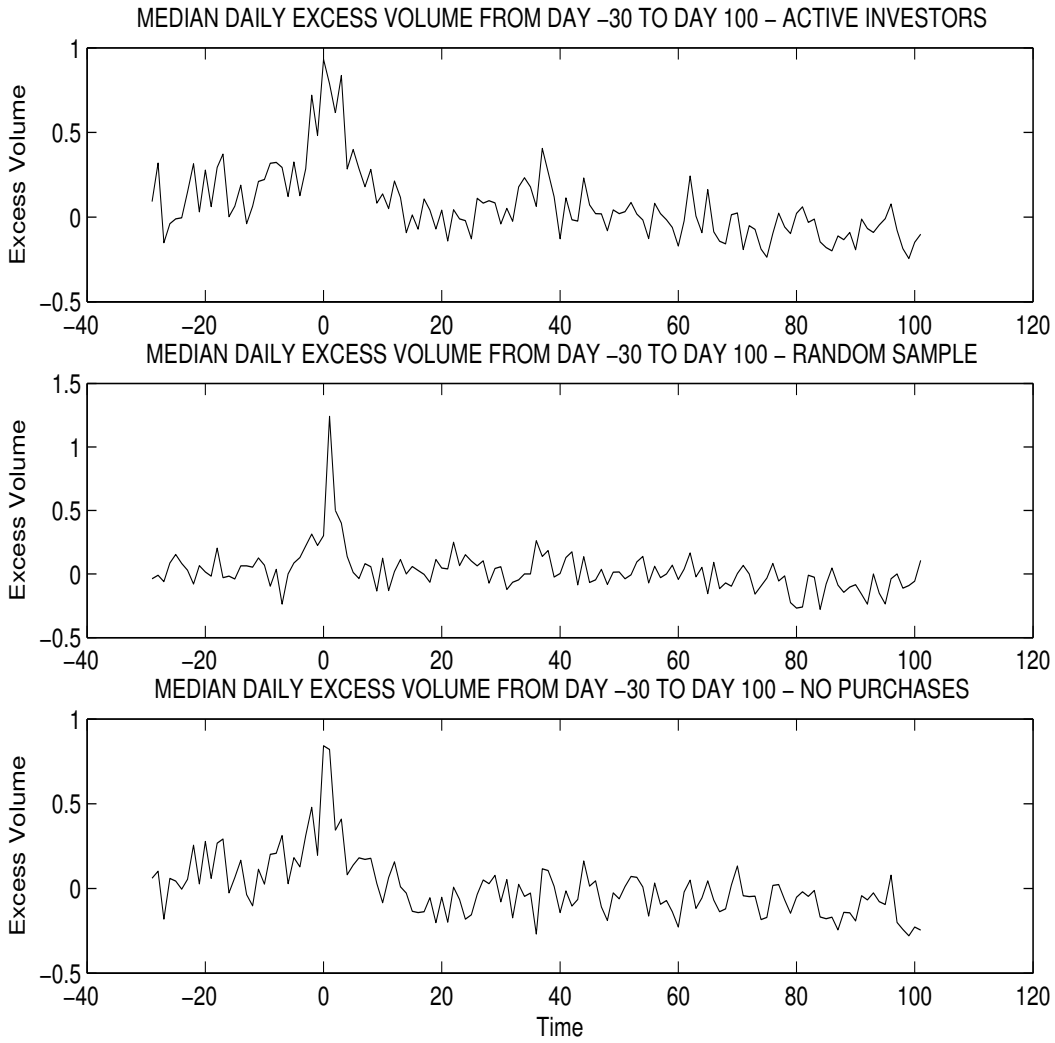

Figure 2.9: **Median Daily Excess Volumes**

Median daily excess volumes for target firms from 30 days before to 100 days after the first public announcement of stockholding by a raiders (No. Obs. 115), median daily excess volume for firms in the random sample from 30 days before to 100 days after the first public announcement of stockholding by an investor (No. Obs. 114) and median daily excess volume for target firms without additional purchases (No. Obs. 77) from 30 days before to 100 days after the first public announcement of stockholding by a raiders.

Table 2.27: **CARs and the Size of the Stakes**

The table shows the results of the regression of the CARs for different event window on the size of the stake held by the raider at the time of the announcement (*Stake*). $p - value$ of the t-statistics for the t-test that the coefficient is different from zero are reported in parentheses. The coefficient on stake are multiplied by 100.

	[-1, 0]	[-30, 1]	[-30, 5]	[-30, 10]	[-30, 30]	[-30, 100]
Intercept	0.02	0.09	0.09	0.08	0.10	0.17
	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Stake	0.17	-0.03	0.04	0.10	-0.06	-0.59
	(0.03)	(0.90)	(0.84)	(0.64)	(0.87)	(0.34)
R^2	0.03	0.00	0.00	0.00	0.00	0.00
Prob(F-stat)	0.05	0.93	0.89	0.77	0.90	0.48

$$CAR_{i,x-y} \;=\; \alpha \;+\; \beta\, STAKE_i + \epsilon_i \tag{2.7}$$

where $CAR_{i,x-y}$ is the CAR for firm i from day x to day y and $STAKE_i$ is the size of the stake held by the raider at the time of the announcement. The size of the stake purchased at the time of the first announcement is significant at 5 percent level when the dependent variable are the abnormal returns on [-1, 0], as Table 2.27 documents. The size of the initial holdings explains 3 percent of the variation of abnormal returns[42]. The size of the initial stake is not relevant when the other event windows are taken into account. The fact that the coefficient on stake is significant in the event window [-1, 0] is consistent with an information-free hypothesis.

To test for price-pressure, I perform a test of return reversals under the assumption that the event is devoid of information content. While this assumption is clearly not very appealing, it is not rejected on the basis of the evidence shown for target firms of the selected raiders and the random sample of investors[43]. Kaul, Mehrotra, and Morck (2000) test for the complete reversal of the event window price increase for each stock in their sample over the subsequent period[44]. Put differently, the null hypothesis of this test is that the cumulative abnormal return between the day after the event window to day T is equal to the negative of the event window CARs. In the cross-sectional regression of post-event window CARs on the event window CAR and a constant, the price pressure hypothesis predicts a zero intercept and a slope of -1.

Therefore, I estimate the following cross-sectional regression equation

$$CAR_{1-T,j} = \gamma + \delta CAR_{-1-0,j} + \epsilon_{1-T,j} \tag{2.8}$$

[42] A similar result is found also in Holderness and Sheehan (1985).

[43] If the returns had been statistically different for the two groups, it would have been impossible to make such an assumption.

[44] Kaul, Mehrotra, and Morck (2000) use weekly data.

where $CAR_{1-T,j}$ is the cumulative abnormal return for the target firm j of the active investors beginning in day 1 through day T, $CAR_{-1-0,j}$ is the cumulative abnormal return in the event window [-1,0] , and $\epsilon_{1-T,j}$ is the error term. Results are presented in Table 2.28.

This test confirms the rejection of the price-pressure hypothesis and supports the absence of reversals[45]. The evidence is consistent with the long-run downward sloping demand curve. Kaul, Mehrotra, and Morck (2000) and Wurgler and Zhuravskaya (2002) reject the price-pressure hypothesis, too, interpreting their evidence as supporting the long-run downward sloping demand curve hypothesis. The no-reversal hypothesis is rejected only when the dependent variable is the cumulative return from day 1 to day 4 after the initial announcement. I perform the same test on the firms included in the random sample. To save time, I do not present these results because they are very similar to those shown above.

The same test is also carried out on the sub-sample of firms targeted by raiders that did not experienced any further purchases in the 120 days following the initial announcement. Table 2.29 reports the results.

While the main finding, i.e. the rejection of the price-pressure hypothesis, is proved also in this case, Table 2.29 leads to the rejection of the no reversal hypothesis in some of the regressions. This support the hypothesis of a partial reversion. Partial reversion is also found in Wurgler and Zhuravskaya (2002).

The same regression is performed on the other event window considered in the analysis as well. As may easily be deduced from the results in the previous sections, no new insight emerges from these tests. Consequently, I omit the results.

To sum up, the results in this section broadly confirm the rejection of the price-pressure hypothesis since no complete reversal is found. Some support for partial reversals is found, too. The bulk of purchases seems to take place just before the announcement or even the same day. This is consistent with the evidence provided in Section 2.3.2[46].

2.9 DISCUSSION AND CONCLUSION

This chapter has explored the market's reaction to the first public announcement of stockholding of a so-called *corporate raider* in Europe during the 1990-2001 period. Differently from the previous literature on block purchases, this study does not assume *a priori* that the event is informative, i.e. that the stockholding announcement conveys new information to the market. In fact, both hypotheses based on the assumption that the event brings new information to the market and hypotheses that do not rely on this assumption are considered.

In my sample, target firms experience a significant positive abnormal return of 2.44 percent on the event date. This result is robust with respect to both the thin-trade argument and the event-induced variance problem. When longer time intervals are considered, a remarkable difference in abnormal returns appears between target firms in which the initial

[45] Kaul, Mehrotra, and Morck (2000) point out that for longer time horizon the low power of the test favors the null hypothesis of no reversal.

[46] A possible extension to this section consists in the estimation of the price elasticity of demand for stock in order to strengthen the case for the downward sloping demand curve.

Table 2.28: **Test for Returns Reversal - Active Investors**

Regression estimates in a test of return reversals for the target firms of active investors. The dependent variable is the cumulative abnormal stock return from day 1 through day T. The independent variable is the cumulative abnormal return for the event window [-1, 0]. Under the price-pressure hypothesis, δ is equal to -1; δ equals zero under no reversals.

Dep. var.	γ	δ	*t-stat* $\delta = -1$	*t-stat* $\delta = 0$	R^2
1	0.01	-0.05	11.06	-0.63	0.00
2	0.01	-0.06	10.53	-0.65	0.00
3	0.02	-0.19	7.93	-1.83	0.02
4	0.02	-0.30	5.96	-2.53	0.05
5	0.02	-0.19	6.65	-1.53	0.02
6	0.02	-0.13	6.51	-0.97	0.01
7	0.02	-0.16	6.24	-1.16	0.01
8	0.01	-0.15	6.33	-1.16	0.01
9	0.01	-0.15	6.08	-1.10	0.01
10	0.01	-0.04	6.57	-0.31	0.00
...	...	...	...	...	...
15	0.02	0.02	5.91	0.12	0.00
...	...	...	...	...	...
20	0.00	0.19	5.78	0.92	0.01
...	...	...	...	...	...
30	0.01	0.27	4.81	1.01	0.01
...	...	...	...	...	...
40	0.03	0.27	3.72	0.79	0.00
...	...	...	...	...	...
50	0.03	0.26	3.22	0.67	0.00
...	...	...	...	...	...
60	0.04	0.25	2.89	0.58	0.00
...	...	...	...	...	...
70	0.04	0.06	2.16	0.13	0.00
...	...	...	...	...	...
80	0.05	-0.01	1.80	-0.02	0.00
...	...	...	...	...	...
83	0.05	0.14	2.03	0.26	0.00
...	...	...	...	...	...
90	0.05	0.14	1.91	0.24	0.00
...	...	...	...	...	...
96	0.05	0.09	1.69	0.14	0.00
97	0.06	0.06	1.61	0.09	0.00
...	...	...	...	...	...
100	0.06	0.05	1.55	0.07	0.00

Table 2.29: **Test for Returns Reversal - Active Investors No Additional Purchases**

Regression estimates in a test of return reversals for the target firms of active investors that did not experience further purchases in the 120 after the initial stockholding. The dependent variable is the cumulative abnormal stock return from day 1 through day T. The independent variable is the cumulative abnormal return for the event window [-1, 0]. Under the price-pressure hypothesis, δ is equal to -1; δ equals zero under no reversals.

Dep. var.	γ	δ	*t-stat* $\delta = -1$	*t-stat* $\delta = 0$	R^2
1	0.00	0.16	15.95	2.22	0.05
2	0.00	0.08	15.69	1.18	0.02
3	0.00	0.08	13.84	1.03	0.01
4	0.00	0.04	10.65	0.38	0.00
5	0.00	0.17	11.30	1.65	0.03
6	-0.01	0.28	11.19	2.47	0.06
7	-0.01	0.17	10.11	1.50	0.02
8	-0.01	0.17	9.86	1.46	0.02
9	-0.01	0.16	8.36	1.16	0.01
10	-0.01	0.25	8.25	1.66	0.03
...	...	...	...	...	...
18	-0.02	0.35	6.54	1.70	0.03
19	-0.03	0.41	6.80	1.96	0.04
20	-0.03	0.38	6.61	1.83	0.04
21	-0.03	0.43	6.51	1.97	0.04
22	-0.03	0.53	6.50	2.27	0.05
23	-0.03	0.56	6.43	2.31	0.06
24	-0.03	0.49	6.33	2.07	0.05
25	-0.03	0.41	5.94	1.72	0.03
26	-0.03	0.40	5.63	1.61	0.03
27	-0.03	0.36	5.50	1.46	0.02
...	...	...	...	...	...
40	-0.02	0.39	3.45	0.96	0.01
...	...	...	...	...	...
50	-0.02	0.23	2.78	0.53	0.00
...	...	...	...	...	...
75	-0.02	-0.02	1.72	-0.03	0.00
...	...	...	...	...	...
100	-0.03	-0.15	1.10	-0.20	0.00

purchase is followed by other buys by the same raider and targets that do not experience any further purchase. If further purchases do not happen, returns are lower and do not increase after the event date. With OLS betas, the cumulative abnormal return shows a very late reversion. Similar evidence is found in Barclay and Holderness (1991) for negotiated block purchases not followed by acquisitions. However, this result is not robust with respect to Dimson (1979) AC Method.

Generally, the results are not consistent with the view that these investors are driven by the raiding hypothesis, i.e. by the expropriation of corporate assets to the detriment of other stockholders (as defined by Holderness and Sheehan (1985)). To put it another way, markets react positively to the news regarding the raider's initial stockholding (at least in the short-run).

The positive response is consistent both with the expectation that raiders improve corporate performances in target companies and with the fact that raiders are good stock pickers. Although further research is needed to disentangle these two hypotheses, I cannot give full support to any of them. Indeed, I do not find any statistically significant difference between the abnormal returns for the target firms of the raiders and a group of targets of a random sample of investors. This failure weakens both the superior stock picking hypothesis and the corporate governance champion hypothesis.

A further blow to these two hypotheses comes from the absence of evidence regarding the so-called endorsement effect. The evidence reported in Sections 2.3.2 and 2.8 does not seem to sustain the hypothesis of an endorsement effect, i.e. people buy a stock just because this stock has been purchased by the raider. This conclusion stems primarily from the absence of any significant difference between the firms targeted by the raiders and those targeted by a random sample of firms and from the fact that the excess volume disappears quickly after the announcement. However, a different hint is provided by anecdotal evidence. Anecdotal evidence[47] would suggest that at least some of the raiders' purchases is likely to have triggered this kind of effect. Unfortunately, it is not possible to carry out more specific tests of herd behavior because of missing data about the trades of market participants. Hence, my conclusion that raiders' purchases fails to produce an endorsement effect should be interpreted with extreme caution. I believe that this point deserves further careful examination.

Apart two very specific cases[48], the evidence collected leads also to the rejection of the price-pressure hypothesis. Even though the plots of cumulative abnormal returns for the random sample and the raiders' target firms without further purchases show a reversal, this reversal takes place too late to be consistent with the PPH. A test in the spirit of Kaul, Mehrotra, and Morck (2000) rejects the PPH as well. Therefore, as far as no-information based hypotheses are concerned only the long-run downward sloping demand curve seems to be consistent with the data. It is worth stressing that the long-run downward sloping demand curve might play a role even if the event had some informational content. This implies that the market reaction is made up of two components: one related to the new information, and the other to the demand curve. The question regarding this role calls for future research efforts.

[47] Hirshleifer and Teoh (2003) use anecdotal evidence to support the endorsement effect generated by the purchases of Warren Buffett.

[48] The event study for Mr Ebner's target firms and the one for German firms.

No significant negative abnormal return is found at the individual level either for countries or for single investors. Indeed, returns are generally positive and significant. The most striking evidence at the individual level regards Martin Ebner. Although he was widely considered a European Warren Buffett (at least until mid 2001), abnormal returns are very close to zero for the companies targeted by Mr Ebner. Abnormal returns at country level does not seem to depend on the magnitude of the private benefits of control for that country.

The evidence concerning target firms classified according to their ownership structure supports the Burkart, Gromb, and Panunzi (1997) hypothesis that imposing constraints on managers can be costly. In fact, widely-held companies are the only firms that exhibit a negative (although not significant) abnormal return. Markets give the impression of expecting raiders to be less interested in asking for changes when facing a widely-held company.

Having a large shareholder with at least ten percent of voting rights appears to be a relevant factor in explaining differences in abnormal returns. No other level of ownership concentration seems to matter.

The market seems to be able to foresee future interaction between the raider and incumbent management or controlling shareholders of the target firm. Target firms in which such interaction is found earn higher returns in any event window.

The evidence uncovered in this chapter does not fully support the hypothesis that the blockholder's identity matters. As already mentioned, even though raiders' target firms outperform a random sample, the differences are not statistically significant. This interesting evidence casts some doubt on Gorton and Kahl (2002)'s claim that individual investors are different from other blockholders. However, this result should be interpreted with some caution. First, differences in abnormal returns for individual raiders are found. Second, as Gorton and Kahl (2002) point out, raiders have limited wealth. They contribute little in the way of synergies, too. Hence, they are rather different from corporate and institutional investors. This potentially creates a problem related to the endogeneity of the investor's identity, i.e. each investor purchases an equity stake in the company whose characteristics are more suitable to the buyer. A first step in addressing the endogeneity problem is attempted in the chapter. This analysis confirms the previous results. However, a deeper investigation of the endogeneity problem will be certainly welcomed.

To sum up, the chapter has shed light on the expectations the markets have about the raider's behavior after an initial announcement of stockholding. Generally speaking, markets do not seem to care whether raiders or other investors announce their stockholdings. However, a definitive answer about the role of this group of investors can be obtained only after having evaluated what raiders really do following the initial purchase. This means studying whether they criticize the incumbent management, what kind of changes they ask for, if and when they exit, and how the target-firm performances change during their stockholding. I will try to provide an answer to all these questions in Chapter 3.

Chapter 3

THE LONG-RUN EVIDENCE

3.1 INTRODUCTION

Anecdotal evidence suggests that active investors are usually believed to play a central role in making corporate governance more effective. Despite this common wisdom, Chapter 2 finds that the market reaction to the initial announcement of a raider's stockholding is no different from the reaction to a purchase made by a corporate or institutional investor.

This chapter extends the analysis of the corporate raiders in Europe. In fact, while Chapter 2 investigates the market reaction at the time of the initial announcement of a raider's stockholding, this chapter looks at what happens after the initial purchases. To this end, I present evidence concerning both long-run stock price and accounting measures performances of the target firms. Moreover, I report clinical evidence about the post-purchase activities of the raiders.

The findings collected are used to evaluate the behavior of the raiders according to the hypotheses discussed in Section 3.2. Broadly speaking, the basic hypotheses are those put forward by Holderness and Sheehan (1985) and discussed also in Chapter 2, namely the raiding hypothesis, the superior stock picking hypothesis, and the corporate governance champion hypothesis. The raiding hypothesis calls for an expropriation of corporate assets by the raider to the detriment of the other shareholders. If raiders are above-average stock pickers, they should be able to earn positive long-run abnormal returns and also be able to time the market. However, under this hypothesis, raiders have no role in improving corporate performances. Conversely, this is exactly what is required by the corporate governance champion hypothesis. The raider is the driver of the target firm's improvement. In addition to these three hypotheses, a fourth one is added. This hypothesis, i.e. the opportunistic behavior hypothesis, is based on the fact that raiders can change their mind and behave differently from the original strategy according to the situation.

Both Holderness and Sheehan (1985) and Bethel, Liebeskind, and Opler (1998) point out that the short-term analysis based on event studies of the initial announcement is not enough to determine whether the raider is a good stock picker or a governance champion. In fact, both hypotheses imply a positive market reaction to the news. However, this problem can be overcome when the raider's behavior after the initial purchase is taken into account. In fact, while being an excellent stock picker requires no more than a passive behavior, the

governance champion's hallmark is an active behavior.

Raiders have been shareholders in a company for a rather short period. On average, the stake has been held for twenty months when the exit takes place before Dec. 31st, 2001. The average increases to two years when the raiders is still a stockholder of the target company at the end of year 2001. Although the general feeling is that raiders affect corporate performance negatively, there is no clear support for the hypothesis that raiders play any role in affecting firm performances both at stock price level and at accounting level. The results support the view stated in Chapter 2 that stockholder's identity does not matter.

Clinical evidence about the activities of the raiders following the initial purchase shows that the financial press tends to overstate the number of raiders' interventions. Raiders interfere with incumbent managements in only one-third of the observations. Further, raider activities fail to produce any significant improvement in corporate performance.

A last remark concerns the ability of investors to time the market as the superior stock-picking hypothesis entails. While this hypothesis seems supported when raiders sell their stakes in less than one year after the initial purchase, the raider stockholdings on Dec. 31st, 2001 tells a completely different story reporting significant and negative abnormal returns.

Therefore, Holderness and Sheehan (1985)'s hypotheses are not supported by the long-run evidence. This broad result goes in the same direction of the findings in Chapter 2.

The chapter is organized as follows. Section 3.2 presents the hypotheses. Section 3.3 provides evidence concerning how long the raider remains a stockholding in a target company. Section 3.4 documents the long-run stock returns earned by the raiders. An event study for the exits of raiders is performed in Section 3.5. Section 3.6 studies the abnormal operating performance of the firms targeted by the raiders. Clinical evidence about the raider activities after the initial purchase is provided in Section 3.7. Section 3.8 and Section 3.9 exhibits results regarding leverage and the number of employees, respectively. Section 3.10 concludes.

3.2 HYPOTHESES ABOUT THE RAIDER'S BEHAVIOR

Uncovering the role of the selected investors is the main goal of the dissertation. Of course, some hypotheses about the raider's behavior have to be made. The main hypotheses were presented also in Section 2.2.

The three basic hypotheses concerning the raider behavior identified by Holderness and Sheehan (1985) are:

- pure raiding: the raider expropriates corporate assets to the detriment of other stockholders. Raiders can achieve this result through greenmails, private benefits or in other ways. The raider's motivation is usually short-run profit. I call this hypothesis the *raiding hypothesis* (RH);
- superior ability in evaluating and buying underperforming firms at the right time, i.e. when the stock is underpriced. This is the *superior stock-picking hypothesis* (SSPH);
- improvement in target firm management. I refer to this hypothesis under the label *corporate governance champion hypothesis* (CGCH).

It is worth noting that when the raider does not want to (or cannot) gain full control of the target company, raiding is possible only if the incumbent management or controlling shareholder accommodates the raider's request. From the incumbent player's point of view, this leads to a reputation problem. However, I leave this issue out of my analysis.

The SSPH simply states that the selected investors systematically purchase under-priced stock. This can be due to either private information or higher skills in interpreting public information. The CGCH holds that raiders are helpful in triggering managerial changes that increase target firm's value. To put it another way, raiders provide a sort of public good to the benefit of every stockholder in the company.

Holderness and Sheehan (1985) try to distinguish between the three hypotheses. Since both the superior stock-picking and the corporate governance champion (CGCH) hypotheses lead to a positive market reaction, they fail to identify which of the two explanations prevails in their analysis[1] even after having looked at the activities following the initial stake purchase. It is clear from Holderness and Sheehan (1985) and Bethel, Liebeskind, and Opler (1998) that the event study analysis of the initial purchases is not enough to identify which explanation prevails, since both SSPH and CGCH imply a positive market reaction to the news. However, this problem can be overcome when the raider's behavior after the initial purchase is taken into account. In fact, while SSPH calls for a passive behavior, a wait-and-see kind of strategy, the CGCH calls for a more active behavior. Put differently, the SSPH is consistent with improvements in the target firm performances due to the incumbent management initiative. The CGCH is consistent with improvements in target firm performances generated by the raider's effort.

The raiding hypothesis is easier to prove. According to this hypothesis, target firm performance should worsen and the raider is not expected to stay in the target company for a long time.

A drawback of Holderness and Sheehan (1985)'s hypotheses is that they do not seem to be totally distinct[2]. For example, the raider might as well make a sort of take-it-or-leave-it offer to the incumbent management (or controlling shareholder). In such an offer, the raider monitors unless the incumbent accepts to bribe her with a greenmail or other kinds of side-payments. Thus, at the beginning the raider might seem interested in improving corporate governance. Later, she can change her mind according to the response of the incumbent management[3]. To put it another way, the raider might act as a corporate governance champion (and in the meantime, she can also deliver public goods), but she is ready to cash-in her investment as soon as an opportunity comes[4]. I call this hypothesis *opportunistic behavior hypothesis* (OBH).

[1] A concern related to this issue appears also in Bethel, Liebeskind, and Opler (1998) (see page. 631), even though here their more accurate analysis makes the problem less important.

[2] I thank Randall Morck for pointing out this problem.

[3] This problem does not arise when only the market reaction to the initial purchases is investigated as in Chapter 2. In this case, only the market expectation about the raider's behavior matters (multiple priors on market's beliefs are not considered). When the period is short, it is difficult to imagine that this kind of strategy can have an impact.

[4] A case of such a behavior is Mr Giribaldi's behavior in Snia. After accumulating a very large stake together with an Italian industrialist, Mr Giribaldi repeatedly assured that he would have stayed in Snia for the long-run. However, as soon as a firm came to rescue Snia's CEOs from Mr Giribaldi's attacks, he sold the shares to this company.

The raider's stockholding could also have no impact on the overall performances of the target firms, but at the same time it might even be harmful either for the controlling shareholder or for other stakeholders in the company. For example, if the raider's profit stems from a transfer of private benefits from either the controlling shareholder or the incumbent management, no significant change should show up in the firm's performance. Raiders could also benefit from transfers of wealth from employees to themselves. Under this hypothesis the raider's stockholding is a zero-sum game for the target firm, while under RH there is a *new* transfer of corporate resources to the benefit of the raider.

3.3 HOW LONG HAVE RAIDERS HELD THEIR STAKES IN A COMPANY?

A first step toward providing an answer about the behavior of the raiders consists in examining the duration of the block positions. In fact, the duration can provide hints that can help determine the role of the raiders. If raiders sold their stakes shortly after the initial purchases, their behaviors would not be consistent with the corporate governance champion hypotheses. It is a well-known fact that improving governance can be a very long process. On the other hand, a raider that has held a stake for a very long time would cast doubt about the raiding hypothesis and the opportunistic behavior hypothesis[5].

As far as I know, no previous paper has ever taken into consideration for how long the raider holds the stake in a company. For example, Bethel, Liebeskind, and Opler (1998) compare the performance of the target firm before and after (up to three years) the active investors' purchases but it is not even clear whether the investors have held the stake for the entire period. Moreover, Bethel, Liebeskind, and Opler (1998) conclude their paper asking whether the duration of a block position matters. Holderness and Sheehan (1985) give no details about this issue, either.

It is needless to say that a first step to provide an answer is the collection of information about how long the investors hold their stakes. I collected information about the sale of the raider's stake for 128 out of the 136 observations included in the analysis. I was not able to find any information about the exit in five observations because the raider never exceeded the threshold that triggers off public notification[6]. The remaining three observations are due to missing information. The raiders sold their stakes entirely before Dec. 31st, 2001 in 76 observations (see Table 3.1). Conversely, the raiders were still holding their stakes in 52 observations on Dec. 31st, 2001, the end date of my analysis.

Table 3.1 provides mean and median holding periods for both sub-samples. For the concluded investments, the mean holding period is just above 20 months and the median slightly above 14 months. The average holding period for the firms in which there were no exits is slightly more than two years and two months and the median approximatively two years. Nevertheless, we ought to bear in mind that some purchases were carried out close to the end date and so they can bias the results down.

[5]Another possible explanation for a long duration is that the raider is not able to sell the security.

[6]Since in all these cases the size of the stake is very small, it is likely that these stakes were sold. However, it is not possible to establish when the sale was carried out.

Table 3.1: **Mean and Median Holding Period**

Mean and Median holding period of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and for stockholding still active on Dec. 31st, 2001 (No sale).

	Concluded	*No Sale*
Mean (years)	1.71	2.20
Median (years)	1.23	1.96
Minimum (days)	3	20
Maximum (years)	8.62	8.87
No. Obs.	76	52

Table 3.2 decomposes the samples according to the time span of the raider's stockholding for the two sub-samples. Forty-three percent of the acquisitions made by the raiders with a known exit date end in less than one year. The holding period for one out of four of these observations is less than six months. Only 13 out of 76 observations have a holding period greater than three years. When the raiders did not sell their stakes before 31st, 2001, half of the observations have a holding period of less than two years.

The evidence seems to indicate that raiders are not usually committed to a firm for the long-run. At best, they can be considered as medium-term investors. They opt for an exit after less than one year in more than 25% of the total observation, i.e. 33 out of 128. Thus, the findings cast at least some doubt about the corporate governance hypothesis. In fact, since it generally takes time to deliver changes, this hypothesis is more easily associated to long-term investors[7].

At individual level, the limited number of observations for each investor prevents any meaningful conclusion. The only thing to point out is Mr Giribaldi's clear preference for short-term investments. Eight out of 13 concluded investments lasted for less than one year and all but one for less than two years. The average and median holding period is ten months. Detailed data about individual raiders are presented in Tables 3.3 and 3.4.

Table 3.5 and 3.6 present the mean and median holding period and the holding period distributions with respect to the target firm country[8]. As expected, the results are similar to those for individual raiders. For concluded investments, it is worth noting that France and Italy are the countries in which raiders sell faster, both on average and median. Median holding in the U.K. is not very different from the results for France and Italy, but the mean is higher due to some investments that have lasted for a long time. The duration is longer in Switzerland and in Germany. When the raider is a stockholder on Dec. 31st, 2001, stockholdings have a longer duration in the United Kingdom. In all the other countries but Sweden means and medians are approximately between one year and a half and two years.

Table 3.7 clarifies that the duration is hardly driven by the ownership structure of the target firms. In fact, when an exit takes place, medians are similar in all subsamples. The

[7]Obviously, being a long-term investor is not a necessary condition to bring about changes in the target firm.

[8]Since there is only one observation for this country, Belgium is not reported in Tables 3.5 and 3.6. The holding period for GIB, the Belgian firm targeted by Guy Wyser-Pratte, is 1.09 years on Dec. 31st, 2001.

Table 3.2: **Holding Period Distribution**

Holding period distributions of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and for stockholding still active on Dec. 31st, 2001 (No sale). The percentage concerns the number of observations in the subsample.

Holding Period	*Concluded*	%	*No sale*	%
Less than 1 month	4	5.26	1	1.92
Less than 6 months	17	22.37	6	11.54
Less than 1 year	33	43.42	12	23.07
Less than 2 years	52	68.42	26	50.00
Less than 3 years	63	82.89	41	78.85
Less than 5 years	74	97.37	49	94.23
More than 5 years	2	2.63	3	5.77
between 1 and 2 years	19	25.00	14	26.92
between 2 and 3 years	11	14.45	15	28.85
N.Obs.	76		52	

Table 3.3: **Mean and Median Holding Period - Individual Raiders**

Mean and Median holding period of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and for stockholding still active on Dec. 31st, 2001 (No sale) for five individual raiders. The five raiders are: Active Value, Martin Ebner, Luigi Giribaldi, GPG, and Guy Wyser-Pratte.

	Active Value		Ebner		Giribaldi	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Mean (years)	3.12	2.03	2.14	2.42	0.81	2.32
Median (years)	3.00	2.27	2.03	1.58	0.81	2.32
Minimum(days)	181	96	3	173	3	835
Maximum (years)	8.62	2.93	6.03	7.38	2.10	2.35
No. Obs.	12	6	14	13	13	2

	GPG		Wyser-Pratte	
	Concluded	No Sale	Concluded	No Sale
Mean (years)	1.26	3.15	1.12	1.77
Median (years)	0.85	2.62	0.87	2.07
Minimum(days)	50	445	71	20
Maximum (years)	5.23	8.87	3.41	3.02
No. Obs.	9	9	11	5

Table 3.4: **Holding Period Distribution - Individual Raiders**

Holding period distributions of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and for stockholding still active on Dec. 31st, 2001 (No sale) for five raiders. The five raiders are: Active Value, Martin Ebner, Luigi Giribaldi, GPG, and Guy Wyser-Pratte.

	Active Value		Ebner		Giribaldi	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Less than 1 month	0	0	1	0	3	0
Less than 6 months	1	1	3	2	5	0
Less than 1 years	3	1	4	4	8	0
Less than 2 years	4	2	7	8	12	0
Less than 3 years	6	6	12	8	13	2
More than 3 years	6	0	2	5	0	0
between 1 and 2 years	1	3	4	0	4	0
between 2 and 3 years	2	5	0	0	1	2
No. Obs.	12	6	14	13	13	2

	GPG		Wyser-Pratte	
	Concluded	No Sale	Concluded	No Sale
Less than 1 month	0	0	0	1
Less than 6 months	2	0	3	1
Less than 1 years	5	0	7	1
Less than 2 years	8	3	9	2
Less than 3 years	8	6	10	4
More than 3 years	1	3	1	1
between 1 and 2 years	3	3	2	1
between 2 and 3 years	0	3	1	2
No. Obs.	9	9	11	5

Table 3.5: **Mean and Median Holding Period - Individual Countries**

Mean and Median holding period of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) for the countries of the target firms. The six countries are: France, Germany, Italy, Switzerland, Sweden, and the United Kingdom.

	France		Italy		Germany	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Mean (years)	1.17	1.81	1.16	1.71	2.09	2.01
Median (years)	0.94	2.07	0.97	1.52	2.14	1.70
Minimum(days)	31	65	3	145	278	20
Maximum (years)	3.44	3.02	4.93	3.77	3.38	5.13
No. Obs.	15	7	17	6	6	7
	Switzerland		Sweden		U.K.	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Mean (years)	1.88	2.10	3.37	0.76	2.03	2.93
Median (years)	1.79	1.68	2.07	0.76	1.13	2.46
Minimum(days)	3	178	729	173	50	96
Maximum (years)	4.93	4.30	6.03	1.05	8.62	8.87
No. Obs.	8	12	3	2	27	17

average holding period is remarkably similar as well, with the notable exception of firms with a majority shareholder. Conversely, when raiders do not exit, widely held firms show a median holding period of one year against medians greater than two years for the other sub-samples. However, the truncation of the holding period on Dec. 31st, 2001 biases the results since many purchases in widely-held companies were made near the end date. Means are almost identical. Table 3.8 reports the holding period distribution according to the ownership structure of the target firms. The evidence suggests that given the choice between "exit" and "voice" the raiders choose exit when facing a widely-held firm and "voice" when facing a firm with a large shareholder.

Table 3.9, Panel A reports the mean and median holding period with respect to the variable *Interaction* used in Section 2.7. Raiders and target firms interact when news relating the two parts are found after the announcement day. It is worth recalling that a simple public statement calling for changes is sufficient for interaction. When raiders interact with managements, both mean and medians are larger. The difference is greater when there is no exit. Panel B documents the mean and median durations when there is a real action carried out by the raider. Put differently, this table divided the sample into firms that experience corporate control events and those that do not. The results are similar to those in Panel A. Table 3.10 reports the holding period distribution according to the interaction and corporate control variables.

Table 3.6: **Holding Period Distribution - Individual Countries**

Holding period distributions of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) for the countries of the target firms. The six countries are: France, Germany, Italy, Switzerland, Sweden, and the United Kingdom.

	France		Italy		Germany	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Less than 1 month	0	0	3	0	0	1
Less than 6 months	5	1	6	1	0	1
Less than 1 years	9	2	9	3	1	2
Less than 2 years	12	3	14	3	3	4
Less than 3 years	13	6	16	5	5	6
More than 3 years	2	1	1	1	0	0
between 1 and 2 years	3	1	5	0	2	2
between 2 and 3 years	1	3	2	2	2	2
No. Obs.	15	7	17	6	6	7
	Switzerland		Sweden		U.K.	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Less than 1 month	1	0	0	0	0	0
Less than 6 months	2	1	0	1	4	1
Less than 1 years	3	3	0	1	11	1
Less than 2 years	4	7	1	2	18	6
Less than 3 years	7	8	2	2	20	13
More than 3 years	1	3	1	1	3	2
between 1 and 2 years	1	4	1	1	7	5
between 2 and 3 years	3	1	1	0	2	7
No. Obs.	8	12	3	2	27	17

Table 3.7: **Mean and Median Holding Period - Individual Ownership**

Mean and Median holding period of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) according to the ownership structure of the target firms. The types of ownership structures considered are: firms with a majority shareholder, firms with a shareholder with at least 10 percent of the equity, firms with a shareholder with at least 20 percent of the equity, family-controlled firms, and widely-held firms.

	Majority		Shareholder $\geq$20%		Shareholder $\geq$10%	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Mean (years)	2.46	2.11	1.74	2.11	1.64	2.17
Median (years)	1.24	2.22	1.23	2.01	1.24	2.03
Minimum(days)	12	269	12	20	3	20
Maximum (years)	8.62	3.43	8.62	8.87	8.62	8.87
No. Obs.	9	6	34	21	59	39

	Family		Widely-Held Firms	
	Concluded	No Sale	Concluded	No Sale
Mean (years)	1.81	2.06	1.72	2.04
Median (years)	1.40	2.18	1.20	0.99
Minimum(days)	12	20	3	145
Maximum (years)	8.62	3.77	4.93	7.38
No. Obs.	23	14	12	11

Table 3.8: **Holding Period Distribution - Ownership**

Holding period distributions of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) according to the ownership structure of the target firms. The types of ownership structures considered are: firms with a majority shareholder, firms with a shareholder with at least 10 percent of the equity, firms with a shareholder with at least 20 percent of the equity, family-controlled firms, and widely-held firms.

	Majority		Shareholder ≥20%		Shareholder ≥10%	
	Concluded	No Sale	Concluded	No Sale	Concluded	No Sale
Less than 1 month	1	0	1	1	2	1
Less than 6 months	1	0	7	3	12	3
Less than 1 years	2	1	15	5	26	6
Less than 2 years	5	2	24	10	41	18
Less than 3 years	6	4	28	17	51	32
More than 3 years	0	24	11	0	0	0
between 1 and 2 years	3	1	9	5	15	12
between 2 and 3 years	1	2	4	7	10	14
No. Obs.	9	6	34	21	59	39

	Family		Widely-Held Firms	
	Concluded	No Sale	Concluded	No Sale
Less than 1 month	1	1	2	0
Less than 6 months	5	1	4	3
Less than 1 years	10	2	5	6
Less than 2 years	16	6	8	8
Less than 3 years	18	10	9	8
More than 3 years	1	3	1	1
between 1 and 2 years	6	4	3	2
between 2 and 3 years	2	4	1	0
No. Obs.	23	14	12	11

Table 3.9: **Mean and Median Holding Period - Interaction and Corporate Control**

Panel A reports the mean and median holding period of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) based on the interaction between the raiders and the incumbent management/owner. A raider and the target firm interact if news relating the two parts are found after the announcement day. Panel B reports the mean and median holding period of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) based on corporate control events triggered by raiders.

Panel A: Interaction

	Interaction		No Interaction	
	Concluded	No Sale	Concluded	No Sale
Mean (years)	2.02	2.74	1.42	1.47
Median (years)	1.40	2.38	1.13	1.14
Minimum(days)	3	20	3	65
Maximum (years)	8.62	8.87	5.23	5.13
No. Obs.	37	30	39	22

Panel B: Corporate Control Event

	Control Event		No Control Event	
	Concluded	No Sale	Concluded	No Sale
Mean (years)	2.42	2.90	1.32	1.69
Median (years)	1.44	2.56	0.94	1.15
Minimum(days)	41	361	3	20
Maximum (years)	8.62	8.87	5.23	7.38
No. Obs.	27	22	49	30

Table 3.10: **Holding Period Distribution - Interaction and Corporate Control**

Panel A reports the holding period distributions of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) based on the interaction between the raiders and the incumbent management/owner. A raider and the target firm interact if news relating the two parties are found after the announcement day. Panel B reports the holding period distributions of raiders' purchases with a known exit date before Dec. 31st, 2001 (Concluded) and of stockholding still active on Dec. 31st, 2001 (No sale) based on corporate control events triggered by raiders.

Panel A: Interaction

	Interaction		No Interaction	
	Interaction		No Interaction	
	Concluded	No Sale	Concluded	No Sale
Less than 1 month	2	1	2	0
Less than 6 months	9	1	8	5
Less than 1 years	15	3	18	9
Less than 2 years	22	9	30	17
Less than 3 years	27	21	36	20
More than 3 years	13	11	10	9
between 1 and 2 years	7	6	12	8
between 2 and 3 years	5	12	6	3
No. Obs.	37	30	39	22

Panel B: Corporate Control Event

	Concluded	No Sale	Concluded	No Sale
Less than 1 month	0	0	4	1
Less than 6 months	3	0	14	6
Less than 1 years	8	1	25	11
Less than 2 years	15	5	37	21
Less than 3 years	17	15	46	26
More than 3 years	0	0	1	3
between 1 and 2 years	7	4	12	10
between 2 and 3 years	2	10	9	5
No. Obs.	27	22	49	30

3.4 LONG-RUN ABNORMAL RETURNS

3.4.1 Methodology

Chapter 2 analyzed the market reaction at the time of the first public announcement of a raider's stockholding. However, the long-run abnormal stock returns are not examined. Since raiders usually have held stakes for periods of time longer than one year, the long-run stock price performance of the target firms has to be investigated to determine whether the raiders create value over the years.

In their methodological paper, Barber and Lyon (1997) address the problem of detecting abnormal stock returns over long time intervals. In their paper, they consider annual, three-year, and five-year returns. They emphasize that many methods commonly used to compute long-run abnormal returns lead to test statistics that are either biased or conceptually flawed. They start by showing that buy-and-hold abnormal returns (BHARs) must be preferred to cumulative abnormal returns (CARs). In fact, they document the biases that are induced by CARs methodology[9]. The differences between CARs and BHARs stem from the effect of compounding. If individual security returns are more volatile than the market index return, CARs will be greater than BHARs if BHARs is negative or equal to zero[10]. As BHAR becomes increasingly positive, the difference between CAR and BHAR will tend to zero and eventually become negative. They find that CARs are a biased predictor of long-run BHARs (measurement bias).

Both CARs and BHARs suffer from the new listing bias, that is their population mean departs from zero and becomes positive due to the inclusion in the market index of new listed firms after the initial event date (new listing bias). Further, BHARs are severely positively skewed when using the market return as the measure of expected return. CARs suffers less from positive skewness because returns are added and not compounded.

When the distribution is positively skewed, the t-test statistics calculated as the mean BHARs of sample firms divided by the cross-sectional standard deviation of sample firms is negatively biased. This negative bias results from the positive correlation between sample means and sample standard deviations in positively skewed distribution. Therefore, when observing a positive (negative) sample mean the test statistic will be downwardly (upwardly) biased. This bias is labelled skewness bias.

The last bias in BHARs is the rebalancing bias. This bias arises when buy-and-hold abnormal returns are calculated using an equally weighted market index. Rebalancing leads to an inflated return on the market index[11] and a negative bias in BHARs. The rebalancing problem is more pronounced when daily returns are used.

[9] Barber and Lyon (1997) define the cumulative abnormal return (CAR) for firm i across τ period as:

$$CAR_{i\tau} = \sum_{t=1}^{\tau} AR_{it} = \sum_{t=1}^{\tau} [R_{it} - E(R_{it})].$$

where AR_{it} is the abnormal return in day t for firm i, R_{it} and $E(R_{it})$ are the return and the expected return in day t for firm i.

[10] Following Barber and Lyon (1997), I provide a simple example to clarify the point. Assume a firm and a reference portfolio with consecutive monthly returns of (0%, 21%) and (10%, 10%), respectively. The market-adjusted two-month CAR is 1% while the two-month BHAR is zero.

[11] This is true when the serial correlation of returns for individual securities is negative.

Barber and Lyon (1997) compares BHARs and CARs using three different kinds of approaches for developing a benchmark for calculating abnormal returns: reference portfolio, control firms, and the Fama and French (1992) three-factor model. They argue in favor of BHARs because CARs are biased predictors of BHARs. This can lead to incorrect inferences and generates a wrong measurement of the magnitude of abnormal returns. Since using reference portfolio creates many significant biases (the new listing bias, the rebalancing bias, and the skewness bias), Barber and Lyon (1997) advocate the use of a "control-firm" approach. In particular, they find that matching firms to control firms of similar size and book-to-market ratio yields well-specified test statistics. Many biases are eliminated:

- the new listing bias disappeared because both the sample firm and the matching firm must be listed on the event date;
- the rebalancing bias no longer matters;
- abnormal returns calculated by using the control firm approach are found to be rather symmetric.

The size/book-to-market control firm method yields also well specified Wilcoxon test statistics.

In calculating the abnormal return, I follow Barber and Lyon (1997)'s recommendations. I calculate the buy-and-hold abnormal returns and I select the control firm on the basis of size and book-to-market ratio[12].

Buy-and-hold abnormal returns are computed as:

$$BHAR_{i\tau} = \prod_{t=1}^{\tau}[1 + R_{it}] - \prod_{t=1}^{\tau}[1 + E(R_{it})]. \tag{3.1}$$

where R_{it} is the return for firm i on period t and $E(R_{it})$ is the expected (or normal) return for the same firm.

The control firm is chosen among the listed firms from the same country as that of the target firm. I choose the firm's market value (Datastream item MV) as proxy for size and the ratio between the book value of equity value (Datastream item 305) and the market value as proxy for the book-to-market ratio. Firms are compared according to the market value of the firm at the end of the semester before the announcement date of the first raider's stockholding.

A word of caution is needed here. The long-run returns computed in this section are just one measure of the change in the stock price for a virtual ordinary investor holding the security from the announcement day of a raider's stockholding. It is not possible to gauge how much the raider earns from a single deal by simply looking at these long-run returns because of two factors. First, side-payments to the raider are ignored. Second, the price at which the raider buys the stock might not be the public announcement day price. This can happen either because the raider buys a block of stocks from a given investor outside the market or because the stake is accumulated slowly through open market purchases. On

[12] I select the control firm only on the basis of size when the book-to-market ratio is not available. Luckily, book-to-market ratios are unavailable only for a couple of target firms.

top of that, there could also be time lags in the public notification procedure, i.e. either the information may not be disclosed to the market the day in which market authorities are informed or investors are allowed to report the purchase to the market authorities some days after the purchase.

Despite this problem, evidence from long-run abnormal returns can lead to useful insights. In fact, if raiders are corporate governance champions, they should help the firm deliver good results to the benefit of all shareholders. Therefore, under the CGCH positive abnormal long-run returns are expected.

A positive reaction is also expected under the SSPH. In this case, the prediction is even stronger than for the CGCH. Indeed, while implementing managerial or governance changes can take time to be effective, the SSPH calls explicitly for positive abnormal returns. A negative abnormal return with respect to the announcement price is not consistent with SSPH because it leads to contradict the assumption that the raider is more skilled at buying and selling stocks. In fact, if the price went down after the initial announcement day, raiders would achieve larger returns by buying the stock at the lower price.

While a negative abnormal return can be explained by the raiding hypothesis, a zero abnormal return may be due to the fact that either raiders are truly irrelevant or that they take part in a zero-sum game. Indeed, it might be that raiders get corporate resources to the only detriment of a particular group of shareholders or stakeholders, leaving the market value of the target firm untouched.

3.4.2 Results

I compute buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of raider's stockholding. I only include in the analysis either the firms in which the raider's exit is known or the firms in which I have information that the raider is still a stockholder on Dec. $31^{st}, 2001$. This reduces the number of observations to 128. Excluding also one observation because of its delisting following a takeover by the raider just after the announcement, the number of observations is 127. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$ as well [13]. Results for early exits are presented, too. An early exit is defined as an exit that comes about within one year from the announcement day.

Table 3.11 presents the gross returns using buy-and-hold methodology[14]. The gross return for firms in which a raider bought a stake is statistically significant, i.e. different from 0, after one year but not two and three years after the purchase. When raiders exit, they usually earn a positive and significant gross return. Conversely, investments on Dec. 31st, 2001 report a statistically significant loss. This is in all likelihood due to the sharp decline in equity markets that started in 2000. The Wilcoxon test provides a similar picture with the only exception of the returns after one year.

[13] I compute also the buy-and-hold abnormal returns under the assumption that when an exit takes place raiders reinvest their money in a risk-free asset that pays no interest. Results are similar to those presented in this section, and therefore omitted for sake of brevity.

[14] It is worth noting that the columns Exit and Dec. 31st, 2001, does not add up to 127, the number of observations, because of missing information about the exact exit date in one case and a takeover in the second one. Notice also that the columns 1 Year and Early Exit do not add up to 127 because of the purchases made in 2001 not followed by sales.

Table 3.11: **Buy-and-Hold Gross Returns for Raiders' Target Firms**

The gross return is the return of 1 unit of local currency invested in the target firm company. I compute buy-and-hold gross returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Gross returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. Gross returns for exits that take place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. *p-values* of both tests are reported.

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	9.25%	13.30%	24.15%	51.36%	-13.37%	18.52%
p-value	0.04	0.13	0.18	0.00	0.04	0.00
Median	0.51%	4.17%	11.11%	25.11%	-17.36%	18.27%
p-value	0.24	0.44	0.40	0.00	0.01	0.00
No. Obs.	83	50	23	75	50	33

Table 3.12: **Buy-and-Hold Abnormal Returns**

Buy-and-Hold Abnormal Returns for raider's target firms using the matching firm approach. I compute buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p - values$ of both tests are reported.

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/2001*	*Exit <1Y*
Mean	-9.47%	-24.36%	-6.94%	5.39%	-22.48%	10.36%
p-value	0.11	0.03	0.72	0.67	0.02	0.13
Median	-9.66%	-27.28%	5.90%	10.15%	-10.36%	13.05%
p-value	0.21	0.01	0.94	0.59	0.02	0.09
No. Obs.	83	50	23	75	50	33

Buy-and-hold abnormal returns for raider's target firms are reported in Table 3.12. By and large, firms targeted by raiders underperform the matching sample. The abnormal returns are statistically significant at conventional level two years after the first purchase. Target firms perform better than the control firms only when raiders sell their stakes. However, these returns are statistically significant at the 10 percent level only for early exit and only for the Wilcoxon test. Firms in which raiders were stockholders on Dec. 31st, 2001 show a negative and significant abnormal return.

Although the positive abnormal returns when the raiders exit could be taken as a hint that raiders time the market, this impression is clearly wrong. In fact, the evidence provided gives no support to the hypothesis that this group of raiders have superior skills in both picking winners and timing the markets as SSPH claims. If this had been the case, target firms would have had positive abnormal returns throughout the whole period in which raiders held the stakes. Instead, positive abnormal returns are found only when raiders trade their stakes after the initial purchase; but even these returns are not usually significant.

The CGCH suffers a blow, too. Raiders do not seem to help improve governance or, at least, in introducing valuable policies to the benefit of target companies. The raiding hypothesis is not fully supported either. Indeed, when the raider exits, the target firm experiences a positive abnormal return in the period between the announcement of the raider's initial stockholding and her exit. The evidence does not support the hypothesis that raiders have a neutral impact on target firms owing to transfers of wealth among shareholders or between shareholders and particular stakeholders.

The positive abnormal returns of early exits highlight one peculiar fact: raiders know how to cash in when an opportunity arises, but they seem to be less skilled at picking winners than expected. Further, a raider's commitment in improving the target firm's performance is not very strong. However, the sharp contrast between positive returns for exits, especially when raiders leave quickly, and the negative ones reported for stocks held on Dec. 31st, 2001, gives some support to the hypothesis that raiders are unwilling to sell losers, i.e. they may suffer from a sort of *disposition effect* (Shefrin and Statman (1985), Odean (1998)). Alternatively, their reluctance to sell losers can be traced back to a form of hubris (Roll (1986)). In this case, raiders do not sell because they believe their intuition will prove right in the very long-run.

3.4.3 Raider's Stake and Abnormal Returns

Chapter 2 found that raiders usually hold a rather small block of stocks when their first stockholding in a given company is announced. The initial stake is 5.71 percent of the outstanding equity of the target firm. However, during their stockholding, raiders often either increase or decrease their holdings. The size of the stake held by the raiders varies greatly. While they often buy stake under 5 percent of the target company's equity, raiders successfully bid for target companies in a few cases, too.

Table 3.13 presents the distribution of maximum stakes[15] held by raiders in target companies at any time during their stockholdings. Given this wide variability in the maximum stake, one cannot help wondering whether the stakes held by the raider may affect the stock

[15] It is worth noting that none of the targets in which raiders bought a stake between 30 percent and 50 percent experienced a bid from the same raiders.

Table 3.13: **Maximum Size of the Stakes**

Distribution of the maximum size of stakes in the target firm equity held at any time by raiders during their stockholding (No. Obs. 136).

Max Stake	*No. Obs.*
Less than 2%	19
2-5%	30
5-10%	27
10-20%	32
20-30%	21
30-50%	2
More than 50%	5

returns in the long-run.

To answer this question, the abnormal returns calculated as in Section 3.4.2 are subdivided according to the maximum size of the stake held by raiders during their stockholdings. Here, the maximum stake might be interpreted as a proxy for a raider's effort exerted in a company. The greater the size of the stake, the higher should be the expected raider's commitment to delivering results. Conversely, if the raiding hypothesis holds true, the higher the stake, the greater the degree of freedom for the raider to exploit or blackmail the target company.

Abnormal returns for firms in which the maximum stake held by the raiders is less than 10 percent are presented in Panel A, Table 3.14. Panel B reports the results for target firms in which the raider's stake was greater than 10 percent. Ten percent is a usual cut-off rate in the literature[16]. When the raider's maximum stake is less than ten percent, average abnormal returns are negative in the first two years. Then, the average becomes positive in year 3. Albeit not statistically significant, exits earn positive returns as well. Both the parametric t-test and the Wilcoxon test lead to similar conclusions, i.e. BHARs are never significant.

A result stands out in Panel B, Table 3.14. All average returns are negative except for early exits, i.e. exits that take place less than one year after the initial purchase. Although not significant from a statistical point of view, early exits earn positive abnormal returns when the raider purchases more than 10% of the target's equity. Negative abnormal returns are statistically significant two years after the initial purchases and on Dec. 31st, 2001. This finding signals that raiders might be perceived by the market as a liability for the target firms after some time from the initial purchase when they hold large stakes.

Table 3.14 stresses that the negative abnormal stock returns found in Table 3.12 are mainly due to firms in which the raider builds a sizeable stake. This is not consistent with the view that the raider's effort in monitoring is a positive function of the size of the stake. Only when the stake is sold quickly, abnormal returns are higher for a firm with big stakes held by raiders. This is a hint that raiders use these bigger stakes to generate expectation

[16] La Porta, de Silanes, and Shleifer (1999), La Porta, de Silanes, Shleifer, and Vishny (2002), and Faccio and Lang (2002).

Table 3.14: **BHARs - Maximum Stake**

I compute buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). Panel A shows the results for the firms in which the maximum stake is less than 10%. Panel B shows the results for the firms in which the maximum stake is greater than 10%. A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p - values$ of both tests are reported.

Panel A: Stakes less than 10%

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-5.27%	-17.54%	18.08%	13.39%	-6.85%	7.25%
p-value	0.57	0.33	0.61	0.44	0.50	0.34
Median	4.21%	-4.83%	49.13%	13.94%	-9.12%	13.05%
p-value	0.73	0.32	0.55	0.33	0.28	0.21
No. Obs.	34	19	7	46	22	25

Panel B: Stakes greater than 10%

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-12.39%	-28.53%	-17.89%	-7.28%	-34.77%	20.08%
p-value	0.11	0.05	0.45	0.70	0.03	0.21
Median	-14.80%	-32.21%	-3.14%	-5.55%	-11.13%	20.76%
p-value	0.20	0.02	0.62	0.76	0.03	0.23
No. Obs.	49	31	16	29	28	8

Table 3.15: **Tests - Less than 10% vs More than 10%**

P-values for differences in means and medians between target firms in which raiders bought a stake of less than 10% and firms in which the stake was greater than 10%. BHARs are computed after one year, two years, and three years from the first public announcement of raider's stockholding. P-values are also computed for BHARs from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. P-values for exits that take place within one year from the initial announcement of a raider's stockholding (Exit <1Y) are presented as well. BHARs are computed using the matching sample approach.

	T-test	Wilcoxon Test
1 Year	0.55	0.58
2 Years	0.62	0.63
3 Years	0.40	0.22
Exit	0.43	0.56
31/12/2001	0.15	0.43
Exit <1Y	0.42	0.49

(or just rumors) of a takeover bid and then cash-in the gains when the stock price goes up. Indeed, a bid for the target firm took place in three out of the eight observations of Panel B, Column $Exit \leq 1Y$[17]. White squires came to rescue the incumbent management or controlling shareholders in three observations as well[18]. The remaining two cases are just rumors due to speculation.

Table 3.15 shows that differences in means between the two subsamples are not significant. The Wilcoxon/Mann test for equality of the medians is never significant either. The small number of observations may influence these results.

3.4.4 Raider's Intervention and Abnormal Returns

If the raider were a corporate governance champion whose interventions aim really at improving target-firm performances, abnormal returns should be higher for firms in which such an intervention takes place than for firms in which it does not. Conversely, if a raider's intervention is just meant to be a disturbing action to fuel a costly conflict with the incumbent management, abnormal returns should be lower for firms in which raiders intervene.

Two sub-samples are created according to a dummy variable for the raider's intervention. I used a similar indicator variable (i.e. interaction) in Chapter 2, when dealing with cumulative abnormal returns following the first public announcement of the raider's stockholding. It is worth noting that the variables are different. While a public statement by the raider reported by the press is enough to be included in the interaction sample, only firms in which an event relating to corporate control took place are included in the intervention sample[19]. Forty-nine out of the 136 firms studied experienced at least one intervention (36

[17]The three firms are Bluebyrd Toys Plc of U.K., Winterthur AG of Switzerland, and Intertechniques SA of France.

[18]Bouyues SA of France, Pathé SA of France, Snia SpA of Italy.

[19]For example, board changes, proxy-fights, take-over bids, legal actions, refusals to approve annual company accounts.

Table 3.16: **BHARs - Intervention and No Intervention**

I compute buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). Panel A reports the results for firms in which the raiders intervened. Panel B reports the results for firms in which the raiders did not intervene. A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p - values$ of both tests are reported.

Panel A: Intervention

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-8.10%	-25.72%	-15.46%	6.98%	-42.60%	25.60%
p-value	0.38	0.11	0.57	0.82	0.05	0.15
Median	-16.10%	-34.57%	-3.14%	-5.55%	-15.48%	29.93%
p-value	0.53	0.11	0.66	0.64	0.06	0.18
No. Obs.	40	28	16	27	20	8

Panel B: No Intervention

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-10.75%	-22.62%	12.51%	4.50%	-9.07%	5.49%
p-value	0.16	0.13	0.44	0.66	0.26	0.44
Median	-5.74%	-22.06%	19.06%	12.21%	-8.65%	11.37%
p-value	0.29	0.08	0.55	0.27	0.12	0.27
No. Obs.	43	22	7	48	30	25

percent), while 87 firms did not. Abnormal returns for the two sub-samples are presented in Table 3.16.

When raiders intervene, no abnormal returns are significantly different from zero apart those of firms in which the raiders held the stakes at the end date. All returns but exits are negative. No negative and significant average abnormal returns is found when the raiders do not intervene. On the other hand, the Wilcoxon test is weakly significant after two years. It is worth noting that when raiders do not intervene they are more prone to early exit. When the two samples are compared (see Table 3.17), only the abnormal returns for firms in which the raiders held the stakes on Dec. $31^{st}, 2001$, are statistically different (t-test). However, in this case the intervention sample performs far worse than the other sample. Although rather difficult to interpret, the results highlight a point: there is no clear evidence that raiders intervene in the worst performing companies. In fact, in the first year and when an early exit occurs, firms that experienced intervention perform better on average than other firms. The correlation between the indicator variable for stake greater than ten percent and

Table 3.17: **Tests - Intervention vs No Intervention**

P-values for differences in means and medians between targets firm in which there was raider's intervention (No. Obs. 49) and firms that did not experience raider's intervention (No. Obs. 87) for BHARs after one year, two years, and three years from the first public announcement of raider's stockholding. P-values are also computed for BHARs from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. P-values for exits that take place within one year from the initial announcement of a raider's stockholding (Exit <1Y) are presented as well. BHARs are computed using the matching sample approach.

	T-test	Wilcoxon Test
1 Year	0.82	0.91
2 Years	0.89	0.95
3 Years	0.51	0.57
Exit	0.93	0.60
31/12/2001	0.09	0.25
Exit <1Y	0.20	0.25

the interaction dummy is 0.51.

To sum up, the raider steps in roughly in one-third of the observations but the intervention does not seem to improve performances unless they sell quickly. In particular, the fact that the intervention sample underperforms the no-intervention sample when BHARs up to Dec. $31^{st}, 2001$ are considered casts a lot of doubts about both the ability of the raiders in having their resolutions implemented and their relevance.

3.4.5 Market-Adjusted Buy & Hold Abnormal Returns

Barber and Lyon (1997) argue that the matching firm approach controlling for size and book-to-market ratio yields well-specified test statistics and it is preferable to test statistics based on market index-adjusted abnormal returns. Despite that, the abnormal returns calculated using a market index can provide some information about how the raiders' targets behave with respect to the market as a whole.

Results in Table 3.18 are a little different from those in Table 3.12. First, the significant worsening in stock price performances at the end date disappears. The Wilcoxon test is significant after two years and three years. Conversely, early exits are positive and significant. Generally, returns are higher when buy & hold abnormal returns are computed with a market index, with the only exception of the return for the three-year period starting from the announcement day.

Evidence from the analysis conditioned on the maximum size of the stake follows quite closely that of the sample as a whole, as Table 3.19 shows. Concerning averages, only early exits are significant (and positive), while all other periods are not statistically different from zero. As for the sample as a whole, the differences with respect to the control firm approach are after two years and at Dec. 31st, 2001. Similarly to the matching sample approach, no difference in means is significant between the firms in which the raiders purchase a stake larger than 10 percent of the target firms' equity and those where the stake is less than 10

Table 3.18: **Market-Adjusted Buy-and-Hold Abnormal Returns for Raider's Target Firms**

I compute market-adjusted buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p - values$ for both tests are reported.

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-1.75%	-9.18%	-21.58%	14.42%	-5.85%	13.82%
p-value	0.68	0.23	0.15	0.15	0.34	0.00
Median	-8.05%	-14.79%	-13.62%	10.97%	-7.13%	14.35%
p-value	0.30	0.04	0.07	0.13	0.28	0.00
No. Obs.	83	50	23	75	50	33

percent. The results of the Wilcoxon test is somewhat different from the t-test in Table 3.19. In fact, median returns are statistically significant two years after the initial announcement and when exits occur. Table 3.20 compare the two samples. No test is significant.

Market-adjusted stock price performances are generally higher than the ones for the matching sample approach also when the target firms are subdivided according to the intervention indicator variable (Table 3.21). Differently from the matching sample approach, firms in which an intervention takes place perform better on average than the remaining ones except on Dec. 31st, 2001. However, the evidence from medians is mixed. Moreover, stock price returns are no different from zero according to a standard two-tail t-test. Hence, this result cannot be interpreted as evidence that intervention improves stock price returns. The only difference between the t-test and the Wilcoxon test concerns exits when there is no intervention. While the t-test is not significant, the Wilcoxon test is. Looking at Table 3.22, notice that the difference in returns is not significant on Dec. 31st, 2001 as for the matching sample approach.

3.4.6 Long-run Abnormal Returns with Different Starting Dates

I document in Chapter 2 that target firms show a positive and significant run-up in their stock-price before the news regarding the raider's stockholding is publicly released. Since this run-up is most likely due to the raider's purchase, studying the long-run abnormal returns starting from the announcement day might miss the point and hide the actual results. Hence, as a robustness check for the previous results, long-run abnormal returns starting before the announcement day are computed. In particular, two starting dates are used. The first new starting date is two calendar months before the announcement day. This date should help getting rid of the run-up problem since, as shown in Chapter 2, there is no abnormal return thirty trading days before the announcement day. The second

Table 3.19: **Market-Adjusted BHARs - Maximum stake**

I compute market adjusted buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). Panel A shows the results for the firms in which the maximum stake is less than 10%. Panel B shows the results for the firms in which the maximum stake is greater than 10%. A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p - values$ for both tests are reported.

Panel A: Stake less than 10%

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-4.12%	-15.48%	-29.40%	21.64%	-4.54%	14.80%
p-value	0.53	0.12	0.21	0.11	0.65	0.00
Median	-7.95%	-15.59%	-46.14%	15.11%	-7.70%	14.70%
p-value	0.31	0.03	0.15	0.05	0.26	0.01
No. Obs.	34	19	7	46	22	25

Panel A: Stake larger than 10%

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-0.11%	-5.32%	-18.16%	2.97%	-6.88%	10.75%
p-value	0.98	0.63	0.36	0.84	0.38	0.02
Median	-8.85%	-13.34%	-11.50%	-0.77%	-4.85%	12.66%
p-value	0.64	0.24	0.22	0.98	0.37	0.06
No. Obs.	49	31	16	29	28	8

Table 3.20: **Tests - Less than 10% vs More than 10% (Market-Adjusted Approach)**

P-values for differences in means and medians between target firms in which raiders bought a stake of less than 10% and firms in which the stake was greater than 10%. BHARs are computed after one year, two years, and three years from the first public announcement of raider's stockholding. P-values are also computed for BHARs from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$. P-values for exits that take place within one year from the initial announcement of a raider's stockholding (Exit <1Y) are presented as well. BHARs are computed using the market-adjusted approach.

	T-test	Wilcoxon Test
1 Year	0.64	0.71
2 Years	0.52	0.66
3 Years	0.73	0.76
Exit	0.37	0.19
31/12/2001	0.85	0.82
Exit <1Y	0.65	0.75

starting date is two trading days before the announcement day. Taking into account that some announcement dates were published in daily newspapers, it is possible to consider this date as the last day before the raider's entry.

Table 3.23, Panel A, shows the results for BHARs adjusted for the control firm's returns starting two months before the announcement day. Abnormal returns are higher as required by the run-up story. Early exits are significant and positive and returns after two years are not anymore significant from a statistical point of view. Conversely, the negative abnormal stock price performance from the announcement day to Dec. 31st found in Table 3.12 is confirmed when the starting date is two months before the announcement day. Panel B of Table 3.23 is very close to the evidence reported in Table 3.12 with the only exception of the statistical significance of early exits.

I present buy-and-hold returns starting two months before the announcement day adjusted with a market index return in Panel A, Table 3.24. The results are broadly consistent with the run-up story. The average returns are always higher than in Table 3.18[20]. Exits always show positive and significant abnormal returns. In particular, abnormal returns of early exits almost double. Panel B, Table 3.24 shows long-run abnormal returns starting two days before the announcement day. Apart from the abnormal return when an exit occurs, the results are very close to those reported in Table 3.18.

The same analysis is performed also for the sub-samples generated with the dummy variables concerning the size of the maximum stake held by the raider and the raider's intervention. Since no major insight emerges from these tables, I omit them for the sake of brevity[21]. Only one observation is worth noting. When the starting date is before the announcement date early exits earn generally a positive and statistically significant abnormal return.

[20] This is not true for medians.

[21] Results are available from the author.

Table 3.21: **Market-Adjusted BHARs - Intervention and No Intervention**

I compute market-adjusted buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). Panel A reports the results for firms in which the raiders intervened. Panel B reports the results for firms in which the raiders did not intervene. A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p - values$ for both tests are reported.

Panel A: Intervention

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-1.04%	2.83%	-17.22%	18.99%	-12.67%	17.75%
p-value	0.88	0.80	0.39	0.45	0.15	0.07
Median	-8.97%	-5.23%	-26.30%	0.84%	-19.06%	14.29%
p-value	0.46	0.72	0.22	0.99	0.13	0.03
No. Obs.	40	28	16	27	20	8

Panel A: No Intervention

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-2.41%	-24.47%	-31.56%	11.85%	-1.30%	12.56%
p-value	0.63	0.02	0.15	0.12	0.88	0.01
Median	-7.72%	-34.35%	-13.62%	15.11%	-6.40%	14.70%
p-value	0.39	0.01	0.15	0.03	0.84	0.01
No. Obs.	43	22	7	48	30	25

Table 3.22: **Tests - Intervention vs No Intervention (Market-Adjusted Approach)**

P-values for differences in means and medians between target firms in which there was a raider's intervention and firms that did not experience a raider's intervention. BHARs are computed after one year, two years, and three years from the first public announcement of raider's stockholding. P-values are also computed for BHARs from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. P-values for exits that take place within one year from the initial announcement of a raider's stockholding (Exit <1Y) are presented as well. BHARs are computed using the market-adjusted approach.

	T-test	Wilcoxon Test
1 Year	0.87	0.92
2 Years	0.07	0.04
3 Years	0.66	0.66
Exit	0.73	0.24
31/12/2001	0.37	0.27
Exit <1Y	0.56	0.85

3.4.7 Buy-and-Hold Gross Returns for Individual Raider

Table 3.25 shows the mean and median gross returns earned by the five raiders with at least ten observations, namely Active Value (U.K.), Martin Ebner (SWI), Luigi Giribaldi (ITA), GPG (U.K.), Guy Wyser-Pratte (U.S.). Returns for Active Value are generally negative except when they exit. Firms targeted by Mr Ebner have positive returns when he is a shareholder, with the only exception of the median in the period ending on Dec. 31st, 2001. Surprisingly, early exits report negative gross returns. Mr Giribaldi performs quite well on average except in the interval closing on Dec 31st, 2001. However, median returns are always negative but for the two-year period. GPG has large positive returns when it exits. Conversely, when GPG has held the stake for a long time, returns are strongly negative. Returns for Guy Wyser-Pratte are roughly similar to those of GPG, especially on average, i.e. they are positive when there is an exit, negative when he has stayed for three years in a company.

Table 3.26 presents the abnormal buy-and-hold returns for the five raiders using the matching firm approach of Barber and Lyon (1997). Firms targeted by Active Value usually report negative abnormal returns except when they exit. It is worth noting that the median is negative when the exit does not take place within one year of the announcement. Companies in which Mr Ebner bought a stake underperform their matching firms also in the first two years. However, returns are positive when Mr Ebner has been in the company for three years. As in the case of gross returns, early exits are marginally negative. Abnormal returns for firms targeted by Mr Giribaldi are always negative. GPG presents abnormal returns that are positive only when an exit takes place and for the period ending on Dec. 31st, 2001. Mr Wyser-Pratte presents positive returns in all the intervals considered except in the two-year period and on the one ending on Dec. 31st, 2001.

Table 3.27 documents the abnormal buy-and-hold returns using the market index approach. As expected from the evidence collected in Section 3.4.5, the results are slightly

Table 3.23: **BHARs for Raider's Target Firms with Different Starting Date**

I compute buy-and-hold abnormal returns using the matching-sample approach after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year of the initial announcement of a raider's stockholding are presented as well (Exit <1Y). In Panel A, the starting date is two months before the announcement day of raider's stockholding. In Panel B, the starting date is two days before the announcement day of raider's stockholding. A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p-values$ for both tests are reported.

Panel A: Two Months

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-6.34%	-20.11%	3.33%	17.91%	-27.20%	26.58%
p-value	0.39	0.13	0.86	0.24	0.05	0.01
Median	-3.98%	-7.15%	2.88%	15.81%	-8.37%	20.79%
p-value	0.65	0.21	0.75	0.13	0.05	0.00
No. Obs.	83	50	23	75	50	33

Panel B: Two Days

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-7.92%	-23.35%	-5.95%	8.81%	-21.48%	14.05%
p-value	0.19	0.03	0.75	0.50	0.03	0.07
Median	-8.82%	-28.19%	5.28%	12.72%	-10.03%	14.81%
p-value	0.30	0.02	0.99	0.43	0.03	0.04
No. Obs.	83	50	23	75	50	33

Table 3.24: **Market-Adjusted BHARs for Raider's Target Firms with Different Starting Date**

I compute the market-adjusted buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year ofthe initial announcement of a raider's stockholding are presented as well (Exit <1Y). In Panel A, the starting date is two months before the announcement day of raider's stockholding. In Panel B, the starting date is two days before the announcement day of raider's stockholding. A standard t-test is used to measure whether the mean is statistically different from zero. A Wilcoxon signed-rank test is used to measure whether the median is statistically different from zero. $p - values$ for both tests are reported.

Panel A: Two Months

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	4.22%	-2.79%	-15.50%	27.62%	-4.45%	27.18%
p-value	0.37	0.73	0.35	0.03	0.49	0.00
Median	-0.93%	-11.96%	-21.72%	13.53%	-4.92%	17.58%
p-value	0.81	0.30	0.16	0.00	0.45	0.00
No. Obs	83	50	23	75	50	33

Panel B: Two Days

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
Mean	-0.21%	-8.18%	-20.65%	17.35%	-5.18%	16.24%
p-value	0.96	0.28	0.16	0.10	0.41	0.01
Median	-7.65%	-13.91%	-29.28%	14.34%	-8.88%	16.48%
p-value	0.37	0.05	0.07	0.05	0.34	0.00
No. Obs	83	50	23	75	50	33

Table 3.25: **Buy-and-Hold Gross Returns for Five Raiders.**

I compute buy-and-hold gross returns after one year, two years, and three years from the first public announcement of a raider's stockholding for five raiders. Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. Gross returns for exits that take place within one year of the initial announcement of a raider's stockholding are presented as well (Exit <1Y). The five raiders are: Active Value (U.K.), Martin Ebner (SWI), Luigi Giribaldi (ITA), GPG (U.K.), Guy Wyser-Pratte (U.S.).

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
			Active Value			
Mean	0.79%	-15.72%	-0.67%	58.77%	-21.39%	33.04%
Median	-3.32%	-15.09%	-19.93%	23.97%	-35.63%	27.72%
No. Obs.	14	12	6	12	6	3
			Martin Ebner			
Mean	9.25%	39.60%	48.17%	68.12%	3.77%	-2.34%
Median	11.38%	27.27%	57.66%	29.71%	-15.15%	-5.09%
No. Obs.	19	13	7	13	13	4
			Luigi Giribaldi			
Mean	9.88%	21.42%		40.34%	-21.20%	3.15%
Median	-15.79%	18.73%		-1.10%	-21.20%	-1.55%
No. Obs.	7	3	0	13	2	8
			GPG			
Mean	19.33%	11.85%	-49.38%	44.99%	13.36%	26.08%
Median	-1.27%	-10.14%	-64.64%	26.82%	12.98%	25.11%
No. Obs.	12	6	3	9	7	5
			Guy Wyser-Pratte			
Mean	20.79%	8.30%	-9.39%	34.19%	-17.96%	31.25%
Median	18.00%	16.77%	-9.39%	30.89%	-8.57%	30.84%
No. Obs	8	5	2	11	5	7

Table 3.26: **BHARs for Five Raiders**

I compute buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding for five raiders (matching firm approach). Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$, too. BHARs for exits that take place within one year of the initial announcement of a raider's stockholding are presented as well (Exit <1Y). The five raiders are: Active Value (U.K.), Martin Ebner (SWI), Luigi Giribaldi (ITA), GPG (U.K.), Guy Wyser-Pratte (U.S.).

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
			Active Value			
Mean	-36.89%	-56.07%	-65.09%	12.49%	-93.49%	0.58%
Median	-25.51%	-44.26%	-87.48%	-1.49%	-65.41%	14.83%
No. Obs.	14	12	6	12	6	3
			Martin Ebner			
Mean	-0.51%	-2.71%	14.04%	7.85%	0.13%	-2.59%
Median	-5.74%	-4.83%	32.63%	1.28%	-7.81%	-1.97%
No. Obs.	19	13	7	13	13	4
			Luigi Giribaldi			
Mean	-27.98%	-16.59%		-19.08%	-2.99%	-12.07%
Median	-35.56%	-42.70%		-6.15%	-2.99%	-8.87%
No. Obs.	7	3	0	13	2	8
			GPG			
Mean	-1.68%	-28.44%	-57.34%	3.40%	0.32%	8.25%
Median	-0.39%	-19.47%	-25.94%	15.54%	21.12%	15.54%
No. Obs.	12	6	3	9	7	5
			Guy Wyser-Pratte			
Mean	17.32%	-55.07%	3.86%	4.08%	-11.05%	36.67%
Median	28.83%	-36.94%	3.86%	26.97%	-8.57%	26.97%
No. Obs.	8	5	2	11	5	7

Table 3.27: **Market-Adjusted BHARs for Five Raiders**

I compute market-adjusted buy-and-hold abnormal returns after one year, two years, and three years from the first public announcement of a raider's stockholding for five raiders (market-adjusted approach). Abnormal returns are computed from the date of the initial purchase to either the day of the raider's exit or Dec. $31^{st}, 2001$. BHARs for exits that takes place within one year from the initial announcement of a raider's stockholding are presented as well (Exit <1Y). The five raiders are: Active Value (U.K.), Martin Ebner (SWI), Luigi Giribaldi (ITA), GPG (U.K.), Guy Wyser-Pratte (U.S.).

	1 Year	*2 Years*	*3 Years*	*Exit*	*31/12/01*	*Exit <1Y*
			Active Value			
Mean	-4.36%	-27.91%	-42.46%	18.71%	-11.94%	16.35%
Median	-7.76%	-35.02%	-51.22%	8.38%	-23.47%	14.70%
No. Obs.	14	12	6	12	6	3
			Martin Ebner			
Mean	-5.45%	1.15%	13.20%	-4.00%	8.01%	-0.58%
Median	-10.27%	-5.77%	5.01%	13.91%	-6.27%	-4.32%
No. Obs.	19	13	7	13	13	4
			Luigi Giribaldi			
Mean	-16.67%	-10.41%		3.78%	-15.94%	-3.23%
Median	-24.59%	-12.00%		-2.94%	-15.94%	-1.98%
No. Obs.	7	3	0	13	2	8
			GPG			
Mean	18.58%	3.18%	-70.22%	36.76%	27.36%	24.37%
Median	8.53%	-9.36%	-89.69%	21.00%	30.58%	21.00%
No. Obs.	12	6	3	9	7	5
			Wyser-Pratte			
Mean	-2.46%	-24.38%	-74.05%	9.38%	-17.30%	27.29%
Median	13.75%	-29.88%	-74.05%	15.52%	-8.84%	23.86%
No. Obs.	8	5	2	11	5	7

different from the previous table. Here, three points are worth noting. First, early exits earn positive buy-and-hold abnormal returns for Active Value, GPG, and Mr Wyser-Pratte but not for Mr Ebner and Mr Giribaldi. Second, when the buy-and-hold returns are computed from the announcement day to Dec. 31st, 2001, the returns are negative but for GPG. Last but not least, raiders seem generally unable to beat the market.

Although the number of observations is too small to draw any meaningful conclusion from a statistical point of view, the findings provide some useful indications. The results in this section generally confirm also at a disaggregated level the findings of the previous Sections. Indeed, three raiders are able to beat either the matching firm or the market only when they exit quickly. All five of them are generally unable to outperform either the market or the matching firm when they stay in a company for a long time. More interestingly, Table 3.25 shows that these five raiders have some difficulties in making money from some of their investments. On top of that, it seems that market-wide factors have a large role in the positive gross returns.

These findings, together with those previously presented in this Section, bring to light the question whether the raiders can make their investments paying off in other ways. For example, the strategy of being aggressive with their targets made it possible for Active Value to amass U.S. $ 800 million from North-American institutional investors, including CalPERS, in the 1998. It is hard to say whether a different strategy could have permitted Active Value's Mr Treger and Mr Myerson to distinguish themselves from other fund managers and obtain such funds. While the same strategy may be pursued to some extent by GPG, Martin Ebner may certainly have exploited the fame earned as a raider in order to attract investors for his bank business and for his Visions. On top of that, Mr Ebner was appointed to the boards of some Swiss blue chips, like Alusuisse and ABB. Thus, he may have used his investments also to join to the Swiss establishment environment. However, the explanation that raiders are also looking for other objectives and not only hard money have some trouble to explain the evidence for Mr Wyser-Pratte and Mr Giribaldi. Mr Wyser-Pratte is essentially an arbitrageur and his firm operates mainly in the United States. He rarely asked for a seat on a board of directors of the companies he invested in. The more plausible explanation for the negative returns for some of its investments is the simplest one: bad investment decisions[22]. Gross returns for Mr Giribaldi are even worse, since the median gross returns is negative even when he exits. Unless accepting a sort of Demsetz and Lehn (1985) argument about the amenity potential of investing in a company and harassing the incumbent management, it is not clear why Mr Giribaldi kept on investing in listed companies after the financially profitable Cofide and CIR deals.

Of course, it is possible to argue that these investors may enjoy private benefits of control. However, I think that this explanation is not appropriate in this case. Although these investors sometimes amass sizable blocks of stocks, they are generally outsider and often they face a controlling shareholder.

3.4.8 Comments

The evidence collected throughout the whole section clearly indicates that raiders' successes tend to be exaggerated by the financial press. The selected raiders seems to be able to

[22]See *Business Week*, A U.S. Raider's "Iron Fist in a Velvet Glove", 4 February 2003.

generate a stock price increase only when they go for a quick exit, i.e. they sell off their stake in less than one year following the initial announcement. Although early exit is consistent with the raiding hypothesis, it is worth remembering that each single shareholder of the target company benefits from the rise in the stock price. When they stay on longer, raiders seems unable to deliver results in terms of stock price performance, no matter the size of the stake they hold. Their interventions seem either empty threats or useless activities in the majority of the cases. In some instances, a raider's intervention seems to make things worse for the target firm.

The findings give full support to none of Holderness and Sheehan (1985)'s hypotheses. Raiding hypothesis cannot explain the positive performance in the period up to raiders' exits. Further, a significant negative abnormal stock price return is found only in the two-year long interval after the announcement and when the raiders have still a stake in the company on Dec. 31st, 2001.

This section clarifies a point for good: the selected raiders have no superior ability in picking stocks that outperform either the market or control firms. They seem unable to time the market as the SSPH required. This suggests that raiders do not have private information about target firms, confirming the role of the raiders as outsiders. Corporate governance champion hypothesis is clearly not supported by the evidence either.

The results cast a lot of doubt on the ability of the selected raiders as *restructuring specialists*, to use Gorton and Kahl (2002)'s words. According to Gorton and Kahl (2002), raiders should be the most effective monitors because they have their own money at stake and thus, they are free from agency problems. While it is true that the raiders put their own money at stake, it does not seems that they have such a positive role in monitoring managements. First, they are often passive in managing their holdings (there is no intervention in 64% of the collected observations). Second, when they intervene, stock market evidence documents that no particular benefit is achieved by the target company. Last but not least, when raiders have bigger stakes, target companies suffer the most as they earn lower returns (see Table 3.14).

Given this evidence, it is natural to wonder why raiders intervene and go on holding their stakes for a long time when it seems that the most successful strategy is a quick sale. One possible explanation is that they are not always able to sell the stake, in particular when they hold a sizeable stake either in small companies or when the stock is scarcely liquid. Another possibility is that they look for side-payments not captured by the stock market returns. I look at this issue in more details in Section 3.7.

Sizeable stakes bias raiders toward intervention, as in the *lock-in effect* described in Maug (1998). Indeed, a positive correlation between the two variables is found. It is worth noting that the size of the stake used in this section is the maximum stake held by raiders at any time during their stockholding. The variable is different from the size of the initial stake held at the time of the announcement used in Chapter 2. Hence, the fact that a larger maximum stake increases the likelihood of a raider's intervention cannot be directly used to explain the positive short-run reaction found in Section 2.3.2[23].

Evidence at individual raider level broadly supports the results for the sample as a

[23]In Chapter 2, I find that the size of the initial stake matters for the abnormal returns in the event window [-1, 0] but not for longer event windows. Additional purchases made in the 120 days following the initial announcement are relevant for CARs in longer event windows.

whole. In particular, there is no support for the SSPH. The findings at individual raider level bring to light a related question. In fact, given that many investments turn out to produce a negative return, both gross and abnormal, one naturally wonders whether raiders can profit from their investments in other ways. Anecdotal evidence suggests that this is possible for some of the raiders, but this is at best a partial answer.

Although raiders give the impression of being unable to boost stock prices even when they exert effort, it is possible that their actions prevent a decline that might have taken place otherwise. This consideration is somehow related to the Shleifer and Vishny (2003) remark about the merger spree of the late 1990s. They observe that before condemning a merger because long-run acquirer returns are poor, the alternative has to be considered. In fact, it can be the case that long-run acquirer returns would be even worse if the acquisitions had not taken place[24]. Applying this line of thought to the raider's case, this is equivalent to ask what might have happened if raiders had not intervened (or even not bought the stake) before interpreting the negative abnormal stock price returns found after two years as evidence of the raiding hypothesis.

From the investor's perspective, the positive abnormal returns for exits and the negative abnormal returns on Dec. 31st, 2001, can be explained by loss aversion. Shefrin and Statman (1985) find that investors are reluctant to sell assets trading at a loss relative to the price at which they were purchased[25]. They labelled this phenomenon "disposition effect". More recently, Odean (1998) finds that investors ride losers too long to avoid realizing their losses, too. Conversely, investors sell winners. A sort of disposition effect seems to apply to the raiders studied in my research as well. Raiders tend to be fast in selling stocks that are either performing above the expectation or beating the market. On the other hand raiders were losing money on average when they were a stockholder in the target companies on Dec. 31st, 2001. Of course, waiting too long before selling may be very dangerous for the investors' very survival, as Shefrin and Statman (1985) stress[26].

The fact that raiders earn positive returns (sometimes not significant) when they sell while reporting loss when they remain shareholders at the end date is also consistent with the view that raiders are subject to a form of hubris, i.e. the overbearing presumption that their valuations are correct (Roll (1986)). To put it another way, because of their self-esteem raiders do not sell quickly when they invest on a loser.

This section also provides an answer to the question posed by Bethel, Liebeskind, and Opler (1998) whether the duration of a block position matters. The evidence is quite clear in indicating that raiders do not belong to the category of blockholders described by Demsetz and Lehn (1985) as long-term owners who create value by constant monitoring over a period of years. Conversely, raiders create value when they hold the stake just for a short period.

[24]They cite the acquisition of Time-Warner by America On line as an example. In Shleifer and Vishny (2003)'s perspective, the acquisition of Time, a media company, avoided even worse returns in the long-run for AOL, a pure dot.com company at that time.

[25]In Shefrin and Statman (1985) the purchase price is the reference point from which gains and losses are measured in the Kahneman and Tversky's Prospect Theory value function.

[26]The near bankruptcy of Mr Ebner in 2002 seems to confirm how dangerous riding losers is.

3.5 EVENT STUDY FOR RAIDERS' EXITS

Chapter 2 studies the market reaction to the first public announcement of raiders' stockholdings. However during the period investigated, the raiders sold their entire holdings in some companies, too. Hence, it is interesting to examine how the market reacts to news that raiders sell their stakes in a company. Details about the methodology of event studies are given in Section 2.3.1.

Raiders exit completely from a firm when it is reported that they have sold their entire stake or no longer hold any notifiable stake in a company. An obvious drawback of this definition is that the complete exit might be only a consequence of a partial exit. A partial exit happens when raiders reduce their holding selling only a fraction of their stake.

An example can help understanding the point. Assume that a raider holds a 25 percent in a firm. Now imagine that this raider decides to sell her stake, either through a series of small on-market transactions or through a block trade[27]. After the sale, the raider holds, assuming U.K. disclosure rules, only 3.1 percent, just above the notifiable interest threshold. Finally, the raider sells this 3.1 percent three months later. Which is the most relevant sale? I think that after the raider sells a stake of 21.9 percent of the target firm equity, the market will understand that the raider has lost interest in the company and it will behave accordingly. No truly brand-new information is embodied in the last sale. This can create a bias against finding significant abnormal returns. This can be considered an extreme example but it is not so far from reality. In fact, GPG held a 16 percent stake in Inchcape in March 2001 but GPG sold its entire stake through a series of market transactions by late October 2001.

Despite this problem, the market reaction to the raider's exit can be helpful in defining their role. In fact, it would be quite astonishing to report a positive market reaction if the raider is believed to improve a firm's performance. On the other hand, a positive reaction can be interpreted as a signal that raiders have a negative impact on the target firm either because they are a costly distraction for the incumbent management or just because firm's exploitation comes to an end.

Table 3.28 presents the results. The cumulative average abnormal return is 1.09 percent on the event window [-1, 0]. This return is highly significant from a statistical point of view. Event windows starting from day -30 are significant, too. The highest abnormal cumulative return is on day 1 and then it dips slightly. However, abnormal cumulative return stays almost level around 8-9 percent from day 0 to day 30. The results are robust with respect to Dimson's betas. A significant run-up takes place in the event window [-10, -2].

Different results are obtained when exits from firms that did not experience a third party's public offer are considered. Abnormal returns are lower. In particular, the return on the event date is only 0.01 percent (not significant). The plot in Figure 3.2 exhibits a partial reversal. Around one third of the cumulative returns is lost in the 30 days after the event day.

The findings in Table 3.28 and Figure 3.2 are a warning that the ways the raider exits from the firms can be relevant in determining abnormal returns. Thus, I subdivided the 75 observations of exits according to their types. Exits are classified in three types:

[27] The type of sale is immaterial here.

- the raider exits after accepting a takeover bid made by another firms or investors (24 observations);
- the raider sells her shares through open market transactions (31 observations);
- the raider sells her block of stocks to another investor (20 observations).

Table 3.29 and Figure 3.3 show the results. As was made clear by the previous tables, the positive abnormal returns found in the first column of Table 3.28 are driven by the bids that other companies launch on raider's targets. The abnormal return is 3.30 percent when there is a take-over bid and it is significant at conventional levels. On the other hand, the return is very close to zero when the sale is carried out on the market. Interestingly, the block sale earns a small negative abnormal return but it is not significant. No event window is significant when raiders transfer their blocks to other investors. Conversely, when raiders unload their stakes with a series of market transactions, cumulative returns are significant in all the event windows starting from day -30 but in [-30, 30].

It is worth noting that the results for the last two types are more informative about the raiders than the exits due to offers. In fact, the abnormal positive returns when there is a bid are in all likelihood due to the takeover and not to the raiders' exits. Therefore, the results support the view that markets are not worried by the raider's exit. Indeed, the positive reaction seems to indicate that raiders can be a costly distraction. For example, Shleifer and Vishny (1986) stress the cost of a proxy fight. However, the new blockholder might be a distraction, too. This could explain why target firms do not exhibit positive returns when raiders sell their blocks of stocks to other investors (or group of investors).

The positive reaction when a block is disintegrated contrasts with the view that large shareholders are good for the company because they can effectively monitor the incumbent management overcoming the well-known free-rider problem (Shleifer and Vishny (1986)). However, notice that in the majority of target firms a large shareholder already exists. Therefore, the positive market response can be just the result of the end of a troubled co-habitation between the raider and the controlling shareholder.

Shleifer and Vishny (1986) point out that large blocks of shares will tend to be passed on rather than dissipated. Previous empirical evidence[28] supports the hypothesis that raiders trade the whole stake. In contrast, the findings in this section do not give much support to Shleifer and Vishny (1986)'s claim. Thirty-one out of the 55 exits not due to take-over bids take place on the market and not through private transactions. However, these exits generally concern very small stakes unlikely to have any controlling power. Therefore, it is possible to figure out that the raiders sell when prices are high. Consistent with this interpretation, in Section 3.4 exits are usually associated with positive buy-and-hold abnormal returns for the period from the initial announcement day to the day in which the raider leaves the company.

It is worth noting that these results are by no means easy to interpret. In fact, many other factors can play a role in determining stock price changes around the time of the exit announcement. For example, the results might be consistent with the downward sloping demand curve if the net demand for the stock the raider is selling is positive. In that case,

[28] Barclay and Holderness (1989) and Barclay and Holderness (1991).

Table 3.28: **Raiders' Exits**

Cumulative average daily abnormal returns in percent for various event windows for raiders' exits. Raiders exit completely from a firm when it is reported that they have sold their entire stake or no longer hold any notifiable stake in a company. The table shows the CARs using OLS market model in Column *Exits* and using the Dimson (1979) AC Method with 3 lags and 1 lead in Column *Dimson*. Column *No Offer* presents the CARs for the 51 exits not due to a takeover offer. T-statistics of the test that the CAR is equal to zero is given in parentheses.

Event Window	*Exits*	*Dimson*	*No Offer*
[-1, 0]	1.02	1.05	0.01
	(2.22)	(2.22)	(0.01)
[-30, 1]	8.92	8.92	7.08
	(4.40)	(4.27)	(3.08)
[-30, 5]	7.53	7.52	5.45
	(3.46)	(3.35)	(2.21)
[-30, 10]	8.59	8.46	5.71
	(3.64)	(3.48)	(2.14)
[-30, 30]	8.10	7.90	4.60
	(2.67)	(2.52)	(1.35)
[-10, -2]	3.43	3.63	2.80
	(3.43)	(3.53)	(2.45)
No. Obs.	75	75	51

the raider could just provide part of the supply of the security required by other buyers[29].

Broadly speaking, there is no evidence that markets react negatively to the news that a raider is leaving one target company for good. Indeed, positive abnormal returns are found when the raiders dispose of their stake on the market. The positive reaction is consistent with the raiding hypothesis, but also with Burkart, Gromb, and Panunzi (1997)'s claim that too much monitoring is not good for the company. However, differently from Burkart, Gromb, and Panunzi (1997), the raiding hypothesis falls short of explaining why there is no positive reaction when the raiders pass their stakes to other investors.

3.6 OPERATING PERFORMANCES

3.6.1 Methodology

After analyzing the long run performances of target firms in terms of stock returns, it is time to look at measures of operating performances based on accounting data. Barber and

[29]The results in Table 3.29 are broadly consistent with the DSH. In fact, they report positive abnormal returns for offers as expected. Block sales are generally private transactions and so the DSH does not apply. When raiders sell their stakes on the market, there is a positive abnormal returns in the longer event window. This is consistent with DSH if the raiders sell when the stock is in high demand.

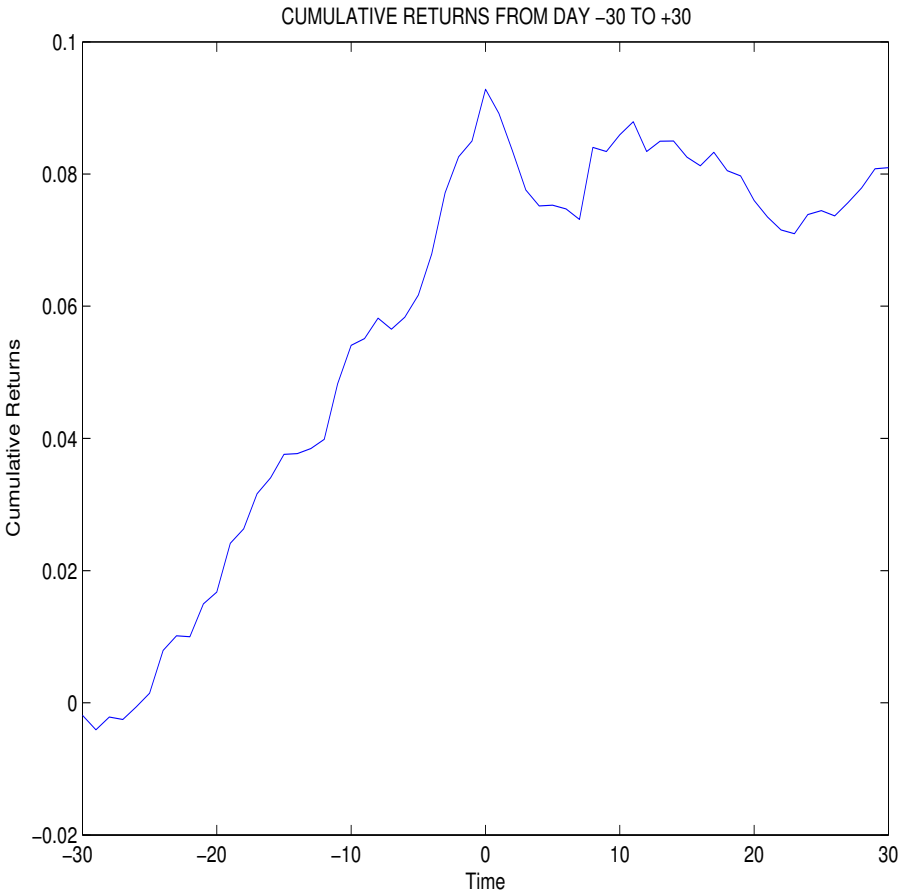

Figure 3.1: **CARs Exits**

Cumulative average daily abnormal returns for target firms from 30 days before to 30 days after the exit of a raider (No. Obs. 75). Raiders exit completely from a firm when it is reported that they have sold their entire stake or no longer hold any notifiable stake in a company.

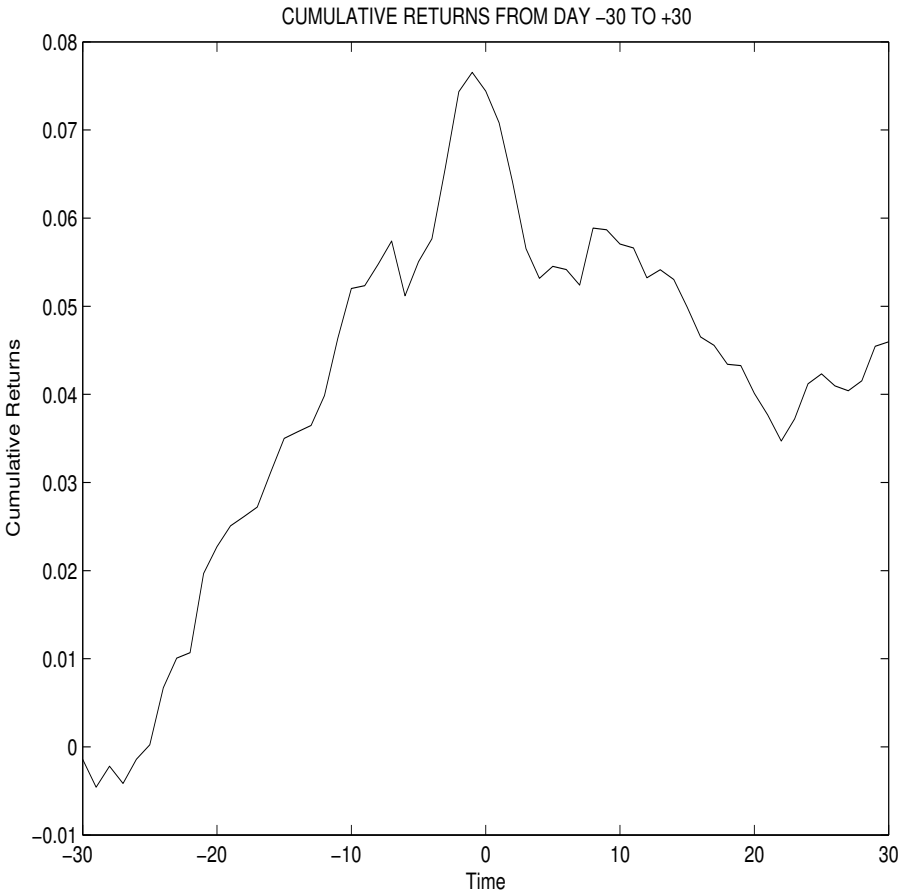

Figure 3.2: **CARs Exits - No Public Offer**

Cumulative average daily abnormal returns for target firms from 30 days before to 30 days after the exit of a raider not due to a public offer (No. Obs. 51). Raiders exit completely from a firm when it is reported that they sell their entire stake or no longer hold any notifiable stake in a company.

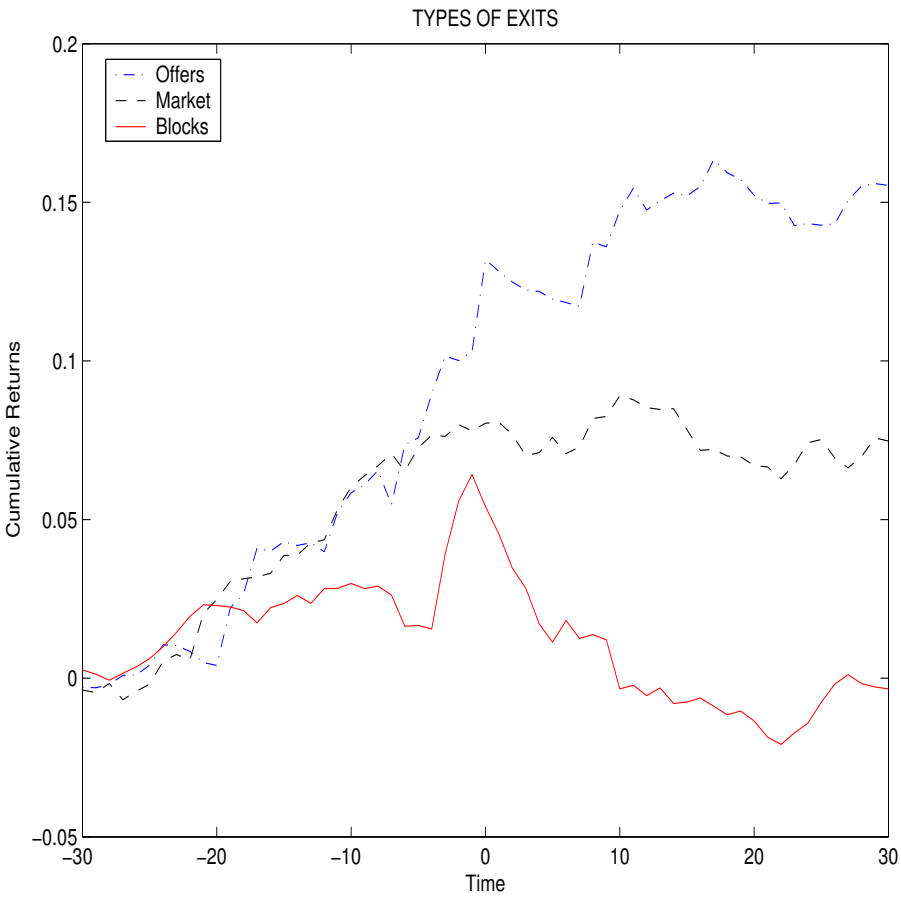

Figure 3.3: **CARs by Type of Exit**

Cumulative average daily abnormal returns for target firms from 30 days before to 30 days after the exits of the selected raiders subdivided by types of exits. The types of exits considered are: exits due to public offers by a third part (Offer), exits due to sale on the market (Market), exits due to block sales (Block). Raiders exit completely from a firm when it is reported that they have sold their entire stake or no longer hold any notifiable stake in a company.

Table 3.29: **Raider's Exits by Type**

Cumulative average daily abnormal returns in percent for various event windows for raiders' exits subdivided according to the type of exit (t-stats are given in parentheses). The types of exits considered are: exits due to public offers by a third part (Offer), exits due to sale on the market (Market), exits due to block sales (Block). Raiders exit completely from a firm when it is reported that they have sold their entire stake or no longer hold any notifiable stake in a company.

Event Window	*Offer*	*Market*	*Block*
[-1, 0]	3.18	0.05	-0.18
	(3.52)	(0.08)	(-0.21)
[-30, 1]	12.82	8.07	4.55
	(3.17)	(2.78)	(1.25)
[-30, 5]	11.95	7.59	1.13
	(2.74)	(2.44)	(0.29)
[-30, 10]	14.73	8.9	-0.34
	(3.12)	(2.65)	(-0.08)
[-30, 30]	15.53	7.48	-0.34
	(2.53)	(1.73)	(-0.06)
[-10, -2]	4.79	2.66	2.75
	(2.43)	(1.85)	(1.51)
No. Obs.	24	31	20

Lyon (1996) evaluate methods used in event studies that employ accounting-based measures of operating performances. In particular, they address the three issues a researcher should face in dealing with operating performances. These choices regard the accounting-based performance measure, the statistical test, and the model of expected operating performance.

Barber and Lyon (1996) favors the use of operating income over earnings for two reasons. First, to measure the productivity of operating assets, operating income is a cleaner measure than earnings because it is not affected by special items, tax considerations, or the accounting for minority interests. Second, they point out that operating income is not even affected by the changes in capital structure that might result from the event. The operating income must be scaled by the value of operating assets. According to Barber and Lyon (1996), the choice between the average of beginning- and ending-period and the ending-period book value of total assets is not relevant. I choose to scale operating income by the ending-period book value of total assets[30]. The two authors compare the above mentioned measure, called ROA, to alternative measures of performance including the return on cash-adjusted assets, the return on sales, the return on market value of assets, and the cash-flow return on assets. Apart from the last one, Barber and Lyon (1996) find that from a statistical standpoint the choice of performance measure is inconsequential.

In order to establish a measure of expected performance, they compare the firms in the sample to firms of four different comparison groups. The control samples are based on a

[30]Barber and Lyon (1996) scaled the operating income by the average of beginning- and ending-period book value of total assets.

two-digit SIC code, a four-digit SIC code, a two-digit SIC code and size, and a two digit SIC codes and similar pre-event performance. Barber and Lyon (1996) recommend the use of the performance-matched method. They consider methods of expected performance based both on the level of a comparison groups and on changes in the industry benchmark (including a lagged firm's performance). They endorse an expectation model that includes a firm's past performance due to power advantage.

The choice of the statistical test for abnormal operating performances is between a parametric test statistic (t-test) and a nonparametric Wilcoxon signed-rank test statistic. While the t-test is on the mean of the distribution, the Wilcoxon signed-rank test statistic tests the null hypothesis that the median abnormal performance is equal to zero. Barber and Lyon (1996) find that Wilcoxon signed-rank test statistics are more powerful than parametric t-statistics. They suggest using the Wilcoxon test.

Barber and Lyon (1996) object to the use of the percentage change in ROA on theoretical grounds. First, if ROA is negative in either year over which the performance is calculated, the result is meaningless. Consequently, observations reporting losses over the sample period have to be discarded. Second, changes in operating performance are implicitly assumed to be proportional to the level of pre-event ROA. However, they find that the general tenor of their results still apply when percentage change is used.

Following Barber and Lyon (1996), I create a comparison group for each firm targeted by a raider based on industry[31] and similar pre-event performance in the year before the raider's purchase. Control firms have to be from the same country of the target firms. The performance range to select matching company is the 90%-110% interval. When the search using this criterion gives no result, the interval is expanded to 80%-120%. If the larger interval does not produce any results, a broader industry definition is used[32]. If even this search fails, a country level search is performed. In creating the control groups and carrying out the empirical analysis, I use ROA as a performance measure. ROA is defined as operating profit (Datastream item 137[33]) over the book value of assets (Datastream item 392)[34]. Datastream definitions for company accounts item used are provided in Appendix C. Unfortunately, it is not possible to select a control group for banks and insurances on the basis of such a performance measure[35].

Concerning the model for expected operating performances, I present the results both for a model in level and for a change model. The model in level is just

$$E(P_{it}) = PI_{it} \tag{3.2}$$

where P_{it} is the performance of target firm i in period t and PI_{it} is the performance of the matching sample for firm i in period t.

[31] Datastream Sector 4.

[32] Datastream Sector 3.

[33] Datastream item 993 for German firms.

[34] Ebitda (Datastream item 1502) is also used as a measure of a firm's profit in unreported analyses. Results are remarkably similar to those presented in this Section.

[35] Matching groups for banks and insurances are chosen with respect to the return on shareholders' equity (Datastream item 701). However, these observations are not included in analyses where operating profits are required.

The comparison between changes in performance states that a firm's expected performance is equal to its past performance plus the change in industry's performance:

$$E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1}). \tag{3.3}$$

As Barber and Lyon (1996) point out, the main advantage of the change model is that it does not ignore the history of the firm relative to the benchmark.

Regarding the test statistics, Barber and Lyon (1997) recommend the use of the Wilcoxon signed-rank test. I present the standard t-test statistics as well.

3.6.2 Results

The evidence collected about operating profits shows no clear sign of improvement after the raider's initial stake purchase. As Table 3.30 shows, the average ROA decreases slightly in the year of the initial announcement. After increasing in the year following the announcement, the average ROA shows a more pronounced drop culminating in year 3. However, standard t-tests for differences in means fail to spot any difference in performances between the year before the initial announcement of a raider's stockholding and post-announcement performances. The results are rather similar when looking at the median performance. The median performance is worse in the year in which the raiders purchase the stake with respect to the pre-announcement performance. The Wilcoxon test for equality of the medians is significant at the 10 percent level. However, median performances show an oscillating pattern in the following years but no other performance is significantly different from the pre-announcement one.

Hence, raw performances are broadly consistent with the view that raiders do not have a strong impact on the operating performance of the target companies. However, raw performances are obviously not the right instrument, because either industry-wide or economy-wide shocks can hide the raider's impact. Therefore, abnormal performances are presented in Table 3.31.

As Table 3.31 Panel A reports, target firms have better performances in the year preceding the purchase. Both the test for difference in mean (t-test) and the test for equality of median (Wilcoxon) are significant. When the raiders announce their purchases, performances are very close to the ones of the matching sample. From year 1 to year 5, average performances continue to worsen but they are never significant. Median abnormal performances are significantly different from zero three and four years after the initial purchase (only at the 10 percent level). Although rather weak, this evidence signals that raiders are not good at improving firm performance.

Table 3.31 Panel A also shows the comparison between abnormal performances before and after the announcement of the raider's stockholding. The pre-event mean and median (year -1) takes into consideration only those firms that have a performances in year i. The evidence shows that the operating performance of firms targeted by raiders worsen significantly three years after the purchase. The hypothesis that medians are equal is rejected also when the pre-event performances are compared to those of the announcement year.

When abnormal performances are computed according to Eq. 3.3 (Panel B), results differ a little from those of Panel A. Firms targeted by the raiders have negative and

Table 3.30: **Mean and Median Operating Performances (Book).**

The table presents mean and median operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). In Panel B, the means and the medians take into account only the observations that appear in both years. A standard t-test is used to measure whether the mean is statistically different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is statistically different in the two samples. $p - values$ of both tests are reported.

Panel A: Mean and Median Operating Performances

Year	-1	0	1	2	3	4	5
Mean	6.28%	5.88%	6.15%	5.22%	4.20%	4.53%	4.67%
Median	5.94%	5.77%	6.24%	6.08%	5.17%	5.40%	3.97%
No. Obs.	96	96	78	62	41	25	14

Panel B: Before vs After

Year	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	6.28%	6.38%	6.19%	5.79%	5.29%	5.64%
Mean Year i	5.88%	6.15%	5.22%	4.20%	4.53%	4.67%
p-value	0.62	0.81	0.45	0.26	0.72	0.73
Median Year -1	5.94%	6.08%	6.29%	5.84%	5.57%	5.05%
Median Year i	5.77%	6.24%	6.08%	5.17%	5.40%	3.97%
p-value	0.07	0.89	0.65	0.25	0.95	0.76
No. Obs.	96	78	62	41	25	14

Table 3.31: **Abnormal Operating Performances (Book).**

The table presents mean and median abnormal operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after-event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. $p - values$ of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	0.69%	-0.06%	-0.11%	-1.14%	-2.06%	-2.88%	-3.06%
p-value	0.08	0.94	0.90	0.40	0.14	0.11	0.27
Median	0.30%	-0.08%	-0.71%	-0.15%	-1.97%	-2.06%	-2.07%
p-value	0.02	0.73	0.52	0.50	0.05	0.09	0.22
No. Obs	96	96	78	61	40	25	13
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.69%	0.74%	0.89%	1.16%		
Mean Year i		-0.06%	-0.11%	-1.14%	-2.06%		
p-value		0.39	0.38	0.17	0.05		
Median Year -1		0.30%	0.36%	0.41%	0.69%		
Median Year i		-0.08%	-0.71%	-0.15%	-1.97%		
p-value		0.06	0.20	0.20	0.03		
No. Obs.		96	78	61	40		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-0.39%	-0.75%	0.01%	-0.79%	-1.36%	0.14%	0.54%
p-value	0.37	0.06	0.37	0.59	0.05	0.88	0.68
Median	-0.15%	-1.00%	0.38%	0.10%	-1.68%	-0.92%	-0.81%
p-value	0.42	0.06	0.41	0.71	0.04	0.88	0.95
No. Obs	96	96	78	61	40	25	13
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-0.39%	-0.06%	-0.24%	0.12%		
Mean Year i		-0.75%	0.01%	-0.79%	-1.36%		
p-value		0.73	0.95	0.66	0.50		
Median Year -1		-0.15%	0.03%	0.00%	-0.13%		
Median Year i		-1.00%	0.38%	0.10%	-1.68%		
p-value		0.57	0.83	0.89	0.08		
No. Obs.		96	78	61	40		

significant abnormal performances both in year 0 and in year 3. Although they remain not significant, pre-event abnormal performances are no longer positive. None of the tests performed is significant when the performances of the firms before and after the event are compared, with the only exception of the Wilcoxon test between year -1 and year 3. This result confirms the findings in Panel A of a significant worsening of operating performances between year -1 and year 3. Raiders seems to be harmful in the long-run.

To sum up, the evidence does not support the view that raiders help improve operating performances of target firms. By and large, there is no overwhelming evidence that raiders are harmful to these firms except in the long-run. At this point, a word of caution is needed. Here I have considered the performances of target firms after the initial purchases has taken place. This is also what Bethel, Liebeskind, and Opler (1998) do. However, this analysis fails to consider the possibility that raiders may have sold their stakes[36]. This issue is dealt with in the next Section.

3.6.3 Operating Performances and Raider's Stockholding

As mentioned before, the analysis in Section 3.6.2 does not take into account when raiders sell their stakes. Hence, it considers also performance in years in which the raider is no longer a shareholder of the target firm. To solve this problem, I report in this section the results obtained when only the years in which the raider is a shareholder of a given firm are considered. Since the exit date is uncertain for some companies, this analysis produces a loss of seven observations out of the 136 firms[37].

Table 3.32 presents the results concerning the raw abnormal performance when only the years in which the raider is a shareholder of target firms are taken into account. Obviously, differences for the year before the purchase and the year in which the purchase took place are just due to the missing observations. Indeed, no major change emerges from this analysis for these two years.

Results for medians and means in Table 3.32 closely track those of Table 3.30 in all the years considered but year 5. In year 5, the average ROA is more than twice the same statistics in Table 3.30. Although the median in Table 3.32 is only slightly greater than the year 5 median in Table 3.30, the difference between the medians is less marked. However, there are only four observations for year 5. Nevertheless, the view that raiders help improving performances is easily rejected looking at Panel B of Table 3.32. The average ROA for the four firms in which the raiders held the stake for five years or more is 9.47 percent, not very different from the 10.21 percent reported in year 5. This means that the likely reason behind this higher performance is a very good company, not a positive role played by the raiders. Indeed, looking at the median, the role is probably negative not positive. Generally, the results are very similar to those of Table 3.30 also in Panel B. The only difference is that the t-test between year -1 and year 2 is significant at the 10 percent level.

Table 3.33 shows the results for abnormal operating performances. When the model for expected performance is as in Eq. 3.2, the medians in year 3 and 4 are no longer significant.

[36] As Section 3.3 shows, raiders rarely keep their stakes for more than three years.

[37] Although I am unable to find the exit date in eight observations, one of them took place in 2001, the last year of my analysis. Therefore, this observation is taken into account.

Table 3.32: **Mean and Median Operating Performances & Raider's Stockholding**

The table presents mean and median operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm assets (DS item 392). In Panel B, the means and the medians take into account only the observations that appear in both years. A standard t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values*of both tests are reported.

Panel A: Mean and Median Operating Performances

Year	-1	0	1	2	3	4	5
Mean	6.21%	5.84%	6.21%	4.02%	4.23%	4.10%	10.21%
Median	5.81%	5.73%	6.21%	5.53%	5.17%	2.39%	5.23%
No. Obs.	90	90	65	42	21	9	4

Panel B: Before vs After

Year	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	6.21%	6.74%	6.80%	6.47%	6.04%	9.47%
Mean Year i	5.84%	6.21%	4.02%	4.23%	4.10%	10.21%
p-value	0.66	0.62	0.09	0.30	0.69	0.92
Median Year -1	5.81%	6.10%	6.52%	6.10%	5.01%	10.17%
Median Year i	5.73%	6.21%	5.53%	5.17%	2.39%	5.23%
p-value	0.10	0.59	0.16	0.36	0.50	1.00
No. Obs.	90	65	42	21	9	4

Table 3.33: **Abnormal Operating Performances & Raider's Stockholding**

The table presents mean and median abnormal operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after- event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	0.65%	-0.06%	-0.21%	-2.72%	-0.91%	-3.51%	2.29%
p-value	0.12	0.94	0.84	0.16	0.70	0.40	0.70
Median	0.23%	-0.08%	-0.93%	-1.75%	-1.56%	-4.39%	-0.04%
p-value	0.06	0.76	0.47	0.10	0.41	0.36	1.00
No. Obs	90	90	65	41	20	9	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.65%	0.91%	0.64%	0.81%		
Mean Year i		-0.06%	-0.21%	-2.72%	-0.91%		
p-value		0.44	0.33	0.08	0.47		
Median Year -1		0.23%	0.39%	0.51%	1.10%		
Median Year i		-0.08%	-0.93%	-1.75%	-1.56%		
p-value		0.09	0.11	0.05	0.17		
No. Obs.		90	65	41	20		
Panel B: Performance Eq.3.3							
Year	-1	0	1	2	3	4	5
Mean	-0.42%	-0.71%	-0.12%	-1.45%	1.45%	-3.46%	1.08%
p-value	0.53	0.41	0.91	0.26	0.69	0.17	0.80
Median	0.03%	-1.06%	0.30%	0.10%	0.41%	-2.53%	-0.92%
p-value	0.45	0.09	0.50	0.45	0.97	0.10	0.88
No. Obs	90	90	65	41	20	9	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-0.42%	-0.01%	-0.78%	-0.93%		
Mean Year i		-0.71%	-0.12%	-1.45%	1.45%		
p-value		0.79	0.94	0.67	0.52		
Median Year -1		0.03%	0.06%	0.11%	0.14%		
Median Year i		-1.06%	0.30%	0.10%	0.41%		
p-value		0.59	0.76	0.71	0.58		
No. Obs.		90	65	41	20		

In year 4, this is probably due to the loss of observations (from 25 to 9). In fact, both median and mean are lower in Table 3.33 than in Table 3.31. The differences for year 5 are due to the same reason documented for raw performances. Firms show a significant worsening of their performances between the pre-event year and year 2 but not in year 3 as in Table 3.31. However, the difference between the performances of year -1 and year 2 is not statistically different in Panel B.

Broadly speaking, the picture described in Section 3.6.2 is generally confirmed. No evidence of positive abnormal performance is found, while some support for a worsening in operating performance measures is reported. The results in this section are consistent with the results reported in Section 3.4 as well.

3.6.4 Alternative Measure of Performance

In this section, I consider an alternative measure of operating performance. As Barber and Lyon (1996) note, the total assets on a firm's balance sheet are recorded at historic cost, while operating income is recorded in current dollars. Scaling the operating profit by the market value of assets can overcome the historic cost problem. As Barber and Lyon (1996) also point out, the disadvantage of using the market value of assets is that it is a forward-looking measure of assets. It penalizes firms with high earning potential and growth in earnings. They conclude that it is appropriate to use the market value of assets if sample and control firms have similar prospects for earnings growth. I measure the market value of assets as the enterprise value (Datastream item 1504). A definition for the enterprise value is provided in Appendix C.

The time series of the average ROA in Table 3.34 has an oscillating pattern. It increases up to years 2, then it starts to decrease reaching the minimum in year 4. In year 5, there is an increase. However, although there are signs that average performances improve, no test for difference in means between years -1 and the post-announcement years is significant. The median drops in year 0 and then it remains level. The drop is significant between year -1 and 0, year -1 and 1, and year -1 and 2.

Abnormal performances in Panel A of Table 3.35 are never significant apart the positive median in year -1 and the negative median in year 3 (both weakly). Despite that, the sign is generally negative, reinforcing the view that raiders do not improve target firm performances. The negative and significant differences in medians between year -1 and 0, and between year -1 and 3, strengthen the case that the raider's purchase worsens the target firm's operating performances. Panel B gives mixed results. Medians are negative and significant in year 0 and in year 3 but both mean and median are positive in year 1 and 2 (not significant). Tests for differences between before- and after-event performances are never significant.

When only the years in which the raiders are stockholders in the target company are considered, there is a significant worsening in raw performances between year -1 and year 2 both in mean and in median (Table 3.36). The median in year -1 is statistically different from the median in year 0.

Concerning abnormal performance (Table 3.37), the results in Panel A are similar to those of Table 3.35. The median of year 3 is again negative and weakly significant. The sign of abnormal performance is generally negative and there are negative and significant

Table 3.34: **Mean and Median Operating Performances (Market)**

The table presents mean and median operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). In Panel B, the means and the medians take into account only the observations that appear in both years. A standard t-test is used to measure whether the mean is statistically different between the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is statistically different between the two samples. *p-values* of both tests are reported.

Panel A: Mean and Median Operating Performances

Year	-1	0	1	2	3	4	5
Mean	7.02%	8.39%	8.68%	10.55%	6.93%	3.55%	6.08%
Median	10.05%	7.87%	7.80%	7.44%	7.00%	7.22%	7.60%
No. Obs.	99	99	81	62	43	26	15

Panel B: Before vs After

	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	7.02%	6.29%	5.54%	3.29%	-1.99%	-12.26%
Mean Year i	8.39%	8.68%	10.55%	6.93%	3.55%	6.08%
p-value	0.73	0.57	0.47	0.66	0.67	0.40
Median Year -1	10.05%	10.26%	10.34%	10.70%	10.86%	10.70%
Median Year i	7.87%	7.80%	7.44%	7.00%	7.22%	7.60%
p-value	0.00	0.08	0.05	0.24	0.24	0.76
No. Obs.	99	81	62	43	26	15

Table 3.35: **Abnormal Operating Performances (Market)**

The table presents mean and median operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after-event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq.3.2							
Year	-1	0	1	2	3	4	5
Mean	-1.37%	-1.07%	-0.16%	3.20%	-3.27%	-4.30%	-3.02%
p-value	0.65	0.67	0.92	0.49	0.36	0.20	0.37
Median	1.31%	-0.60%	0.07%	-0.57%	-2.07%	-0.61%	-4.04%
p-value	0.09	0.68	0.85	0.49	0.10	0.26	0.59
No. Obs	99	99	79	62	42	26	13
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-1.37%	-2.36%	-3.07%	-4.35%		
Mean Year i		-1.07%	-0.16%	3.20%	-3.27%		
p-value		0.94	0.59	0.35	0.89		
Median Year -1		1.31%	1.80%	2.14%	2.62%		
Median Year i		-0.60%	0.07%	-0.57%	-2.07%		
p-value		0.02	0.13	0.60	0.02		
No. Obs.		99	79	62	42		
Panel B: Performance Eq.3.3							
Year	-1	0	1	2	3	4	5
Mean	-4.23%	0.30%	0.57%	3.94%	-3.00%	-6.07%	-0.01%
p-value	0.18	0.92	0.82	0.38	0.15	0.25	1.00
Median	0.00%	-1.88%	0.57%	0.99%	-2.54%	0.67%	-0.69%
p-value	0.43	0.02	0.60	0.63	0.05	0.93	1.00
No. Obs	96	99	79	62	42	26	13
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-4.23%	-4.87%	-6.34%	-8.43%		
Mean Year i		0.39%	0.79%	3.96%	-3.50%		
p-value		0.28	0.23	0.13	0.51		
Median Year -1		0.00%	0.39%	0.53%	0.37%		
Median Year i		-1.82%	0.68%	0.98%	-2.91%		
p-value		0.31	0.75	0.22	0.10		
No. Obs.		96	76	59	39		

Table 3.36: **Mean and Median Operating Performances (Market) & Raider's Stockholding**

The table presents mean and median operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). In Panel B, the means and the medians take into account only the observations that appear in both years. A standard t-test is used to measure whether the mean is statistically different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is statistically different in the two samples. *p-values* of both tests are reported.

Panel A: Mean and Median Operating Performances

Year	-1	0	1	2	3	4	5
Mean	6.60%	8.30%	9.06%	4.53%	3.20%	-2.41%	9.54%
Median	10.10%	7.93%	8.42%	7.73%	9.73%	3.00%	7.10%
No. Obs.	92	92	67	42	22	9	4

Panel B: Before vs After

Year	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	6.60%	5.96%	11.06%	10.43%	7.46%	6.93%
Mean Year i	8.30%	9.06%	4.53%	3.20%	-2.41%	9.54%
p-value	0.69	0.54	0.03	0.14	0.34	0.66
Median Year -1	10.10%	10.37%	10.34%	10.71%	10.42%	8.85%
Median Year i	7.93%	8.42%	7.73%	9.73%	3.00%	7.10%
p-value	0.00	0.13	0.02	0.43	0.36	0.63
No. Obs	92	67	42	22	9	5

Table 3.37: **Abnormal Operating Performances (Market) & Raider's Stockholding**

The table presents mean and median abnormal operating performances for the firms targeted by raiders from the year before the announcement of a raider's stockholding to five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after- event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	-2.00%	-1.51%	-0.45%	-2.41%	-6.63%	-11.00%	0.66%
p-value	0.54	0.58	0.80	0.46	0.14	0.22	0.88
Median	1.20%	-0.92%	-0.29%	-1.88%	-5.09%	-5.28%	-0.77%
p-value	0.25	0.43	0.86	0.29	0.09	0.16	1.00
No. Obs	92	92	65	42	21	9	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-2.00%	-3.66%	1.02%	1.38%		
Mean Year i		-1.51%	-0.45%	-2.41%	-6.63%		
p-value		0.91	0.52	0.35	0.12		
Median Year -1		1.20%	2.06%	2.08%	2.06%		
Median Year i		-0.92%	-0.29%	-1.88%	-5.09%		
p-value		0.03	0.25	0.50	0.07		
No. Obs.		92	65	42	21		
Panel B:Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-4.52%	0.48%	0.75%	-2.50%	-1.96%	-9.63%	2.24%
p-value	0.18	0.88	0.81	0.41	0.57	0.26	0.51
Median	-0.17%	-1.93%	0.67%	0.87%	-2.45%	-2.69%	2.67%
p-value	0.45	0.03	0.55	0.98	0.41	0.25	0.63
No. Obs	89	92	65	42	21	9	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-4.52%	-6.12%	-1.54%	0.19%		
Mean Year i		0.58%	1.03%	-2.97%	-2.28%		
p-value		0.27	0.21	0.68	0.51		
Median Year -1		-0.17%	0.17%	0.18%	0.37%		
Median Year i		-1.92%	0.71%	0.76%	-2.54%		
p-value		0.34	0.42	0.52	0.16		
No. Obs.		89	62	40	20		

differences in medians between year -1 and 0, and between year -1 and 3. Panel B gives mixed results, too.

By and large, the findings when the market value of assets is used as denominator in the operating performance measure are remarkably similar to those obtained with the book value of assets. Indeed, the results of this Section confirm the negative outlook about the role played by the raiders obtained in the previous Sections.

3.6.5 Abnormal Industry-Adjusted Operating Performance

An additional test is performed in order to check for improvement in operating performance after a raider has bought a stake in the target company. The test stems from the cross sectional regression used by Healy, Palepu, and Ruback (1992):

$$IAOP_{post,i} = \alpha + \beta\, IAOP_{pre,i} + \epsilon_i \tag{3.4}$$

where $IAOP_{post,i}$ is the industry-adjusted median annual operating performance measure for company i from the years following the initial stake purchase by the raider and $IAOP_{pre,i}$ is the industry-adjusted operating performance measure for the same company in the year before the purchase[38]. Industry-adjusted operating performances are obtained as the difference between the measure of operating performance for target company i minus the same measure for the corresponding matching firms. The slope coefficient β captures the correlation in operating performances between the year before the stake purchase and the years after and the intercept α is a measure of the abnormal industry-adjusted operating profit. Intercept α is independent of pre-purchase performances. Therefore, if the raiders are helpful in improving target firm performances, α will be positive. Conversely, if raiders destroy value, α will be negative.

This kind of regression is performed for the two measures of operating performances and for both models of expected performances. The post-event medians are computed including only the years in which the raider is a shareholder of the target company. The results are shown in Table 3.38.

As Table 3.38 documents, intercept α is generally negative but not significant apart from the first regression. The β sign is positive in three regressions, but the negative coefficient in the last regression is significant. Hence, results for β are not very clear. Fortunately, I am not particularly interested in coefficient β, since nothing related to the raider's impact is captured by this coefficient. The results in this section broadly support previous findings that lean towards a weak deterioration in the target company operating performance following the raider's purchase.

3.6.6 Operating Performances and the Stock Market's Reaction

I find in Chapter 2 that the initial announcement of a raider's stockholding produces an increase in the market value of the target firm. However, no clear evidence that the raiders help improve target firm's performance is found. No evidence that raiders are good stock pickers is found either. Hence, the market reaction at the time of the raider's stockholding

[38] In Healy, Palepu, and Ruback (1992), they use a median from the five years after the merger and the median from the five pre-merger years.

Table 3.38: **Healy, Palepu, and Ruback (1992) Style Regressions**

The table reports the results of the following regression:

$$IAOP_{post,i} = \alpha + \beta\, IAOP_{pre,i} + \epsilon_i$$

where $IAOP_{post,i}$ is the industry-adjusted median annual operating performance measure for company i from the years following the initial stake purchase by the raider and $IAOP_{pre,i}$ is the industry-adjusted operating performance measure for the same company in the year before the purchase. Industry-adjusted operating performances are obtained as the difference between the measure of operating performance for target company i minus the same measure for the corresponding matching firms. Operating performance is operating profit over the book value of assets in Column I and operating profit over the market value of assets in Column II. Results for models in Eq. 3.2 and Eq. 3.2 are presented in Columns I and III and Columns II and IV, respectively. $p-values$ for t-stats that the coefficients are different from zero are shown in parentheses. White Heteroscedasticity-consistent standard errors are used.

	I		II	
	Eq. 3.2	**Eq. 3.3**	**Eq. 3.2**	**Eq. 3.3**
Intercept	-0.02	0.00	-0.02	-0.02
	(0.09)	(0.89)	(0.27)	(0.60)
$IAOP_{pre,i}$	0.72	0.01	0.05	-0.28
	(0.00)	(0.00)	(0.33)	(0.00)
R^2	0.15	0.00	0.01	0.40
Prob. (F-stats)	0.00	0.96	0.39	0.00
No. Obs.	65	65	65	62

announcement should not be positively correlated with the post-acquisition performances of the target firms.

To test this hypothesis, I perform a cross-sectional regression similar to the one suggested by Healy, Palepu, and Ruback (1992) to test whether there is correlation between announcement abnormal returns and a firm's future performance. The cross-sectional regression is the following:

$$IAOP_{post,i} = \gamma + \delta\, IAOP_{pre,i} + \psi\, CAR_{(\tau,t),i} + \nu_i \tag{3.5}$$

where $IAOP_{post,i}$ and $IAOP_{pre,i}$ have the same meaning as in Section 3.6.5, $CAR_{(\tau,t),i}$ is the cumulative abnormal return for target firm i between day τ and day t around the announcement date, and ν_i is the error term. The post-acquisition years considered here are only those in which the raider is a shareholder of the target company. The years after the sale of the raider's stake are not included. Regression 3.5 is performed for the event windows [-1,0], [-30,1], [-30,5], [-30,10], [-30,30], [-30,100]. The regression is run for the two measures of operating adjusted performance considered. The expected performance is computed with the model in Eq. 3.2. Table 3.39 shows the results when the cumulative abnormal returns for the event date [-1, 0] and [-30, 30] are used as independent variables.

As Table 3.39 clearly shows, CARs are not significant in any regression. Further, coefficient ψ has even a negative sign in Columns I and III. Comparing Table 3.39 and Table 3.38 shows that no relevant change occurred when the announcement abnormal returns are added. In particular, although there is an additional variable, the fit of the model (R^2) is similar[39].

Coefficient ψ is never significant in regressions where CARs from event windows [-30,1], [-30,5], [-30,10], [-30,100] are used[40]. Further, the coefficient of the cumulative abnormal returns is always negative, that is it always presents the wrong sign as against what I expect of the corporate governance champion hypothesis. Therefore, unless one accepts that the market is prone to systematic and repeated mistakes, the corporate governance champion hypothesis cannot explain the positive abnormal returns at the time of the first public announcement. These results are consistent with the findings of Chapter 2. As to coefficient δ, it is positive in all the regressions. However, δ is significant only when the denominator of the operating performance is the book value of assets. The R^2 of the regressions are similar to those shown in Table 3.39 for the respective measures of operating performances.

3.6.7 Operating Performance and Raider's Stake

I find little evidence that raiders have an impact on target firm operating performances. However, raiders may fail to affect operating performances just because they sometimes buy a very small stake (see Section 3.4.3). Therefore, an analysis is performed similar to the one carried out in Section 3.4.3 on the basis of the maximum stake held by the raider in a given company. As already mentioned, a greater stake should induce the raider to exert more effort. If the raider's presence plays a positive role, this should result in better performances for the target company.

[39] Adjusted R^2 decreases.

[40] I omit these results for the sake of brevity.

Table 3.39: **Operating Performances and CARs**

The table reports the results of the following regression:

$$IAOP_{post,i} = \gamma + \delta\, IAOP_{pre,i} + \psi\, CAR_{(\tau,t),i} + \nu_i$$

where $IAOP_{post,i}$ is the industry-adjusted median annual operating performance measure for company i from the years following the initial stake purchase by the raider and $IAOP_{pre,i}$ is the industry-adjusted operating performance measure for the same company in the year before the purchase. Industry-adjusted operating performances are obtained as the difference between the measure of operating performance for target company i minus the same measure for the corresponding matching firms. Operating performance is operating profit over the book value of assets in Columns I and III. Operating performance is operating profit over the market value of assets in Columns II and IV. The model for expected performance is $E(P_{it}) = PI_{it}$, where P_{it} is the performance of target firm i in period t and PI_{it} is the performance of the matching sample for firm i in period t. $CAR_{(\tau,t),i}$ is the cumulative abnormal return for firm i in the event window [-1, 0] in Column I and II. $CAR_{(\tau,t),i}$ is the cumulative abnormal return for firm i in the event window [-30, 30] in Column III and IV. p-values for t-stats are shown in parentheses under the coefficients. White Heteroscedasticity-consistent standard errors are used.

	I	II	III	IV
Intercept	-0.02	-0.03	-0.01	-0.02
	(0.17)	(0.26)	(0.20)	(0.32)
$IAOP_{pre,i}$	0.72	0.05	0.71	0.05
	(0.00)	(0.34)	(0.00)	(0.33)
$CAR_{(\tau,t),i}$	-0.00	0.13	-0.02	-0.02
	(0.99)	(0.68)	(0.38)	(0.75)
R^2	0.15	0.01	0.16	0.01
Prob. (F-stats)	0.01	0.66	0.00	0.68
No. Obs.	65	65	65	65

As before, a ten percent stake is used as the cut-off level. I show the results for both measures of operating performance, i.e. operating profit over the book value of assets and operating profit over the market value of assets. Table 3.40 to Table 3.45 present the results for industry-adjusted performances.

Table 3.40 Panel A gives no evidence that the raiders improve the operating performance of the target firms when they accumulate large stakes. Excluding year 5[41], the average ROA is negative starting from the announcement year. Medians are negative beginning in year 1. However, the results are generally not significant. The comparison between the performance before and after the event signals that a significant worsening between year -1 and year 2. Performances worsen throughout the whole period considered. Panel B presents a rather similar picture. In fact, both medians and means are generally negative. Performances tend to be better in year -1 than in the post-event years. However, there is no significant difference between the two samples.

Table 3.41 looks different. In Panel A, average ROAs are all positive except one, although not significant. Medians are negative from year 0 to year 2 and in year 5 and positive in year 3 and 4. No median is significant. The tests between the performance before and after do not produce significant results from a statistical point of view, but also in this case performances are generally worse following the raider's entry. Results in Panel B are similar. The test for differences between the two samples subdivided according to the maximum stake size are generally not significant (Table 3.42). The only exception is year 4 where the companies in which the raider has a bigger stake underperform the other firms. No new insight comes from Tables 3.43, 3.44, and 3.45. The findings in these tables generally confirm the previous results.

Generally speaking, it does not seem that a bigger stake held by the raiders brings about a boost in target firm performance. Indeed, there is a weak evidence that the larger the stake, the worse the performance. However, this does not automatically imply that the raider expropriates the company's assets. It can also be the case that raiders are well-intentioned in improving the target firm's performance, but either they turn out to be ineffective in realizing their ideas or their proposals are simply wrong. Hence, the analysis of the raider's behavior is required in order to reach a conclusion about their role.

3.7 RAIDERS' ACTIVITIES

The investors analyzed in the dissertation are well-known for their activist behavior in confronting the incumbent management teams and the controlling shareholders. However, so far nothing has been said about what raiders really do after the public announcement of their initial purchases. This section is devoted to filling this gap.

It is widely known that shareholder activism can take many forms. Shareholders can propose resolutions to vote at the AGM or even serve requisition of an EGM on a given firm, i.e. to mount a proxy-fight. Shareholders can ask to be appointed to a company's board of directors or give advice on corporate policies. Raiders might also launch a take-over bid for the company in which they previously purchased a toehold. They can even sue the company

[41] There is only one observation in the Year 5 sub-sample.

Table 3.40: **Abnormal Operating Performances (Book) - Stakes greater than 10%**

The table presents mean and median abnormal operating performances for the firms in which the maximum stake held by a raider at any time is greater than 10 percent. The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after-event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	0.56%	-0.14%	-1.26%	-3.80%	-2.19%	-9.66%	1.98%
p-value	0.13	0.93	0.36	0.14	0.56	0.15	n.a.
Median	0.33%	0.20%	-1.30%	-3.26%	-3.91%	-7.28%	1.98%
p-value	0.05	1.00	0.31	0.07	0.18	0.25	1.00
No. Obs	45	45	38	29	12	4	1
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.56%	0.44%	0.55%	0.47%		
Mean Year i		-0.14%	-1.26%	-3.80%	-2.19%		
p-value		0.65	0.23	0.09	0.48		
Median Year -1		0.33%	0.36%	0.41%	1.18%		
Median Year i		0.20%	-1.30%	-3.26%	-3.91%		
p-value		0.22	0.17	0.04	0.13		
No. Obs.		45	38	29	12		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-0.47%	-0.71%	-0.71%	-2.21%	1.08%	-7.22%	12.14%
p-value	0.60	0.65	0.69	0.22	0.86	0.09	n.a.
Median	0.11%	-1.10%	0.47%	-0.73%	-1.33%	-5.96%	12.14%
p-value	0.45	0.03	0.55	0.98	0.41	0.25	0.63
No. Obs	45	45	38	29	12	4	1
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-0.47%	-0.57%	-1.05%	-1.53%		
Mean Year i		-0.71%	-0.71%	-2.21%	1.08%		
p-value		0.89	0.95	0.59	0.67		
Median Year -1		0.11%	0.06%	0.11%	-0.39%		
Median Year i		-1.10%	0.47%	-0.73%	-1.33%		
p-value		0.18	0.55	0.57	0.27		
No. Obs.		45	38	29	12		

Table 3.41: **Abnormal Operating Performances (Book) - Stakes less than 10%**

The table presents mean and median abnormal operating performances for the firms in which the maximum stake held by a raider at any time is less than 10 percent. The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after-event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	0.74%	0.02%	1.27%	-0.09%	1.01%	1.42%	2.39%
p-value	0.33	0.98	0.41	0.97	0.64	0.79	0.78
Median	0.09%	-0.32%	-0.64%	-0.44%	3.22%	1.64%	-2.07%
p-value	0.45	0.64	0.96	0.91	0.64	1.00	1.00
No. Obs	45	45	27	12	8	5	3
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.74%	1.57%	0.85%	1.33%		
Mean Year i		0.02%	1.27%	-0.09%	1.01%		
p-value		0.49	0.88	0.67	0.88		
Median Year -1		0.09%	0.51%	0.58%	0.87%		
Median Year i		-0.32%	-0.64%	-0.44%	3.22%		
p-value		0.26	0.41	0.91	1.00		
No. Obs.		45	27	12	8		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-0.37%	-0.72%	0.70%	0.41%	2.02%	-0.44%	-2.61%
p-value	0.71	0.36	0.53	0.53	0.38	0.88	0.22
Median	-0.31%	-0.94%	-0.12%	1.01%	0.79%	-1.53%	-1.02%
p-value	0.35	0.26	0.52	0.62	0.38	0.81	0.25
No. Obs	45	45	27	12	8	5	3
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-0.37%	0.78%	-0.14%	-0.03%		
Mean Year i		-0.72%	0.70%	0.41%	2.02%		
p-value		0.79	0.96	0.54	0.40		
Median Year -1		-0.31%	0.06%	0.29%	0.29%		
Median Year i		-0.94%	-0.12%	1.01%	0.79%		
p-value		0.71	0.67	0.79	0.46		
No. Obs.		45	27	12	8		

Table 3.42: **Tests for Stakes greater than 10% vs Stakes less than 10% (Book)**

The table presents the results for the tests between the mean and median abnormal operating performances for the firms in which the maximum stake held by a raider at any time is greater than 10 percent and those in which the maximum stake is less than 10 percent. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). P-values for t-tests for differences in means and p-values for Wilcoxon/Mann test for equality of medians are reported.

Panel A: Performance Eq. 3.2

Year	-1	0	1	2	3	4
t-test	0.84	0.94	0.53	0.28	0.93	0.03
Wilcoxon/Mann	0.40	0.72	0.45	0.27	0.15	0.18

Panel B: Performance Eq. 3.3

Year	-1	0	1	2	3	4
t-test	0.94	1.00	0.55	0.35	0.90	0.15
Wilcoxon/Mann	0.57	0.92	0.98	0.17	0.37	0.18

to settle their disputes. The company may repurchase the raider's shares with a targeted share buy-back, i.e. greenmail.

Holderness and Sheehan (1985) study the activities of their six investors in target firms for the two years following the initial purchase. They find that the raiders are seldom passive and the evidence provides no support for the raiding hypothesis. Bethel, Liebeskind, and Opler (1998) look at the effects of block share purchases on CEO turnover[42] and operations.

I collected information regarding the corporate control events of the 136 companies targeted by raiders. The evidence is presented in the remaining part of this section. Before giving a brief account of the most important corporate events, it is worth noting that only 49 observations experienced corporate control events. This means that in roughly two-thirds of the cases raiders are *passive*. In fact, the fifteen raiders were selected on the basis of their reputation for activist behavior. Since in Chapter 2 raiders and incumbent shareholders or management teams interact in 69 observations, which means that in 20 cases raiders restrict themselves to public criticism without carrying out any real action.

3.7.1 Board Changes

Table 3.46 reports corporate events related to the board of directors and to the role of chairman and CEO. Raiders asked to be appointed to the target company's board of directors 19 times and they were offered a seat seven times. Raiders became directors 16 times (ten when offered seats are not taken into account). They failed in nine cases while

[42] They find a higher but not statistically significant turnover rate after activist block share purchases.

Table 3.43: **Abnormal Operating Performance (Market) - Stakes greater than 10%**

The table presents mean and median abnormal operating performances for the firms in which the maximum stake held by a raider at any time is greater than 10 percent. The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after- event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	0.60%	1.76%	0.20%	-3.77%	-9.88%	-7.18%	3.69%
p-value	0.73	0.70	0.94	0.42	0.17	0.20	na
Median	0.63%	-0.85%	0.26%	-3.31%	-6.99%	-5.64%	3.69%
p-value	0.80	0.84	0.68	0.16	0.11	0.25	1
No. Obs	46	46	38	29	13	4	1
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.60%	0.48%	0.55%	2.07%		
Mean Year i		1.76%	0.20%	-3.77%	-9.88%		
p-value		0.81	0.93	0.41	0.14		
Median Year -1		0.63%	0.86%	-0.10%	1.66%		
Median Year i		-0.85%	0.26%	-3.31%	-6.99%		
p-value		0.36	0.89	0.64	0.08		
No. Obs.		46	38	29	13		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-1.32%	1.16%	-0.76%	-3.74%	-3.99%	-6.13%	8.97%
p-value	0.26	0.76	0.87	0.39	0.47	0.08	na
Median	-0.33%	-1.95%	0.74%	0.35%	-3.77%	-7.18%	8.97%
p-value	0.58	0.36	0.37	0.66	0.27	0.25	1
No. Obs	45	46	38	29	13	4	1
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-1.32%	-2.00%	-1.97%	-0.10%		
Mean Year i		1.29%	-0.71%	-3.93%	-3.99%		
p-value		0.51	0.79	0.68	0.49		
Median Year -1		-0.33%	-0.33%	0.10%	-0.33%		
Median Year i		-1.92%	0.74%	0.35%	-3.77%		
p-value		0.62	0.50	0.65	0.17		
No. Obs.		45	37	28	13		

Table 3.44: **Abnormal Operating Performance (Market) - Stakes less than 10%**

The table presents mean and median abnormal operating performances for the firms in which the maximum stake held by a raider at any time is less than 10 percent. The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after-event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	-4.60%	-4.79%	-1.36%	0.51%	-1.34%	-14.06%	-0.35%
p-value	0.47	0.11	0.59	0.80	0.60	0.40	0.95
Median	1.26%	-0.92%	-1.35%	0.27%	-0.26%	-5.27%	-5.22%
p-value	0.13	0.39	0.43	0.85	0.74	0.63	1.00
No. Obs	46	46	27	12	8	5	3
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-4.60%	-9.49%	2.22%	0.26%		
Mean Year i		-4.79%	-1.36%	0.51%	-1.34%		
p-value		0.98	0.46	0.48	0.58		
Median Year -1		1.26%	2.19%	2.52%	2.13%		
Median Year i		-0.92%	-1.35%	0.27%	-0.26%		
p-value		0.03	0.05	0.42	0.46		
No. Obs.		46	27	12	8		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-7.78%	-0.19%	2.86%	2.05%	1.34%	-12.42%	-0.01%
p-value	0.25	0.97	0.44	0.14	0.40	0.44	1.00
Median	0.00%	-1.91%	-0.49%	1.75%	0.90%	-0.19%	0.05%
p-value	0.57	0.03	0.75	0.11	0.55	0.81	1.00
No. Obs	44	46	27	12	8	5	3
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-7.78%	-12.21%	-0.03%	0.72%		
Mean Year i		-0.15%	3.61%	1.50%	0.89%		
p-value		0.37	0.20	0.29	0.94		
Median Year -1		0.00%	0.18%	0.49%	0.81%		
Median Year i		-2.06%	-0.42%	1.75%	0.19%		
p-value		0.41	0.64	0.38	0.81		
No. Obs.		44	25	10	7		

Table 3.45: **Tests for Stakes greater than 10% vs Stakes less than 10% (Market)**

The table presents the results for the tests between the mean and median abnormal operating performances for the firms in which the maximum stake held by a raider at any time is greater than 10 percent and those in which the maximum stake is less than 10 percent. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm assets (DS item 1504). P-values for t-tests for differences in means and p-values for Wilcoxon/Mann test for equality of medians are reported.

Panel A: Performance Eq. 3.2

Year	-1	0	1	2	3	4
t-test	0.43	0.23	0.67	0.56	0.36	0.71
Wilcoxon/Mann	0.63	0.75	0.35	0.31	0.26	0.71

Panel B: Performance Eq. 3.3

Year	-1	0	1	2	3	4
t-test	0.34	0.83	0.56	0.40	0.46	0.72
Wilcoxon/Mann	0.89	0.42	0.53	0.09	0.18	0.39

they refused the offered directorship once[43]. After becoming members of the board, they resigned three times[44]. There were nine new CEOs designed during raiders' stockholdings that are somewhat induced by the raiders' pressures. Formal resolutions to oust the incumbent CEO were attempted four times and only one failed[45]. Raiders did not ask often for chairmanship, but when they did they got the position. When raiders ousted the CEO, they ousted the chairman as well[46]. Overall, raiders are rather successful in their formal moves both to obtain directorship and to oust incumbent managements. However, they do not ask directorship very often. They requested a seat on the board in less than 20 percent of the target companies.

3.7.2 Proxy-Fights

Raiders, or more broadly shareholders, are entitled to make their proposals to the incumbent management and to other shareholders at the Annual General Meeting (AGM) or at the Extraordinary General Meeting (EGM). The management does not generally agree with these external plans that frequently require dismissing the CEO or the chairman. The

[43]Mr Ebner declined Rieter Holding AG's offer to become director in the company because he was too busy at that time.

[44]Only resignations that took place while the raider was a shareholder of the company are considered. Resignations following the sale of the stake are not included.

[45]Snia's CEO, Mr Rosa, fended off Mr Giribaldi's attempt to force him out.

[46]The three companies are Charter Plc of U.K., Vivarte (formerly known as Group André) of France and Liberty Plc of U.K. (now Retail Store Plc).

Table 3.46: **Board of Directors, CEOs, and Chairmen**

The table reports the number of corporate events related to the board of directors and to the role of chairman and CEO. *Requested* is how many times raiders asked for either a seat on the boards of directors or the chairmanship. *Offered* is how many times raiders were offered either a seat on the boards of directors or the chairmanship. *yes/no* indicates how many times the raider obtained the seat on the board or the directorship. *Raider's resignation* indicates how many times raiders resigned from either directorship or chairmanship. *Oust* indicates how may times raiders proposed resolution to oust the CEO/chairman of the company. *yes/no Oust* is the number of times that the resolution was successful/rejected.

	Board		*Chairman*	
Requested	19		2	
Offered	7		3	
yes/no	16	10	5	0
Raider's resignation	3		3	
New CEO	9		11	
Oust CEO/chairman	4		4	
yes/no Oust	3	1	3	1

result is often a proxy-fight in AGMs or EGMs. Proxy-fights may also be generated by a board of directors' proposal contested by one or more shareholders that try to defeat the management team collecting proxies.

I collect information about 12 proxy-fights involving the selected raider in the sample period. These 12 proxy-contests concern only 11 firms since Liberty Plc of U.K. (now Retail Stores Plc) experienced two proxy-fights. The majority of them took place in the United Kingdom. The other countries interested are: Switzerland, with two observations, Sweden and France with one contest each. Seven observations concern resolutions at an AGM, while in five cases dissident shareholders holding more than 10% served requisition of an EGM[47]. Raiders were successful only in six proxy-fights, three at AGMs and three times at EGMs. Table 3.47 presents these results.

It is worth spending a few words about some successes. GPG served requisition of EGM on Coats Viyella, a U.K. firm, in 2000. However, Coats Viyella accepted the requests made by GPG before the EGM and GPG agreed to withdraw its requisition. GPG proposed three resolutions for Staveley's AGM in 1998. In this case as well, Staveley implemented the changes GPG asked for and so the active investor agreed not to move its resolutions. I include these observations because they stems from proxy-contests and I consider the result as one win for the raider. It is worth noting that Commerzbank received a formal written request to hold an EGM by 39 investors who together held more than 5 percent of the bank. The 39 investors belonged to CoBra and Mr Schneidewind and Mr Vedder were

[47]It is worth noting that the most famous European proxy-fight, the 1994 proxy-fight between Ebner and UBS, is not included in the sample because Mr Ebner bought the initial stake in UBS AG in the late 1980s. Therefore, although the proxy involved Mr Ebner, UBS AG is not included in the sample. Loderer and Zgraggen (1999) examine the UBS's proxy fight.

Table 3.47: **Proxy-Fights**

The table reports the number of proxy fights launched by the corporate raiders. The table documents whether the proxy-fights took place either at AGMs or at EGMs. The country in which the proxy-fights took place is reported too. Columns *Win AGM* and *Win EGM* show the number of successful proxy-fights.

Country	*Proxy-Fights*	*AGM*	*Win AGM*	*EGM*	*Win EGM*
France	1	1	1	0	0
Sweden	1	1	0	0	0
Switzerland	2	2	1	0	0
U.K.	8	3	1	5	3
Total	12	7	3	5	3

among them. The EGM never took place. I do not include this observation because there was no follow-up after the written request.

Since proxy-fights are believed to be a very costly control mechanism, it does not fit in well with the hypothesis that raiders are interested only in short term profits. If the objective is short-term profit, there is no incentive for the raider to throw away money and waste time in a proxy-fight. Of course, it is possible to argue that raiders just trigger off the proxy-fights, the share prices go up because of *battle noises* and than they run away selling their shares. However, if this were the case, it would not make sense to wait for the results of the proxy-contest. The raiders should exit before the uncertainty is resolved. Anecdotal evidence for the twelve proxy-fights does not support this view. Further, every once in a while raiders commit themselves to fight battles in which they have no rational chance to succeed. This is especially true for British raiders.

3.7.3 Raiders' Requests

Raiders do not very often use proxy-contests to propose a change in a firm's strategy. They are used to release public statements calling for some change. These public statements might be followed by private talks between raiders and incumbent management. Table 3.48 documents some of the requests that raiders usually make.

The changes resulting from a target firm's initiative are reported. Although I have no information that the raider puts pressure on the management, who could have been triggered either by raider's stockholding, i.e. to anticipate a raider's demand, or by private talks between the two parts. Raiders have their recommendations implemented more often than not. Since some firms faced several requests[48], it is clear that raiders did not put much pressure on many companies.

In addition to these requests, raiders abstained or voted against company's annual account four times. No real consequence stemmed from any of these actions. Contested company accounts were always approved. Three out of four observations are provided by Mr Giribaldi. The fourth is due to Vincent Bolloré's refusal to approve Bouygues's 1997

[48] When serving requisitions, raiders usually propose multiple resolutions.

Table 3.48: **Raiders' Requests**

The table documents the requests made by the raiders to the target company. Share buy-backs/special dividends, spin-offs, changes in the equity structure, restructuring plans, and disinvestments are considered. The Column *Yes* (*No*) reports the number of accepted (rejected) requests. The Column *Target* shows the number of events initiated by the target firm.

	Raider	*Yes*	*No*	*Target*
Share buy-buck/special dividend	9	3	6	5
Spin-off	13	6	7	1
Equity structure change	6	4	2	2
Restructuring	9	8	1	8
Disinvestment	9	4	5	4

Table 3.49: **Takeovers**

The table shows the number of takeover bids by selected raiders and third parties in the period 1990-2001. The nature (Hostile vs Recommended) and the result (Yes if the bid was successful and No if it was a failed attempt) of the bid are also reported for bid launched by raider. Multiple bids on the same company are considered. For bids launched by third parties, the table reports the number of bids in which raiders played a role, too. The number of going private and merger involving the firms targeted by raiders.

	Total	*Hostile*	*Recommended*	*Yes*	*No*	*Raider Role*
Raider	12	9	3	7	5	
Other	30			23	7	14
Going private	3					
Merger	2					

company accounts in 1998.

3.7.4 Takeovers

The group of investors studied usually buy a minority stake in the target firm. However, in a few cases they bid for the whole company. While sometimes the raider wants to take over the target company, the bid might be part of the raider's strategy to boost the firm's stock price or to precipitate a bid of a third party.

In fact, raiders are not alone in being interested in bidding for a given target company. A company in which the raider is a stakeholder can be the object of an offer by an industrial or financial firm. When an offer for the company arrives, the raider can play an important role. Indeed, the raider can either support or interfere with the offer. For example, Mr Ebner was strongly in favor of Credit Suisse AG's bid for Winterthur AG, a Swiss insurance company, but he was one of the reasons why the merger between Alusuisse AG of Switzerland and Viag AG of Germany failed.

As Table 3.49 shows, raiders made twelve bids. One offer was only a partial public

offer[49]. Nine offers were hostile while in three cases the bid was recommended by the board of directors of the target firm[50]. The firms that experienced a public offer by a raider are ten, because Mr Edelman tried three times to take over Société du Louvre, a French hotel company. Only two hostile bids ended successfully for the bidder raider. It is worth noting that both these offers have particular features. One of the offers that turned out to be successful is the partial offer of Maaldrift BV for Falck SPA of Italy. In the other case, the bid made by WCM for Kloeckner-Werke AG of Germany, started as hostile but after WCM increased its offer, the management board of Kloeckner-Werke promptly accepted. The failed hostile offers were no more than actions aimed at annoying the management of the target firms. Recommended bids always succeeded.

Firms targeted by raiders were involved in 30 take-over attempts by other companies not related to the raiders. Twenty-three bids were successful while seven failed. Raiders took sides about the takeover in just 14 cases. Nevertheless, it is worth noting that raiders had a role in six out of the seven failed attempts. The fact that the raiders accepted the offer in almost 80 percent of the cases and that in more than half of the observations they did not express any opinion signals that they are prone to exit from a company when an opportunity appears and that their commitment is not always strong and lasting.

Three companies took the decision to go private when the raider was a shareholder in the firm. Two firms were involved in mergers, too.

3.7.5 Greenmails

Greenmail, defined as targeted share repurchase by a target firm for a price above the market of its own shares (Loderer and Zgraggen 1999), is not always possible in Europe. Loderer and Zgraggen (1999), for instance, report that greenmail is not possible in Switzerland, because Swiss law requires firms to treat all shareholders equally. This is of course a very restrictive interpretation of greenmailing. Taking into account European ownership structures, it is possible to consider the purchase of the active investor's blockholding by another company owned by a target firm's controlling shareholders, usually a family holding, as a greenmail.

In my sample, I was able two identified only two greenmails, both regarding Guy Wyser-Pratte. The first case happened in December 1996, when Mr Wiser-Pratte and his French business partner Verneuile Finance SA sold their 8.5 percent stake in venture capital firm Siparex SA to Siparex Associes, which is the firm that coordinates the French group. This greenmail has the particular feature that the target firm, Siparex, gave in and accepted Mr Wyser-Pratte's request, that is a share buy-back in order to decrease the discount with respect to the NAV (Net Asset Value). Siparex asked for Mr Wyser-Pratte and Verneuile Finance's exit in return. The two investors agreed to sell an option on their stake to Siparex Associes. Siparex Associes exercised the option in May 1997.

Mr Wyser-Pratte accepted in November 2001 to sell his 7.1 percent stake in the German manufacturer Rheinmetall AG to Roechling Industrie Verwaltung GmbH (RIV). RIV is the holding company of the Roechling family, who controls Rheinmetall. Mr Wyser-Pratte

[49] Mr Zaleski's Maaldrift BV made an offer for 4.53 percent of Falck Spa of Italy. The offer was so successful that it was over-subscribed at 461.51 percent.

[50] I do not include here the second offer made by Ehlerding's WCM for RSE AG because at the time of this offer WCM already held 71.5 percent of RSE AG.

left Rheinmetall with an U.S. $18 million profit after his shares doubled in value since his investment in early 2001. This case looks like a text-book description of a greenmail, since during 2001 Wyser-Pratte asked for changes in Rheinmetall. In particularly, he wanted a more focused firm.

Greenmailing is a defensive option for the target firm, but it offers great incentives to short-term raiders, too. In fact, being greenmailed can be the raider's goal if he seeks short-run profits. Greenmails are not very common in my sample. One possible explanation is linked to the fact that firms in Europe usually have a majority shareholder. If the largest shareholder has the complete control in both AGM and EGM, it can ignore the raider's request and wait until the raider gives up. This strategy is followed by both the French group Taittinger versus the two American raiders Mr Wyser-Pratte and Mr Edelman and by the families Hoffmann and Oeri-Hoffmann when Mr Ebner sought to shake-up the Swiss pharmaceutical firm Roche[51]. In both cases, the raiders sold their stakes to other companies.

However, this only explanation is not sufficient and fails to explain both Rheinmetall's and Siparex's greenmail. The venture capital group Siparex has some peculiar characteristics. Siparex is partly quoted on the French Second market, but it has shielded its own management behind one corporate structure, the *commandite*, which gives control to designated managers protected from the power of the shareholders who hold stakes in its quoted subsidiary. Therefore, I can just note that a strong aversion to make family or closely controlled businesses more transparent and open to outside investors can provide a reason for the targeted buy-back.

Another story focuses on two simple considerations, that is, as already mentioned, firms in Europe are often controlled by a family and greenmail is a costly device to get rid of an annoying investor. The key point is the separation between who decides and who pays for the greenmail. In a widely-held company, managers decide to buy back the shares of stocks but they pay for the greenmail with company money. In a family-controlled business, there is no such a separation between who pays and the decision maker. This observation is quite robust also to the possible critique that ownership and control in European firms are often separated through pyramidal and complex control structures. The anecdotal evidence presented suggests that it is usually the family holding company or a company close to the top of the control chain that carried out the purchase[52].

3.7.6 White Squires and White Knights

White squires intervened to help incumbent seven times. The white-squire is an investor with a friendlier attitude towards the incumbent management (or controlling shareholder)

[51] This deal is not included in my sample because Mr Ebner purchased the stake in Roche AG in the late 1980s.

[52] The same is true of the greenmail involving Saab-Scania AB of Sweden and the Swedish investor Sven Olof Johansson in 1990. Sven Olof Johansson sold his 22 percent voting rights in the Swedish company Saab-Scania to the Wallembergs, who held 36 percent in Saab-Scania. The family holding companies Investor and Providentia paid for the greenmail. Johansson was ousted the day before the AGM in which he was supposed to press hard for a seat on the board. Mr Johansson was estimated to make a profit of SKr 1.3bn on the transaction.

that buys the minority stake previously held by the raider. I provide here some details for three of them[53].

The common feature of these deals is that whoever sold the stake was creating or had created many troubles for the target firm's management. The relationship between Mr Bolloré and SCDM, the Bouygues family holding company, had a friendly start sealed with an agreement to join their stakes for at least five years[54] in December 1997. Mr Bolloré obtained also three directors on the board of Bouygues. Some months later, Mr Bolloré began to criticize Bouygues abstaining also from voting the 1997 company's accounts. Mr Bolloré did not like Bouygues' telecommunication strategy and wanted the sale of the telecom unit. After spending six months in French courts trying to rescind the agreement, Mr Bolloré sold his 12.6 percent stakes to François Pinault on December 1, 1998. Mr Pinault bought Mr Bollore's shares in Bouygues at FFr. 1.160 each, a 1.0 percent premium to the previous day closing price. Mr Pinault immediately signed a shareholding pact with the Bouygues brothers. Bolloré is rumored to have earned from the transactions a capital gain of FFr. 1.5 billion (approximatively 228.5 million euros).

If Mr Bolloré was involved in an open war against the Bouygues, hostility with Lazard, a French investment bank, was disguised. Lazard's chief, Mr David-Weill, initially said that Lazard did not have any problem with a shareholder such as Mr Bolloré in Rue Impérial de Lyon SA[55] and that he would keep a friendly approach. Indeed, Mr David-Weill felt relieved when he was informed that the block of stocks was bought by a French investor well-connected with the establishment and not by a foreign raider[56]. After some quarrels regarding Lazard's restructuring, Mr David-Weill found a solution to his problem with the entry of Crédit Agricole SA, a French bank. Crédit Agricole was not even listed in Paris at that time. Bolloré sold his 31 percent stake to Crédit Agricole in November 2000. He earned a net profit of about FFr. 1.9 bn (U.S. $248 millions at that time, 290 million euros), almost doubling his initial investment (FFr. 2 bn)[57].

Completely different is Snia deal. Snia SPA was one of the few Italian public companies without a strong majority shareholder. Mr Giribaldi together with the Italian industrialist Cornelio Valetto and with Banque du Gothard (Montecarlo)'s help, accumulated a 29 percent stake in Snia in early 1999, just under the threshold that makes public offer compulsory in Italy (30%). Since the entry in Snia, his relationship with the CEO Rosa was unsympathetic, to say the least[58]. When the situation seemed to take a turn for the worse for him, Mr Rosa managed to create a pool of shareholders hostile to Mr Giribaldi and Mr Valetto. The pool was led by Interbanca, an Italian bank. Despite previous declarations that he would not sell Snia's shares, Giribaldi completed his stake's sale to Bios, an Interbanca's subsidiary, on 18 July 1999. He made a huge profit from this transaction (58.4 million euros together with Mr Valetto). Differently from Mr Pinault, Bios paid a 15 percent premium

[53]The other case are Dawson Plc (U.K.), Pathé SA (France), Commerzbank AG (Germany), and Société du Louvre (France)

[54]Indeed, after the details of the agreement were disclosed, Bouygues stock prices fell sharply because prospects of a takeover were reduced.

[55]Rue Impérial de Lyon is a holding company controlled by Lazard.

[56]Bolloré is friend and business partner of Antoine Bernheim, a Lazard's senior partner

[57]Notice that Bouygues and Rue Impérial de Lyon were the only two companies that adopted explicit poison pill to face the raiders.

[58]Mr Rosa stated that having a shareholder like Mr Giribaldi was a problem.

with respect to the market price.

In addition to the purchases made by white-squires, there is also a case in which a so-called *white-knight* intervened. A white-knight is a company that bids for the target firm in order to avoid an acquisition by an investor hostile to the incumbent management. After accumulating through open market purchases a stake of 23.9 percent in less than six months between July 1997 and January 1998, Guinness Peat Group Plc made an unsolicited cash-offer for the U.K. toys maker Bluebird Toys Plc at 101 pence a share on 16 January 1998. The board of Bluebird Toys rejected the offer because it undervalued the group, even though the offer represented a premium of approximately 18.8 percent over the price of the day before the announcement (85p). Bluebird Toys performed poorly in 1997. In order to avoid to be taken over by GPG, the management of Bluebird Toys recommended a rival bid by Mattel Inc., a U.S. toys-maker, at 115 pence a share. This happened 45 days after GPG offer was announced, on 30 March 1998. Bluebird and Mattel were commercial partners and Mattel distributed some Bluebird products in the U.S. market. GPG increased its offer, but Mattel topped it again at 116.5p. On 28 May 1998, GPG accepted the revised cash-offer by Mattel. It seems that GPG increased its offer only as an attempt to get Mattel to raise its offer, too.

White knights and white squires are certainly defensive measures for target firms. Finding a friendly investor to substitute a raider is obviously less expensive for the target company than resorting to a greenmail. On the other hand, these options usually imply losing the control of the firms. However, only eight firms made use of this option and only when the raider's behavior was extremely aggressive.

3.7.7 Corporate Control Events and Operating Performances

After giving some clinical evidence about what raiders did after the initial purchases, I investigate whether the firms in which raiders try to influence corporate policies perform better than the companies where the raiders keep a passive stance. To do so, I perform an analysis similar to the one carried out in Section 3.4.4, that is subdividing the sample into two groups on the ground that at least one corporate control event took place. As already mentioned before, 49 observations registered at least one corporate control event while 87 do not. The analysis in this section covers only the years in which the raider is a shareholder in the target firm company.

Intervention leads to two hypotheses. First, since intervention is costly, a raider intervenes only after the firm's performance becomes really bad. In this case, I expect to see a negative performance before the raider's intervention and eventually an improvement after the intervention. On the other hand, raider may intervene also if the firm is not performing badly. If the raider's aim is really to improve the operating performance of the target company, above-average performance should be found after the event.

Results are shown in Tables 3.50 to 3.55. As Table 3.50 makes clear, there is no evidence that intervention leads to improving performances. In fact in Table 3.50, means and medians are negative in years 1, 2, and 4 in Panel A. In year 3, only the mean is positive. However, only in year 2, the tests are weakly significant. The comparison between before and after the event shows that post-event performances are worse than the year -1 performance even if the raiders intervene. The only exception is the average in between year -1 and 3. Negative

Table 3.50: **Abnormal Operating Performances (Book) - Corporate Control Events**

The table presents mean and median abnormal operating performances for the firms that experienced corporate control events. The analysis starts the year before the announcement of a raider's stockholding and ends five years later. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after- event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	0.70%	0.88%	-1.07%	-4.54%	1.57%	-7.28%	na
p-value	0.10	0.56	0.37	0.08	0.62	0.19	na
Median	0.53%	0.20%	-0.12%	-1.62%	-0.98%	-4.39%	na
p-value	0.01	0.67	0.38	0.10	1.00	0.31	na
No. Obs	39	39	32	24	11	5	0
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.70%	0.49%	0.64%	0.31%		
Mean Year i		0.88%	-1.07%	-4.54%	1.57%		
p-value		0.90	0.22	0.05	0.70		
Median Year -1		0.53%	0.46%	0.59%	0.73%		
Median Year i		0.20%	-0.12%	-1.62%	-0.98%		
p-value		0.33	0.20	0.04	0.64		
No. Obs.		39	32	24	11		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-0.12%	0.19%	-1.79%	-3.39%	5.44%	-5.69%	na
p-value	0.90	0.90	0.39	0.03	0.36	0.09	na
Median	0.24%	-1.02%	-0.13%	0.15%	0.19%	-2.53%	na
p-value	0.99	0.33	0.76	0.19	0.64	0.06	na
No. Obs	39	39	32	24	11	5	0
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-0.12%	-0.22%	-0.44%	-0.15%		
Mean Year i		0.19%	-1.79%	-3.39%	5.44%		
p-value		0.86	0.50	0.15	0.34		
Median Year -1		0.24%	0.23%	0.38%	0.24%		
Median Year i		-1.02%	-0.13%	0.15%	0.19%		
p-value		0.43	0.20	0.19	0.97		
No. Obs.		39	32	24	11		

Table 3.51: **Abnormal Operating Performances (Book) - No Corporate Control Events**

The table presents mean and median abnormal operating performances for the firms that did not experience any corporate control event. The analysis starts the year before the announcement of a raider's stockholding and ends five years later. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after- event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	0.62%	-0.78%	0.62%	-0.14%	-3.93%	1.21%	2.29%
p-value	0.36	0.41	0.71	0.96	0.27	0.86	0.70
Median	0.00%	-0.47%	-0.96%	-1.79%	-4.62%	-1.72%	-0.04%
p-value	0.67	0.46	0.75	0.59	0.30	1.00	1.00
No. Obs	51	51	33	17	9	4	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.62%	1.31%	0.64%	1.43%		
Mean Year i		-0.78%	0.62%	-0.14%	-3.93%		
p-value		0.23	0.72	0.79	0.13		
Median Year -1		0.00%	0.33%	0.41%	1.42%		
Median Year i		-0.47%	-0.96%	-1.79%	-4.62%		
p-value		0.18	0.34	0.55	0.13		
No. Obs.		39	32	24	11		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-0.65%	-1.40%	1.49%	1.30%	-3.42%	-0.66%	1.08%
p-value	0.49	0.15	0.14	0.54	0.37	0.87	0.80
Median	-0.42%	-1.10%	0.93%	-0.03%	0.64%	-1.23%	-0.92%
p-value	0.31	0.18	0.18	0.76	0.73	0.88	0.88
No. Obs	51	51	33	17	9	4	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-0.65%	0.19%	-1.26%	-1.88%		
Mean Year i		-1.40%	1.49%	1.30%	-3.42%		
p-value		0.58	0.40	0.28	0.71		
Median Year -1		-0.42%	-0.31%	-0.42%	-0.60%		
Median Year i		-1.10%	0.93%	-0.03%	0.64%		
p-value		1.00	0.45	0.52	0.43		
No. Obs.		39	32	24	11		

Table 3.52: **Tests for Corporate Control Events vs No Corporate Control Events (Book)**

The table presents the results for the tests between the mean and median abnormal operating performances for the firms that experienced corporate control events and those that did not. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 392). P-values for t-tests for differences in means between firms with maximum stake greater than 10% and firms with maximum stake less than 10% and p-values for Wilcoxon/Mann test for equality of medians are reported.

Panel A: Performance Eq. 3.2						
Year	-1	0	1	2	3	4
t-test	0.93	0.32	0.41	0.26	0.24	0.32
Wilcoxon/Mann	0.15	0.41	0.60	0.47	0.49	0.49
Panel B: Performance Eq. 3.3						
Year	-1	0	1	2	3	4
t-test	0.69	0.36	0.15	0.07	0.23	0.31
Wilcoxon/Mann	0.41	0.73	0.30	0.18	0.65	0.54

and significant performance are found also in year 4 in Panel B. In Panel B, the t-test is significant in year 2, as well.

When there is no intervention, the average ROA in Panel A of Table 3.51 is usually positive while the median is negative. However, no statistics is significant. Results in Panel B are mixed but neither means nor medians are significant either. Table 3.52 shows that no statistically significant difference is found between the sample of firms in which the raiders intervene and the sample in which it does not, apart for the means in year 2.

Using the market value of assets as denominator in the operating performance does not produce substantial changes. It is useful to note that in Panel A of Table 3.53, means and medians are positive in year 0 and year 1, then they become negative. No test is significant in Table 3.53. Table 3.54 is rather different from Table 3.51. Performance in year 0 are significant and negative, while in year 1 Panel B reports positive and significant mean and median. The improvement in performance between year -1 and year 1 is significant as well. Table 3.55 offers mixed results. In Panel A, there is some evidence supporting the view that raiders' intervention has a positive effect, while in Panel B it seems that the intervention helps, in the best of scenarios, to prevent further worsening.

The findings give limited support to the view that raiders intervene in a target company when the firm performs badly. The intervention does not seem to improve the firm's performance very much. The evidence suggests that raiders' intervention is harmful or useless at best. Broadly speaking, it is not conceivable to sustain the hypothesis that raiders' intervention bring about better performances for the firms where they really adopt an activist behavior. However, controlling the time of a raider's intervention is necessary to overcome the causality problem between the worsening in operating performance and the intervention.

Table 3.53: **Abnormal Operating Performances (Market) - Corporate Control Events**

The table presents mean and median abnormal operating performances for the firms that experienced corporate control events. The analysis starts the year before the announcement of a raider's stockholding and ends five years later. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after-event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	2.54%	5.79%	1.22%	-2.02%	-1.77%	-18.54%	na
p-value	0.21	0.24	0.60	0.61	0.65	0.24	na
Median	2.41%	1.96%	0.31%	-2.84%	-1.52%	-6.01%	na
p-value	0.12	0.20	0.33	0.30	0.42	0.31	na
No. Obs	39	39	32	24	12	5	0
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		2.54%	1.90%	1.89%	2.56%		
Mean Year i		5.79%	1.22%	-2.02%	-1.77%		
p-value		0.54	0.83	0.42	0.45		
Median Year -1		2.41%	2.78%	2.52%	2.78%		
Median Year i		1.96%	0.31%	-2.84%	-1.52%		
p-value		0.71	0.43	0.73	0.42		
No. Obs.		39	32	24	12		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	0.12%	3.25%	-4.08%	-4.15%	1.12%	-17.89%	na
p-value	0.94	0.44	0.44	0.19	0.81	0.24	na
Median	0.17%	-1.58%	-1.12%	0.35%	-1.51%	-5.43%	na
p-value	0.88	0.71	0.26	0.25	0.79	0.13	na
No. Obs	38	39	32	24	12	5	0
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		0.12%	-1.53%	-1.94%	1.30%		
Mean Year i		3.34%	-4.07%	-4.18%	0.82%		
p-value		0.48	0.65	0.55	0.93		
Median Year -1		0.17%	0.16%	-0.33%	0.18%		
Median Year i		-1.61%	-0.86%	0.35%	-2.45%		
p-value		0.64	0.29	0.72	0.24		
No. Obs.		38	31	23	11		

Table 3.54: **Abnormal Operating Performances (Market) - No Corporate Control Events**

The table presents mean and median abnormal operating performances for the firms that did not experience corporate control events. The analysis starts the year before the announcement of a raider's stockholding and ends five years later. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the book value of the firm's assets (DS item 1504). In Panel A, the expected operating performance is $E(P_{it}) = PI_{it}$. In Panel B, the expected operating performance is $E(P_{it}) = P_{i,t-1} + (PI_{it} - PI_{i,t-1})$. A standard t-test is used to measure whether the mean is different from 0. A Wilcoxon test is used to measure whether the median is different from 0. In testing before- and after-event performances, the means and the medians take into account only the observations that appear in both years. A t-test is used to measure whether the mean is different in the two samples. A Wilcoxon/Mann signed-rank test is used to measure whether the median is different in the two samples. *p-values* of both tests are reported.

Panel A: Performance Eq. 3.2							
Year	-1	0	1	2	3	4	5
Mean	-5.34%	-6.89%	-2.07%	-2.94%	-13.10%	-1.57%	0.66%
p-value	0.33	0.02	0.46	0.61	0.17	0.81	0.88
Median	-0.02%	-2.18%	-2.14%	-1.34%	-6.64%	-5.28%	-0.77%
p-value	1.00	0.03	0.31	0.74	0.07	0.88	1.00
No. Obs	53	53	33	18	9	4	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-5.34%	-9.06%	-0.15%	-0.20%		
Mean Year i		-6.89%	-2.07%	-2.94%	-13.10%		
p-value		0.80	0.45	0.63	0.16		
Median Year -1		-0.02%	0.60%	0.51%	0.85%		
Median Year i		-2.18%	-2.14%	-1.34%	-6.64%		
p-value		0.01	0.35	0.56	0.16		
No. Obs.		53	33	18	9		
Panel B: Performance Eq. 3.3							
Year	-1	0	1	2	3	4	5
Mean	-7.97%	-1.55%	5.43%	-0.30%	-6.08%	0.71%	2.24%
p-value	0.17	0.73	0.09	0.96	0.26	0.86	0.51
Median	-0.38%	-2.24%	0.99%	1.74%	-2.63%	0.89%	2.67%
p-value	0.26	0.01	0.06	0.18	0.36	0.88	0.63
No. Obs	51	53	33	18	9	4	4
Before vs After		-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3		
Mean Year -1		-7.97%	-10.70%	-0.96%	-1.16%		
Mean Year i		-1.48%	6.13%	-1.23%	-6.08%		
p-value		0.38	0.09	0.97	0.38		
Median Year -1		-0.38%	0.53%	0.55%	0.57%		
Median Year i		-2.24%	1.09%	1.74%	-2.63%		
p-value		0.38	0.02	0.57	0.43		
No. Obs.		51	31	16	9		

Table 3.55: **Tests for Corporate Control Events vs No Corporate Control Events (Market)**

The table presents the results for the tests between the mean and median abnormal operating performances for the firms that experienced corporate control events and those that did not. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Operating performances are measured as operating profit (DS item 137(933)) over the market value of the firm's assets (DS item 1504). P-values for t-tests for differences in means between firms with maximum stake greater than 10% and firms with maximum stake less than 10% and p-values for Wilcoxon/Mann test for equality of medians are reported.

Panel A: Performance Eq. 3.2

Year	-1	0	1	2	3	4
t-test	0.24	0.02	0.37	0.89	0.21	0.34
Wilcoxon/Mann	0.13	0.01	0.12	0.67	0.46	0.54

Panel B: Performance Eq. 3.3

Year	-1	0	1	2	3	4
t-test	0.23	0.45	0.12	0.53	0.30	0.27
Wilcoxon/Mann	0.40	0.18	0.04	0.06	0.64	0.18

Table 3.56: **Leverage**

Mean and Median leverage for firms targeted by raiders (Panel A) and the matching sample (Panel B). The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Leverage is defined as Total Debt (item 1301) over the book value of equity (item 305). The p-values of a t-test for the difference in mean between two sample and of a Wilcoxon/Mann test for the equality between the medians of the two samples are shown in Panel C.

Panel A: Raiders

Year	-1	0	1	2	3	4	5
Mean	1.10	1.22	1.11	1.26	1.44	1.42	0.29
Median	0.67	0.68	0.61	0.54	0.73	0.49	0.25
No. Obs	96	96	72	45	28	12	6

Panel B: Matching Sample

Year	-1	0	1	2	3	4	5
Mean	0.85	0.94	0.95	0.83	0.78	0.80	0.73
Median	0.67	0.67	0.65	0.64	0.61	0.75	0.60
No. Obs	99	100	79	63	43	26	14

Panel C: Tests

Year	-1	0	1	2	3	4	5
t-test	0.30	0.23	0.60	0.17	0.13	0.14	0.06
Wilcoxon/Mann	0.49	0.64	0.58	0.91	0.35	0.56	0.04

3.8 LEVERAGE

Jensen (1986) emphasizes the role of the debt as disciplinary device for managers of firms with large free-cash flows. If the raider's objective is to expropriate the corporate assets, she should target companies with lower debt because the leverage can constrain the access to free cash flows. Hence, under the raider hypothesis, raiders are expected to target firms with a lower leverage. Conversely, if the raider is a champion of good corporate governance, two counter-balancing effects come into play. A reduction in the firm's leverage is expected because of the fact that the raider's monitoring role could be a substitute for leverage in disciplining management. On the other hand, the raider can propose an increase in the debt-to-equity ratio in order to curb the power of the controlling shareholder (incumbent management) over the free-cash flow.

Leverage is defined as a debt-to-equity ratio[59]. Table 3.56 shows the average and the

[59]Leverage is as Total Debt (Datastream item 1301) over the book value of equity (Datastream item 305).

median leverage of firms targeted by raiders. Average and median leverage for the matching sample are presented as well. Compared to the matching sample, firms in which raiders bought a stake have higher average debt-to-equity ratios both before and after the purchase with the only exception of year 5. However, medians are similar except in the last two years. The tests are significant only in year 5, where the matching sample firms are more leveraged than the firms targeted by the raiders. Since a few outliers can drive the results for means, medians certainly offer a better point of view. Hence, it is possible to conclude that leverage is very similar between the two groups. In particular, no difference in leverage is found before the event takes places. This casts doubt about the hypothesis that raiders choose target firms on the basis of leverage.

Table 3.57 provides evidence concerning the yearly percentage change in the leverage of the firms in which the raiders became stockholders. Means are very large and positive. However, statistics based on the means are not very reliable owing to outliers. In fact, medians present a complete different picture. Debt is reduced in every year but year 3. Nevertheless, there is no evidence that raiders start a new trend since also in year -1 the median is negative and the test between before and after does not deliver any significant result. When the change in leverage over longer periods is considered, medians are negative except when the final year is year 3.

Table 3.58 documents the abnormal change in the firms leverage. The abnormal change is defined as the difference between the change in leverage for the target firm minus the expected change. The expected change is given by the change in the debt-to-equity ratio of the matching sample firms. Even in this case, the presence of a few outliers determines very high value for the average abnormal change. However, these means are not statistically significant. Medians are not significant, either. Despite that, there is a significant increase in leverage between year -1 and year 2 (Panel B).

To sum up, leverage does not seem to be particularly relevant when raiders choose their targets. This is not consistent with the raiding hypothesis since leverage makes expropriation more difficult. After raiders' entry, target firms seem more prone to reduce their debt level than to increase it. However, this evidence is very weak. Therefore, although this gives some support to the hypothesis that the monitoring role of raiders is a substitute for higher debt level, several doubts remain.

3.9 EMPLOYEES

Employee are often opposed to corporate raiders when they becomes shareholders in their company. Loderer and Zgraggen (1999) describe how in the 1994 proxy-fight between UBS and Mr Ebner, UBS management was able to exploit UBS employees' fear in order to win the proxy-fight. In fact, the employees were afraid that if Mr Ebner had won, they could have been fired, and thus voted for the management plan that caused them a loss in the value of their shares.

Shleifer and Summers (1988) provide a reason for such a fear. In fact, they argue that the role played by transfers of wealth in hostile takeovers can be extremely important. This is possible because the new management is not committed to upholding the implicit contracts

See Appendix C for the definition of the items.

Table 3.57: **Change in Leverage for Firms Targeted by Raiders**

The table presents means and medians of the annual change in leverage for the cross-section of firms with the respective t-tests and Wilcoxon tests. The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Leverage is defined as Total Debt (item 1301) over the book value of equity (item 305). Panel A presents the means and medians of the the annual change in leverage. Panel B Before vs After looks at the change in leverage between the pre-event year and the post-event year. Panel C documents the change over longer periods for the cross-section of firms. Change between year -1 and year t presents the abnormal variation in the leverage between year -1 and t. Change between year 0 and year t presents the abnormal variation in the leverage between year 0 and year t.

Panel A: Annual Change in Leverage

Year	-1	0	1	2	3	4	5
Mean	17.22%	73.00%	294.89%	163.37%	56.20%	19.57%	11.89%
p-value	0.06	0.10	0.32	0.13	0.03	0.42	0.74
Median	-2.81%	-1.16%	-7.01%	-5.69%	7.33%	-7.78%	-14.73%
p-value	0.52	0.24	0.23	0.66	0.05	0.97	0.44
No. Obs	91	90	69	45	28	12	6

Panel B: Before vs After

	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	16.75%	16.23%	18.40%	31.60%	38.00%	77.43%
Mean Year i	69.46%	311.64%	143.23%	54.07%	24.50%	11.89%
p-value	0.27	0.35	0.26	0.53	0.73	0.29
Median Year -1	-1.70%	-6.45%	-3.82%	-9.45%	1.33%	42.91%
Median Year i	-1.16%	-7.18%	-5.27%	6.16%	-3.29%	-14.73%
p-value	0.83	0.32	0.75	0.20	0.83	0.31
No. Obs.	86	64	41	26	11	6

Panel C: Change over longer periods

Change -1, t	-1 to 1	-1 to 2	-1 to 3
Mean	314.57%	115.94%	193.09%
p-value	0.24	0.16	0.14
Median	-10.83%	-15.48%	4.16%
p-value	0.25	0.65	0.10
No. Obs	68	43	28
Change -0, t	0 to 1	0 to 2	0 to 3
Mean	294.89%	38.75%	70.41%
p-value	0.32	0.21	0.06
Median	-7.01%	-5.42%	2.82%
p-value	0.23	0.83	0.13
No. Obs	69	44	27

Table 3.58: **Abnormal Change in Leverage for Firms Targeted by Raiders**

The table presents the annual abnormal change in leverage for the cross-section of firms. Means and medians are presented with the respective t-tests and Wilcoxon tests. The abnormal change is defined as the difference between the change in leverage for the target firm minus the change for the matching sample. Leverage is defined as Total Debt (item 1301) over the book value of equity (item 305). Panel A presents the means and medians of the the annual abnormal change in leverage. Panel B Before vs After looks at the abnormal change in leverage between the pre-event year and the post-event year. Panel C documents the abnormal change over longer periods for the cross-section of firms. Change between year -1 and year t presents the abnormal variation in the leverage between year -1 and t. Change between year 0 and year t presents the abnormal variation in the leverage between year 0 and year t.

Panel A: Abnormal Annual Change in Leverage

Year	-1	0	1	2	3	4	5
Mean	-11.63%	61.40%	266.56%	166.38%	24.13%	-234.82%	17.52%
p-value	0.40	0.19	0.42	0.14	0.30	0.40	0.78
Median	-8.04%	-8.38%	-3.96%	1.71%	14.46%	14.97%	-19.45%
p-value	0.30	0.73	0.63	0.92	0.51	0.92	1.00
No. Obs	85	86	63	43	24	10	5

Panel B: Before vs After

	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	-10.51%	-19.08%	-8.46%	4.37%	17.76%	42.64%
Mean Year i	58.02%	291.93%	153.58%	23.15%	-263.26%	17.52%
p-value	0.18	0.39	0.18	0.56	0.37	0.80
Median Year -1	-6.69%	-9.66%	-15.23%	-9.66%	-8.60%	52.58%
Median Year i	-8.85%	-3.09%	6.43%	13.57%	11.28%	-19.45%
p-value	0.54	0.29	0.04	0.77	0.65	1.00
No. Obs.	81	57	38	21	9	5

Panel C: Abnormal Change over longer periods

Change -1, t	-1 to 1	-1 to 2	-1 to 3
Mean	298.46%	88.54%	205.60%
p-value	0.31	0.33	0.17
Median	-9.61%	-6.09%	17.64%
p-value	0.90	0.83	0.17
No. Obs	62	42	24
Change -0, t	0 to 1	0 to 2	0 to 3
Mean	266.56%	12.38%	-37.85%
p-value	0.42	0.78	0.68
Median	-3.09%	-9.25%	10.87%
p-value	0.60	0.86	0.65
No. Obs.	63	42	23

Table 3.59: **Employees**

Mean and Median number of employees for firms targeted by raiders (Panel A) and the matching sample (Panel B). The numbers of employees is Datastream item 219. The p-values of a t-test for the difference in mean between two sample and of a Wilcoxon/Mann test for the equality between the medians of the two samples are shown in Panel C.

Panel A: Raiders

Year	-1	0	1	2	3	4	5
Mean	20,322	19,696	20,019	18,189	22,033	32,904	31,811
Median	6,254	6,254	6,643	6,372	7,556	7,304	24,888
No. Obs	101	101	74	45	24	11	6

Panel B: Matching Sample

Year	-1	0	1	2	3	4	5
Mean	16,877	17,898	19,113	19,741	23,315	25,028	12,773
Median	5,604	5,566	5,970	6,251	6,798	6,479	6,118
No. Obs	104	104	85	62	42	27	14

Panel C: Tests

Year	-1	0	1	2	3	4	5
t-test	0.46	0.70	0.87	0.80	0.90	0.63	0.13
Wilc./Mann	0.82	0.68	0.73	0.86	0.90	0.77	0.23

with stakeholders[60]. In this way, the shareholders can expropriate rents from stakeholders.

Although I am not concerned with hostile takeovers, it is possible that the acquisition of a block of stocks by a well-known corporate raider can produce the same effect, i.e. the breach of implicit contract between the firm and its stakeholders. The reasons is that the raider is an outsider and can push for a restructuring of the company.

The average and median number of employees for both companies targeted by raiders and the matching sample is presented in table 3.59. Both the average and the median are slightly higher for the firms targeted by raiders in year -1, confirming the result of Section 1.3 that raiders tend to purchase bigger companies than ordinary investors. However, the tests are not significant.

Table 3.60 can provide an answer to the question whether or not the raiders can break implicit contracts with stakeholders as argued by Shleifer and Summers (1988). Although

[60]It is worth noting that in this section the word "stakeholders" has a different meaning with respect to the remaining parts of the thesis. In this section, stakeholder means whoever has some interest in the company like employees, supplier, the communities where factories are located, and so on. Generally, in the thesis stakeholder indicates the holder of a block of stocks.

Table 3.60: **Change in the Number of Employees**

The table presents the annual change in the number of employees for firms targeted by raiders with the respective t-test and Wilcoxon test. The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. The number of employees is Datastream item 219. Panel A presents the means and medians of the the annual change in leverage. Panel B Before vs After looks at the change in the number of employees between the pre-event year and the post-event year. Panel C documents the change over longer periods for the cross-section of firms. Change between year -1 and year t presents the abnormal variation in the number of employees between year -1 and t. Change between year 0 and year t presents the abnormal variation in the number of employees between year 0 and year t.

Panel A: Change in Number of Employees

Year	-1	0	1	2	3	4	5
Mean	6.03%	42.39%	0.43%	-1.63%	2.83%	11.07%	-9.55%
p-value	0.40	0.19	0.42	0.14	0.30	0.40	0.78
Median	0.61%	-0.10%	-1.61%	-1.51%	-1.92%	-2.46%	-1.71%
p-value	0.45	0.55	0.52	0.24	0.93	0.76	0.69
No. Obs	96	101	74	45	24	11	6

Panel B: Before vs After

	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	6.03%	3.80%	5.82%	-2.61%	-5.22%	1.70%
Mean Year i	43.49%	-0.57%	-4.13%	-0.50%	-0.54%	-11.92%
p-value	0.39	0.40	0.14	0.64	0.51	0.31
Median Year -1	0.61%	0.53%	0.25%	-0.47%	0.25%	0.93%
Median Year i	-0.77%	-2.21%	-1.80%	-2.69%	-2.46%	-4.18%
p-value	0.59	0.25	0.23	0.96	0.50	0.44
No. Obs.	96	70	41	22	9.00	5

Panel C: Change over longer period

Change -1, t	-1 to 1	-1 to 2	-1 to 3
Mean	3.07%	3.30%	10.49%
p-value	0.50	0.67	0.45
Median	-2.40%	-2.74%	6.98%
p-value	0.80	0.77	0.91
No. Obs.	74	45	24
Change -0, t	-1 to 1	-1 to 2	-1 to 3
Mean	0.43%	0.94%	8.70%
p-value	0.90	0.88	0.52
Median	-1.61%	-2.07%	2.06%
p-value	0.52	0.41	0.82
No. Obs	74	45	24

Table 3.61: **Abnormal Changes in the Number of Employees**

The table reports the abnormal changes in number of employees for firms targeted by raiders. The analysis starts the year before the announcement of a raider's stockholding and ends five years after. The means and the medians take into account only the years in which the raider is a stockholder in the companies analyzed. Abnormal change is defined as the difference between the change in the number of employees for the target firm minus the change for the matching sample. Means and medians of the annual abnormal change in the number of employees for the cross-section of firms are presented with the respective t-test and Wilcoxon test. Panel A presents the means and medians of the the annual change in leverage. Panel B Before vs After looks at the abnormal change in the number of employees between the pre-event year and the post-event year. Panel C documents the abnormal change over longer periods for the cross-section of firms. Change between year -1 and year t presents the abnormal variation in the number of employees between year -1 and t. Change between year 0 and year t presents the abnormal variation in the number of employees between year 0 and year t.

Panel A: Abnormal Changes in Number of Employees

Year	-1	0	1	2	3	4	5
Mean	-0.51%	36.71%	-2.97%	-0.26%	-11.98%	16.23%	-40.89%
p-value	0.92	0.40	0.45	0.94	0.27	0.15	0.29
Median	-3.70%	-2.47%	-4.18%	-2.59%	-1.71%	4.29%	-6.55%
p-value	0.27	0.26	0.32	0.48	0.31	0.28	0.06
No. Obs	91	97	70	39	20	10	5

Panel B: Before vs After

	-1 vs 0	-1 vs 1	-1 vs 2	-1 vs 3	-1 vs 4	-1 vs 5
Mean Year -1	-0.51%	-5.15%	-5.32%	-3.87%	-14.23%	-9.37%
Mean Year i	38.91%	-4.14%	-2.61%	-15.70%	7.82%	-49.98%
p-value	0.40	0.90	0.79	0.39	0.05	0.41
Median Year -1	-3.70%	-3.70%	-7.84%	-4.32%	-15.85%	0.18%
Median Year i	-2.65%	-4.84%	-3.70%	-1.73%	-1.79%	-9.17%
p-value	0.47	0.82	0.73	0.36	0.08	0.25
No. Obs.	91	65	35	17	7	4

Panel C: Abnormal Changes over longer period

Change -1, t	-1 to 1	-1 to 2	-1 to 3
Mean	-11.59%	0.83%	-1.14%
p-value	0.13	0.92	0.95
Median	-9.50%	-5.19%	-4.15%
p-value	0.14	0.86	0.82
No. Obs	70	39	20
Change -0, t	-1 to 1	-1 to 2	-1 to 3
Mean	-2.97%	-4.69%	-9.66%
p-value	0.45	0.47	0.57
Median	-4.18%	-7.61%	0.87%
p-value	0.32	0.28	0.68
No. Obs	70	39	20

there is a constant reduction in the median workforce of the companies starting from the raider's entry, the tests are not significant. The changes over horizons longer than one year are not significant. However, the problem here is that the change in the workforce can be also triggered by industry- or market-wide factors.

To address this problem, Table 3.61 presents the abnormal change in the number of employees, which is the difference between the annual change in the workforce for the target firms minus the correspondent change for the firms in the matching samples. Looking at the annual median abnormal change in the workforce, it is quite evident that the reduction is larger when corrected to take into account industry-wide shocks up to year 2 and in year 5. Notice that only year 5 is significant and these layoffs come after a year in which the abnormal change is positive. Year 5 has only five observations. When the change in the number of employees in the year before the event is compared to the post-event year, a similar picture arise. No result is significant over longer horizons.

By and large, there is no strong evidence to support the claim that raiders are effective in cutting down the rents enjoyed by the stakeholders. Results point generally in this direction but they are almost never statistically significant. The main finding in this section is consistent with the results found elsewhere in the chapter, and more generally in the thesis, i.e. raiders are hardly relevant.

3.10 CONCLUSION

This part of the dissertation has looked in details at what happens after the initial announcement of a raider's stockholding. Several features concerning the ex-post activities of the raiders under investigation are taken into account, ranging from the duration of the raider's stockholding to the analysis of stock markets returns and operating performances. A clinical study of raiders' activities following the initial purchase is also proposed.

A positive market response to the announcement of the initial raider's stockholding is found in the first part. However, the evidence is consistent with a hypothesis that does not rest on the stockholder's identity, i.e. the downward sloping demand curve. The findings in this part go in the same direction: very weak support for the hypothesis that the raiders play any relevant role in affecting a target's firm performances is found.

Raiders do not stay in a company for a very long time. A stake is held on average twenty months when the raider exited before Dec. $31^{st}, 2001$. The average for stockholdings active at that date is slightly more than two years. Further, many stakes are sold within one year from the announcement. Although this evidence is certainly not a definitive proof of lack of raiders' commitment, it is not very consistent with the view that the raiders' aim is to improve corporate performance in the long run.

Stock price performances cast even more doubt on these investors. Although the bottom line of the analysis of long-run abnormal performances is that financial press overstated the importance of these investors, interesting findings emerge. First, the size of the stake does not matter when raiders are involved; and therefore the effort they exert in monitoring the company seems unrelated to this variable. Second, when raiders intervene, they fail to produce significant improvement in the target firm's performance. It seems that the raider's intervention is more likely to be a mere attempt to stop a further deterioration or to create

rumors around the firm. Last but not least, raiders ride losers too long to avoid realizing their losses, i.e. a sort of disposition effect takes place.

When raiders sell their stakes in a company, there is a positive market reaction. However, this result is driven by the abnormal return experienced by firms that were taken over by other companies. Differently from the literature, which found that blockholder's identity matters, the change in a blockholder's identity does not produce abnormal returns.

Operating performances based on accounting measures broadly give the same picture as stock price performances. Raiders do not deliver improvement and there is little evidence supporting the view that performances deteriorates. Operating performances are not correlated with the positive abnormal return experienced by target firms at the time of the first announcement of a raiders' stockholding. This finding is the final blow to the possibility to explain the initial abnormal returns with the corporate governance champion hypothesis.

According to the financial press, the selected raiders are a group of investors that cause many problems to the incumbent management or controlling shareholder. However, the evidence shown in Section 3.7 documents that raider are really active, at least in public, only in 49 out of the observations studied, i.e. only in 36 percent of the cases. The activities carried out by the raiders after the initial purchases are of different types, ranging from asking for change in the management board's compositions to proxy-fights. They even launch a public offer in a few cases. However, the results in Section 3.7.7 hardly support the view that raider's intervention is helpful. Indeed, a neutral impact of the raider's intervention finds a much broader support based on evidence. Evidence about leverage and employment does not bring to light a particular role played by the raiders, either.

Broadly speaking, the evidence collected weakly supports the view that raiders are harmful from the target firm's point of view. However, the raiding hypothesis is not supported. Hence, it is possible to infer that the negative outlook is due more to the raiders ineffectiveness than to expropriation. Although portrayed as great and annoying investors by the financial press, they do not seem up to the job. On the whole, these investors are rather irrelevant for the firms they target. Unless raiders are able to profit from their investments in some other way, there are some doubts that they make any money at all when looking at the stock price of the target firm.

Although this evidence is not fully consistent with a *much ado about nothing* sort of story, the emphasis that financial press gave to these investors is certainly exaggerated. While praising the raider and predicting hard times for the incumbent management of the target firm was common in the European financial press after a purchase by a raider during the late 1990s and early 2000s[61], the evidence tells another story. Raiders are not so prone to interfere with the target management and sometimes they limit their actions to just costless public statements.

This is not to say that none of the fifteen raiders had an impact. Anecdotal evidence suggests that these raiders behave differently with each other. While sharing the same label, they are a rather heterogenous set of investors. Further, some of them went out of the business following the end of the bull market, while others managed to survive rather well.

Although no evidence has been found to justify the claim that raiders help improve target

[61] See *FT* 27 June 1998 for corporate raiders in general, *FT* 26 January 1999 about Vincent Bolloré, *FT* 15 December 2000 for Martin Ebner, *FT* 24 February 2001 for Guy Wyser-Pratte, to name just a few articles.

firms' performance, one cannot forget their contribution in shaping a stronger shareholder activism. If minority shareholders' rights have improved in many European countries, at least a part of the merit is due to them. Albeit not always successful, their crusades often were in the spotlight and gained much attention in the press. This helped to strengthen the case for minority shareholders' rights.

The conclusion is that these investors are a product of the boom in equity markets in the 1990s. They enjoyed great media coverage for their operations in a market constantly looking for news to justify an increase in stock price. Their best deals get a lot of attention. Notwithstanding this coverage, less attention was paid to the fact that many target firms were not performing as well as journalistic theories might lead us to except.

Appendix A

RAIDERS

The 15 raiders are:

1. U.K. Active Value Fund (U.K.)(Brian Myerson e Julian Treger, South Africa)
2. Vincent Bolloré (France)
3. René Braginsky (Switzerland)
4. Ron Brierley (New Zealand) (Guinness Peat Group, U.K.)
5. Martin Ebner (Switzerland)
6. Asher Edelman (U.S.)
7. WCM Beteiligungs- und Grundbesitz (Germany)(Karl Ehderling, Germany)
8. Luigi Giribaldi (Italy)
9. Lord Hanson (U.K.)
10. Ernst Müller-Möhl (Switzerland)
11. Klaus Peter Schneidewind and Clemens Vedder(Germany)
12. Luca Padulli (Italy)
13. Guy Wyser-Pratte (U.S.)
14. Tito Tettamanti (Switzerland)
15. Romain Zaleski (France)

Appendix B

RANDOM SAMPLE SELECTION

The 137 observations included in the random sample are from Thompson Financial's International Mergers (IMA) Database. The deals were randomly selected between those that fulfilled the following criteria:

1. announcement date between Jan. 01, 1993 and Dec. 31, 2001;

2. the target firm is from one of the countries where raiders made their purchases, i.e. Belgium, France, Germany, Italy, Sweden, Switzerland, and U.K.:

3. the percent of shares held by the acquirer at the announcement date is zero;

4. the acquirer is European;

5. the percent of shares acquired in the transaction is less than 15 percent;

6. the target is a public company.

On top of these requirements, I deleted from the Thompson Financial's sample the deals in which the acquirer and the target are the same company, i.e. share buy-back. Further, companies targeted by one of the 15 raiders are not taken into consideration even if the purchase is made by another investors. I eliminated a deal if a transactions regarding the same target company was already selected and this transaction took place less than one year before or after the new one.

Appendix C

DATASTREAM DEFINITIONS

The following definitions are taken from the Datastream Company Accounts.

- Operating profit (993 and 137): This is the profit derived from operating activities i.e. before the inclusion of financial income /expense, financial and extraordinary provisions and extraordinary profits / losses.

- Enterprise Value (1504): Calculated using the market value of the issue at the balance sheet date, plus the portion of preference capital (item 306) and net debt (item 1501) attributable to that issue

- Total assets (392): The sum of tangible fixed assets, intangible assets, investments (including associates), other assets, total stocks & WIP, total debtors & equivalent and cash & cash equivalents. Common adjustments:- deferred tax, if shown as an asset, is offset against any deferred tax liability at item 312. - goodwill carried in reserves is transferred to intangible assets at item 344.- for European countries and Japan, treasury stock is shown as an asset rather than deducted from share capital and reserves. - advances on work in progress if disclosed as a liability by the company has been offset against stocks and work in progress.

- Total Number of Employees (219): The average number of employees as disclosed by the company. The year end number is used if the average number is not disclosed.

- Equity capital and reserves (305): The equity share capital and reserves of the company. Preference capital is not included. Standard adjustments include:- goodwill shown against reserves is transferred to total intangibles.- capital and other grants shown as deferred liabilities are transferred to reserves.- proposed dividends are deducted if the balance sheet is shown before appropriations- hybrid capital and other non-equity capital may have been excluded and shown at item 321 - for Europe and Japan, treasury stock is shown as an asset rather than as a deduction from equity.

- Total Debt (1301): The total of all long and short term borrowings, including any subordinate debt and debt-like hybrid finance instruments.

- Market value/Market Capitalization (MV): market value is the share price multiplied by the number of ordinary shares in issue. The amount in issue is updated whenever new tranches of stock are issued or after a capital change.

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