ROLE OF INVESTOR RELATIONS IN COPING WITH SHAREHOLDER ACTIVISM

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ABSTRACT

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I study an unexplored role of Investor Relations (IR) firms: assisting public companies to cope with shareholder activism. Using hand-collected data on IR firms and their 2,336 publicly listed clients during 2003 to 2014 and shareholder activism campaign data for the twelve-year period, I find that public companies that hire IR firms experience a significantly lower number of activism campaigns, have a higher probability of management winning against the activist, and have a higher likelihood of mutual funds voting with the management, compared to a matched sample. I also document two plausible channels through which IR firms help incumbent management cope with shareholder activism: (i) organizing key face-to-face meetings with institutional investors, and (ii) managing media. Such results are robust to controls including proxy advisory firms' recommendations. Lastly, the event study evidence suggests that IR firms enhance management entrenchment instead of shareholder value.

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PREFACE

First, I am very grateful to my committee chair, Professor David Denis, as well as my committee members, Professor Douglas Branson, Professor Kenneth Lehn and Professor Frederik Schlingemann for their guidance on this dissertation. I would also like to thank Professor Sara Moeller and Professor Chad Zutter for their continuous support and mentorship throughout the Ph.D. journey. I am very fortunate to have had the opportunity to interact with and learn from all of them.

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I.   INTRODUCTION

The history of the investor relations (IR) profession can be traced back to 1953 when General Electric (GE) founded the first in-house department devoted solely to communicating with investors on a regular basis. Since then, many more publicly listed firms have followed suit to have IR functions either in-house, or as external consultants, or sometimes both.[1] Given the existence of hundreds of external IR firms and thousands of IR officers, a natural question to ask is what roles do these IR firms play in firms that hire them?[2] What is their impact on their client firms? More importantly, what are the various channels or mechanisms through which they are making those differences, if any?

The extant empirical literature has given us a head start with Bushee and Miller (2012) documenting that smaller companies hire IR to gain visibility and to improve their liquidity. Solomon (2012) demonstrates empirically that IR firms can influence media coverage of the firms that hire them and increase positive coverage, resulting in higher announcement returns and investor expectations. More recently, Karolyi and Liao (2017) provide us with new survey-based evidence on IR at a global level and show that IR activities are associated with higher Tobin's Q valuations. Since academics have fairly recently started exploring such questions, the empirical research only offers incomplete evidence on the various roles and impacts of IR firms.

This paper explores and provides empirical evidence of a very different channel through which IR firms assist their clients, i.e., in dealing with shareholder activism situations.

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[1] External IR firms or consultants are also sometimes referred to as IR counselors or IR service providers.
[2] National Investor Relations Institute (NIRI), the leading professional organization for investor relations officers, reports that it has more than 3,300 members who represent over 1,600 publicly listed companies.

Shareholder activism is akin to political contests, where aggressive campaigning to influence other shareholders plays a key role. Therefore, IR firms, who specialize in communicating with investors, can plausibly play an important role in convincing other shareholders to side with management's agenda. Hence, I ask two main questions: First, do external IR firms help their client companies' management in dealing with shareholder activism? And, second, what are the different channels through which IR firms help management to cope with shareholder activism?

I find that firms with external IR consultants experience a significantly lower number of activism campaigns, have a higher probability of management winning against the activist, and have a higher likelihood of mutual funds voting with the management. I further document that IR consultants assist incumbent management of the client companies in effectively handling shareholder activist situations through managing media and organizing key face-to-face meetings with institutional investors. More specifically, IR firms help to manage the information flow to influence the outcomes of activism campaigns. These results are robust after controlling for proxy advisory firms' recommendations and activists' use of IR.

Bushee and Miller (2012) investigate the role of external IR firms in 210 "smaller" and "less-visible" firms (defined by their market capitalization), in the seven-year period from 1998 to 2004, and document that IR firms are effective in helping small and mid-cap firms to attain wide visibility and to enhance liquidity of their stocks. However, based on more recent hand-collected data in the twelve-year period from 2003 to 2014, from O'Dwyer's PR firms' annual directories, I find that there are many firms that are already very popular and are widely followed

by analysts (e.g., big publicly listed firms), but they still use an external IR.[3] For example, even the very large cap and popular firms like Coca-Cola, Microsoft, General Motors, DuPont and many others that do not lack visibility, hire external IR firms. The anecdotal evidence provided in the case studies of Trian Fund Management's engagement with DuPont, and Biglari Capital Corp.'s repeated campaigns against Cracker Barrel, discussed in Section VII, demonstrate the critical role played by external IRs in coping with shareholder activism. In fact, in my sample that consists of 2,336 unique publicly listed U.S. firms that have used one or more IR firms during the sample period between 2003 and 2014, I find that large-cap firms (market capitalization > \$10B) increasingly choose to hire external IR.

In 2014, 49.65% of my sample (firms that had hired an external IR) were large-cap firms, compared to the year 2003, when only 27.40% were large-cap firms. Also, there seems to be a decreasing trend of hiring outside IRs amongst the small-cap firms (52.24% in 2003 vs. 44.29% in 2010 vs. 23.78% in 2014). This suggests that enhancing visibility and liquidity are not the only benefits of IR functions. I argue that with the advent of internet, social media (Chen, De, Hu and Hwang, 2014), fully automated stock exchanges (Jain, 2005) and high frequency trading (Brogaard, Hendershott and Riordan, 2014) that have boosted visibility and liquidity of even small and mid-cap firms, IR firms are becoming more specialized in providing services that go beyond just marketing.

I find that, although the number of external IR firms have decreased over the years, the ones that exist have become more specialized in their services: for example, many IR firms in

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[3] Solomon (2012) and Gurun (2016) have also used O'Dwyer's PR firms' annual directories in their respective studies of IR.

2014 mention coping with shareholder activism as one of their main services. Such a suspicion on the quickly evolving landscape for IR services is further confirmed when I find that over the last twelve years it is the mid-cap and large-cap firms that have increasingly hired external IR firms. During the same time period, I also observe an increasing trend in shareholder activism, especially in targeting larger firms, which seems to closely mirror firms' growing expenses on external IR firms. Denes, Karpoff and McWilliams (2017) also report in their survey on thirty years of empirical research on shareholder activism that, *"Although the number of (shareholder) proposals has been roughly steady in recent years, activists have increased the rate at which they target large firms."* Such patterns suggest the possibility that the two trends, i.e., the increase in the rate of activism in large firms, and an upsurge in large-cap firms hiring external IR, are linked.

I find that firms that hire external IR are less likely to be targeted by activists within the next five years, compared to a matched sample based on certain firm characteristics that are associated with the probability of a firm hiring external IR. And, among the firms that are targeted by activists, those that have hired an external IR experience 0.13 fewer campaigns than those firms that have not hired external IR, controlling for other important independent variables. I also find that having an external IR on firm's side increases the probability of a management win in cases in which the activist is a non-prolific activist. Moreover, I document that the presence of an external IR consultant on the firm's side is associated with higher likelihood of mutual funds voting with the management on proposals. This is a key result, as large institutional owners like the mutual funds, listen to both parties, i.e., the activist and management, and their voting boils down to whose corporate strategic plan or direction they like more (Brav, Jiang and Li, 2018).

Such results indicate that having an external IR on management's side helps to garner support from other large institutional owners, which is crucial in winning such contested situations.

Furthermore, I identify two distinct plausible channels through which IR is making a difference. The first channel is through organizing key face-to-face meetings such as investor/analyst days and broker-hosted investor conferences with institutional investors. It is a preemptive measure whereby IR firms and their activities shape the viewpoints of existing shareholders, and possibly also influence the composition of ownership even before an activist arrives or an activism situation escalates to have management friendly institutional investors (Brav, Jiang and Li, 2018). IR firms constantly monitor a firm's shareholder base and watch out for sudden changes in institutional ownership. A survey study conducted by NIRI (2013) finds that 81% of IR professionals deem shareholder identification as very or extremely important to their IR function and 91% use SEC filings such as 13F, 13G, and 13D to identify current institutional shareholders.[4] I hypothesize that such monitoring of shareholder base by IR firms is not only done as a proactive measure to identify and pacify any potential activist shareholder by engaging them in a non-confrontational dialogue before such situations transform into battles played out in public, but also plausibly done to identify, reach out and attract current and other potential key long-term and passive institutional shareholders. Such preemptive measures help in influencing other passive institutional investors, who play a key role in activism contests due to their voting power in proxy fights and increase the likelihood that other big institutional owners would be on the side of the incumbent management, should a proxy fight situation arise.

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[4] Some firms also actively monitor daily trading of their stocks through specialized stock watch surveillance services: http://www.wsj.com/articles/SB115551994704734777.

I find that the presence of an IR firm is negatively associated with the firm's institutional ownership, measured as a percentage of total shares outstanding. It seems that this negative association is due to the lower active institutional ownership as passive institutional ownership level is not significantly different from the firms in the same year and industry and propensity score-matched on market value, market-to-book, and ROA. However, I find that firms that hire an external IR have nearly 30 more institutional owners than their matched firms that do not have an IR, after controlling for other factors. One potential concern with such results is reverse causality. It is possible that it is the composition of institutional ownership that creates the demand for an external IR firm. I address such concerns to an extent by corroborating the results using a difference-in-differences (DiD) regression framework with balanced treatment and control groups and by also incorporating other observable control variables.

Furthermore, I document that a plausible second channel through which IR firms assist the incumbent management cope with shareholder activism is through managing media. Media can play a crucial role in such political contests with an activist in influencing other shareholders to side with the incumbent management (Aggarwal, Erel and Starks, 2018). Using Loughran and McDonald's (2011) positive and negative word lists and textual analysis of the news generated, I find that companies with an external IR consultant not only have significantly greater firm-originated media coverage, but also generate significantly less negative sentiments via news in media. All the results above are significant at either 1% or 5% levels when compared to a matched sample.

Finally, using event study methodologies, I find that the market reacts negatively to the use of external IR consultants in the context of shareholder activism. Such results are consistent

with the hypothesis that IR firms entrench management at the expense of shareholder value. Overall, I furnish evidence on an important yet unexplored and evolving role of Investor Relations (IR) in managing shareholder activism and put forth two plausible channels, i.e., (i) organizing key face-to-face meetings with institutional investors, and (ii) managing media that are enabling it. However, the research designs implemented in the paper are still susceptible to endogeneity issues such as sample selection bias, simultaneity, and omitted variables. Even though I have used matching on observables and different fixed effects to control for unobservable characteristics, in the absence of a clear source of exogenous variation on the treatment, i.e., the presence of an IR, the results shown here are at best predictive and not necessarily causal. With this caveat in mind, the rest of the paper proceeds as follows: Section II is the literature review on shareholder activism and investor relations, Section III discusses the theoretical motivation I use to develop the hypotheses, section IV introduces the data and presents the summary statistics, section V discusses the empirical methodology and the main results, section VI presents additional robustness tests, section VII describes two detailed cases studies, and finally section VIII concludes.

II.   LITERATURE REVIEW

1. Shareholder Activism

Shareholder activism is not a new phenomenon in the U.S. It is an external corporate governance mechanism that has existed since the early 1900s (Gillan and Starks, 2007). It rose to prominence during the rise of corporate raiders in the 1980s and has now become an important, if not the most critical mechanism for corporate influence. Since the seminal work of Berle and Means (1932) that emphasized the agency problems that arise from separated ownership and control, and is exacerbated in diffusely owned firms, the role played by large shareholders in corporate governance is not difficult to comprehend. In essence, shareholder activists are disgruntled large shareholders who can be very useful either through their direct intervention (i.e., "voice") or their threat of exit (i.e., "voting with one's feet") to solve agency problems.

Rise in activism in the last few decades can be attributed to both the demand side and the supply side of shareholder activism. While on the demand side, disciplining of managers through the "market for corporate control" (Manne, 1965) was becoming ineffective due to the different firm anti-takeover defenses and hence there was a demand for an alternative, i.e., the "market for corporate influence" (Cheffins and Armour, 2011) through shareholder intervention and activism. On the supply side, the crises such as the hi-tech bubble bust in the early 2000s and the financial crisis of 2007-2008, created an opportunity post-crises for shareholder activists to target companies that were trading below their fair values.

1.1 Causes of Shareholder Activism

Theory predicts that the primary cause of shareholder activism is governance deficit in the target firms (Edmans, 2014). When a firm's manager's goals are misaligned with the shareholders' interests to maximize value, it gets reflected in its undervaluation. Empirical researchers have documented that Tobin's q {i.e., (book value of debt + market value of equity)/(book value of debt + book value of equity)}, which is a proxy for firm valuation, is inversely associated with the likelihood of shareholder activism, showing that shareholder activists tend to target firms that are inefficiently managed and are hence, undervalued (Brav, Jiang, and Kim, 2015). Furthermore, researchers have found in multivariate regressions that the market value of equity is inversely related to the probability of activist interventions both in the U.S. and elsewhere (Boyson and Mooradian, 2011; Brav, Jiang, and Kim, 2015; Mietzner and Schweizer, 2014). Weak corporate governance can also manifest through poor profitability. Corroborating this vein of thought, empirical studies have documented that profitability, as proxied by a firm's return on assets (i.e., ROA), is also negatively related with being a shareholder activist's target (Brav, Jiang, and Kim, 2015; Denes, Karpoff, and McWilliams, 2017).

Other big triggers of shareholder intervention seem to be value-reducing suboptimal financial policies. Shareholder activists tend to target firms that not only have significantly higher leverage than similar firms but also have lower dividend payouts (Brav, Jiang and Kim, 2015). This is because suboptimal financial policy is another plausible symptom of governance deficit at a firm. More direct evidence of targeted firms having poor governance is the presence of weaker shareholder rights as measured with governance indices such as GINDEX (Gompers, Ishii and Metrick, 2003) and EINDEX (Bebchuk, Cohen and Ferrell, 2009). Brav, Jiang, and Kim (2009)

document a significant positive association between the likelihood of getting targeted by an activist and the number of takeover defenses as given by GINDEX.

Finally, an important assumption underlying my research hypotheses is that shareholder activists rely on the support from other large, sophisticated institutional shareholders to make any changes either in the management or the direction in the strategy of the targeted firms. It is because shareholder activists are usually minority stakeholders with average ownerships ranging from 5% to 10%. A robust empirical finding supporting this assumption from the current literature is the significant positive relation between institutional ownership and activist intervention (Brav, Jiang, and Kim, 2015). More recently, Brav, Jiang, and Li (2018) have documented that a pro-activist shareholder base comprised of relatively more active financial institutions or funds as compared to passive financial institutions or funds, is an attractive characteristic of target firms. The following section discusses the various mechanisms used by shareholder activists as identified in the literature.

1.2 Mechanisms Used by Shareholder Activists: "Exit" and "Voice"

It was economist Albert Otto Hirschman who famously coined the terms "exit" and "voice" in 1970 in his book titled, "Exit, Voice, and Loyalty" with respect to the responses consumers can have if they are unhappy with the quality of goods sold to them. While "exit" referred to withdrawing from the existing relationship with the firm, "voice" referred to an attempt to improve the ongoing relationship via communications and dialogue. Hirschman's (1970) idea can be easily translated into the case of shareholder activism. Disgruntled

shareholders, just like unhappy consumers, broadly have two strategic choices to cope with target firms' management.

The first is the threat of exit, also known as "voting with one's feet." The idea here is that if a shareholder activist is dissatisfied with the current management and its strategies, she can sell her shares in the market, creating a downward pressure on the firm's stock price. This would be *ex-post* costly for the manager, whose compensation is often tied to a firm's stock performance. A rational manager who is aware of a possibility of such an *ex-post* penalty would be incentivized to maximize shareholders' value *ex-ante*. Hence, the theoretical literature predicts that governance through the threat of "exit" can prove to be an effective tool for shareholder activists (Admati and Pfleiderer, 2009; Edmans, 2009). Moreover, in a survey-based study of institutional investors, McCahery, Sautner, and Starks (2016) document that 42% of institutional investors who responded believed in the effectiveness of threat of "exit."

The second mechanism used by shareholder activists is "voice." "Voice" refers to the different modes of direct interventions such as private and public communications with the incumbent management, proposals suggesting a specific strategic or operational action to the management, other shareholder proposals, nomination of board members at annual shareholder meetings, proxy contests, legal actions against the management, and others. However, "voice" is prone to free-rider problems, where the activist eventually only gets to share a fraction of the benefits of intervention, proportional to her ownership, while she bears the entire cost of activism. This could disincentivize a shareholder activist from taking any actions. Shleifer and Vishny (1986) offer an intuitive solution to this problem and theorize that if a shareholder holds a large enough proportion of the firm, she would be incentivized to monitor and intervene, and

the other shareholders will be more likely to support her, knowing that her incentives are aligned with shareholder value maximization.

Following Shleifer and Vishny (1986), there are several other theoretical models on shareholders' intervention through "voice" (e.g., Burkart, Gromb, and Panunzi, 1997; Kahn and Winton, 1998; Aghion, Bolton, and Tirole, 2004; Brav and Mathews, 2011, etc.). Most recently, Edmans, Levit, and Reilly (2017) unify ideas from both "exit" and "voice" models for shareholders holding significant stakes in multiple firms. They highlight that both these mechanisms can play roles concurrently and are more effective in a multi-firm ownership set-up. Moreover, McCahery, Sautner, and Starks (2016) find in their survey study that most of their respondents believed "exit" and "voice" strategies were complements rather than substitutes and intervention through "voice" was often orchestrated behind the scenes. This leads to the next subsection on private communications.

1.2.1 Private Communications

A significant portion of interactions between shareholder activists and management is unobservable to an empiricist as it takes place privately. Carleton, Nelson, and Weisbach (1998) analyzed private correspondences between TIAA-CREF, a large pension fund and forty-five of its targeted companies during the time-period 1992 and 1996. The authors found in their sample that TIAA-CREF was able to reach an agreement with its target firms 95% of the time. However, strikingly more than 70% of these cases were merely due to private communications, sans any shareholder voting contest.

In another similar but UK based clinical study of Hermes, a British Telecom Pension fund, over the period 1998-2004, Becht, Franks, Mayer, and Rossi (2009), found that shareholder activism primarily occurred through private communications. In a finding which is more directly related to my thesis, the authors also found that in addition to the usual governance objectives related to restructuring, board changes, and financial policies, Hermes also demanded better investor relations from its target firms and often had private meetings with the heads of their investor relations.

In their survey study, McCahery, Sautner, and Starks (2016), explicitly asked institutional investors about private interactions at occasions such as investor relations events with their target firms. 63% of respondents reported that they engaged in private communications with management. However, despite the importance of private communications in shareholder interventions, they are unobservable most of the time to the empiricists, and hence researchers have relied mainly on public communications which are discussed in the following section.

1.2.2 Public Communications

When private and behind-the-scenes activism is unsuccessful, shareholder activist's intervention can take various forms that are observable publicly. For example, activists can switch from Schedule 13G to 13D filings and express their intent of intervention in a public SEC filing. Activists can also berate the incumbent management and criticize the status quo of the firm at an annual meeting or in the media. McCahery, Sautner, and Starks (2016) found that 13% of the respondents (institutional investors) in their study reported that they took the measure of publicly criticizing management in the media. Shareholder activists can also take legal actions

against the management. Submitting shareholder proposals for the proxy statements and the eventual proxy contests are also public measures taken by activists.

Communications via public channel can be a handy tool for both management and the dissident to persuade other shareholders to vote for their position. It can also serve as an effective mechanism for management to respond to criticisms of the firm's plans and directors laid by the disgruntled activist. The role of public communications is even more critical in an activism situation vis-à-vis a takeover battle since in an acquisition there is a formal consideration of cash or stock offered. Whereas in the case of activism situations, it is a battle of opinions, and the side that is successfully able to persuade other shareholders to vote for their position, wins. In a recent working paper by Brav, Jiang and Li (2018), the authors model investor "persuadability" and document a positive correlation between the likelihood of targeting by an activist and the presence of pro-activist and easy to persuade shareholders. Unlike behind-the-scenes activism, such public communications are observable to a researcher, and can be extremely useful in studying shareholder activism. The next section describes consequences of shareholder activism found in the extant literature.

1.3 Consequences of Shareholder Activism

The impact of shareholder activism has always been a controversial topic. In his survey paper on shareholder activism in the U.S., Black (1998) noted, *"… the best reading of the currently available evidence is that institutional investor activism doesn't importantly affect firm performance."* Years later, Gillan and Starks (2007) conveyed similar sentiments in another review, and concluded, *"We review the evidence on activism and, while some studies have found*

positive short-term market reactions to announcements of certain kinds of activism, there is little

evidence of improvement in the long-term operating or stock-market performance of the targeted

companies." The intuition behind such views is that shareholder activists are usually short-term

investors and hence are not beneficial for the long-term performance of the targets.

However, more recently, Brav, Jiang and Kim (2015) conducted a comprehensive review

of a special type of shareholder activists, i.e., hedge funds activists, and found that hedge fund

activists create both short-term and long-term value for their target firms. They documented that

during the years from 1994 to 2011, the average cumulative abnormal return for the [-20,+20]

days window around the activism announcement in the U.S. was about 5%. Other researchers

such as Clifford (2008), Klein and Zur (2009), Greenwood and Schor (2009) and Boyson and

Mooradian (2011) reported similar positive abnormal returns, indicating that the market

perceives hedge fund activism as value enhancing. Nonetheless, questions can still be raised

about the real long-term effects of hedge fund activism.

Greenwood and Schor (2009) estimated long-term abnormal returns and found that the

average long-term cumulative abnormal returns for the [-1,+18] month window is over 10%.

Moreover, most of this return accrued during the [+3,+18] month window, that is, post-

intervention. Clifford (2008) and Brav, Jiang, and Kim (2009) found qualitatively similar buy-and-

hold long-term results in their respective samples using Fama-French four-factor models. Studies

have also documented significant improvements in terms of operating performance post-

intervention. For example, Bebchuk, Brav, and Jiang (2015) found significant improvements in

both ROA and Tobin's Q that last at least five years post activist intervention. Furthermore, Brav,

Jiang, Ma, and Tian (2018) documented improvements in corporate innovation during the five

years post activism. Such results challenge the short-termism criticism of hedge fund activists. However, such debate is far from being settled as Coffee and Palia (2016) conclude in their comprehensive monograph on hedge fund activism, *"… engagements by activist hedge funds appear to be producing a significant externality: severe cut-backs in long-term investment…by both the targeted firms and other firms not targeted but still deterred from making such investments."*

In sum, although certain types of shareholder activists (e.g., prominent hedge fund activists) seem to be more effective in value creation through interventions in general, the focus on short-term goals by some institutional activists can also create a mismatch with the goals of long-term shareholders. Despite the extensive research on shareholder activism in the last thirty years that has improved our understanding of the modus operandi and impact of shareholder activists, the extant literature has largely neglected the role played by investor relations in general and external investor consultants in particular in influencing activism decisions and its impact. Hence, the next section discusses the role of investor relations firms in shareholder activism.

2. Role of Investor Relations Firms in Shareholder Activism

Investor Relations (IR) firms are external consultants hired by firms' management who provide investor-focused advice. Their main expertise is in communicating with investors on behalf of the management. Using a sample of 210 small- and mid-cap companies during the years 1998 to 2004, Bushee and Miller (2012) documented that hiring an outside IR firm improved firm's liquidity and visibility. Solomon (2012) showed that IR firms can influence media coverage

about a firm and eventually its stock return. Karolyi and Liao (2017) conducted a global survey of IR officers from 59 countries and found that IR functions are positively associated with increase in firm value as proxied by Tobin's Q.

Other than the functions documented in the literature, IR firms claim that they target pro-management investors, continuously monitor the shareholder base for their client companies, and assist them with diffusing and tackling shareholder activism situations. For example, IR firm Georgeson mentions on its website, *"We can help you get to know your shareholders. Determine exactly who holds corporate bonds or equities. Determine the structure of your underlying shareholder base. Reveal patterns of ownership migration. Track ownership by both long and short term (hedge fund) investors."* During the 2013 NIRI Senior Roundtable Conference, the IR participants recommended, *"Identifying those (investors) with investment styles based on good intentions (long-term and management friendly) and classifying them separately from dissident investors."*

The IR firms do so by organizing meetings between management and institutional shareholders, communicating with shareholders, and managing press releases and media. Maintaining the IR section of the company's website and managing crisis communications are some other services provided by IR firms. Overall, both the academic and anecdotal evidence suggest that IR firms are corporate communications specialists, who serve as the main conduit between management and shareholders/analysts. A global investor relations officers survey conducted in 2012 by IR Magazine found that most IR consultants either have a background in finance or corporate communications and law, which provides some evidence on their expertise.

However, despite the anecdotal evidence on the role of IR firms in shareholder activism, there is

no empirical evidence in the extant literature.

III.   THEORETICAL MOTIVATION AND HYPOTHESES

1. The Impact

Theory on the role and effect of IR is broadly split into two paradigms: One, in which IR does not matter and the other, in which IR can potentially play important roles. The first and the more dominant view has been that markets are reasonably efficient and prices correctly reflect all available information (Fama, 1970). Hence, there is nothing an IR officer or consultant could do to enhance the value of a firm as it would not change the fundamentals of the firm. But one might wonder why IR officers are then able to earn such high salaries in a competitive market if they are not providing any added value.[5]

This leads to the second theoretical view proposed by Merton (1987) who argues that in a model of capital market equilibrium with incomplete information, *"stock price sometimes reacts to a broad and widely-circulated report about the firm, even when all the substantive information in the report has been previously announced."* He investigated how a firm decides the size of its investor base using this "rational" model with incomplete information, which shows that an increase in the relative size of the firm's investor base will reduce the firm's cost of capital and hence increase the market value of the firm. More importantly, even when there is no new information released to the public, "*a new form of public release of the information"* can capture attention of investors who do not follow the stock, which in turn will increase the firm's investor base and stock price. Merton's model of investor recognition provides a *raison d'etre* for IR firms

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[5] NIRI Member Database (October, 2015) reports that 29% of their members make greater than $215k per annum, 30% earn between 175k-214k per annum and 41% make up to $174k per annum. Karolyi and Liao (2017) also document that firms on an average pay IR officers a base salary of 125k-175k plus bonus incentives.

and a rationale especially for smaller and relatively unknown firms willing to expend their resources on investor relations as empirically substantiated by Bushee and Miller (2012).

Another, somewhat related theoretical line of thinking is based on the divergence of opinions amongst investors. Here the underlying assumption is that in an uncertain world, all investors cannot be assumed to have homogeneous expectations. It is likely that their opinions and forecasts about a firm could vary even when they are acting rationally.[6] Miller (1977) argued that the greater the divergence of opinion amongst investors on a particular firm, the riskier are its stocks. He suggested that publicity (both good and bad) could potentially attenuate such divergence. It can be argued that a diminishing divergence of opinions could potentially benefit both small and large firms and IR firms can play an important role in it. More recently, Banerjee and Kremer (2010) used a dynamic model to demonstrate how investors can have differences in opinions on the interpretation of the same public information. Solomon (2012) argued that managers can also try to exert influence over investor opinion through news coverage.

Shareholder activism is a contest of opinions, where both the activist and the firm's management are trying to influence each other and the other shareholders with their respective opinions about the future strategic directions a firm ought to take. In such a setting, if one believes that IR functions can not only diminish such divergence in opinions but also influence investor opinion in a particular direction, then, it follows that IR firms can help in coping with shareholder activism. IR firms also advertise that they provide services that help their client firms succeed in activist situations. For example, one of the IR firms in my sample, CamberView

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[6] In 2013, two high profile activist hedge fund managers, Bill Ackman of Pershing Square Capital and Dan Loeb of Third Point publicly proclaimed diametrically opposite views on the future of Herbalife International, a U.S. multinational company listed on the NYSE and also traded based on their respective beliefs.

Partners states on their website, *"Our services are distinct from those provided by investment banks, law firms, proxy solicitors, and public relations specialists because our team's background is unique. We develop the playbook companies use to succeed in contested situations. We provide…strategies to win key votes on impending or active ballot situations."* [7] Another IR firm in my sample, Edelman, claims *"Activist attacks and contested shareholder votes challenge corporate governance, leadership structure and long-term business strategy. Once an activist investor threatens a fight or highlights a corporate governance weakness, directors and management will find themselves fighting a barrage of negative attention and publicity. Edelman works with its clients to mobilize a strategic communications campaign to defend against and overcome the activist's threats."* [8]

If IR firms are indeed effective in assisting the client firm's management to deal with activism campaigns, I expect that when an incumbent management foresees its firm being the potential target of activism campaigns in the future, it hires an external IR consulting firm. And after hiring an external IR consulting firm, the probability of firms being targeted by activism should be lower as compared to their matched firms, that are similar in observable characteristics but do not hire IR. To this end, I develop the following hypothesis:

H1A. Ceteris paribus, there will be an ex-post negative association between the probability of being a target of shareholder activism campaign and the use of an external IR by a firm's management.

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[7] http://www.camberview.com/our-services/
[8] http://www.edelman.com/expertise/edelman-financial-communications-special-situations/shareholder-activism/

However, hiring an external IR consultant does not guarantee that a firm will not be targeted. In cases in which firms are still targeted by activism post-hiring external IR consultant, I expect that the role of external IR should be reflected in the reduction in number of campaigns. This leads to my second hypothesis:

H1B. *All else equal, there will be an ex-post negative association between the number of activism campaigns and the use of an external IR by a firm's management.*

Also, if IR firms are able to impact the outcomes of activism campaigns in favor of the incumbent management, we should expect to observe a positive association between firms with external IR and their campaign outcomes as management win. Hence, my third hypothesis is:

H1C. *All else equal, there will be a positive association between the probability of a management win and the use of an external IR by a firm.*

Finally, in this battle of opinions, in which each side is attempting to win other shareholders over on their side, if external IRs are of any help to the management in winning over other big shareholders in activist situations, it should be reflected ex-post in actual voting behavior of other major shareholders like that of the mutual funds. From this perspective, I hypothesize:

H1D. *All else equal, there will be a positive association between the presence of an external IR consultant on management's side and support of the other institutional shareholders for the management during proxy voting.*

So far, the above four hypotheses are focused on answering the question whether external IR firms help their client companies' management to cope with shareholder activism. In

the next section, I explore the plausible channels via which the IR firms could be making those differences.

2. The Channels

In order to organize the empirical work to assess the different potential channels through which IR is plausibly impacting the likelihood and outcomes of shareholder activism as hypothesized above, I begin with some simple stylized models and use these models to make certain testable empirical predictions. As demonstrated in Figure 1, activism campaigns can be classified into two stages, namely, private negotiations and public negotiations. In both these stages, IR arguably plays a key role, being the main conduit between the target's management and the major institutional investors, including the activist. Moreover, as anecdotal and survey evidence suggests, IR also helps firms take preemptive measures even prior to the advent of an activist by constantly monitoring and reaching out to the current shareholder base and by being cognizant of any sudden changes in the firm's shareholder base. Therefore, I analyze the possible channels via which IR helps firms cope with shareholder activism.

Insert Figure 1 here

2.1 Active Interactions with Institutional Investors

One key channel through which IR consultants can help a firm deal with potential activism is the preemptive channel. In other words, IR consultants can help to facilitate active and face-to-face interactions between management and investors on a regular basis, especially with large institutional investors. Such interactions can keep investors updated about the progress and

agenda of the firm, and provide opportunities for investors to express any views and concerns they might have about the firm. Therefore, I hypothesize that:

H2. *All else equal, there will be a positive association between various forms of interactions between the management and the investors, and the use of an external IR by a firm.*

From the management's perspective, another potential advantage of active interactions with major shareholders is monitoring the ownership. Based on the extant corporate governance literature, we know that large shareholders or institutional owners can intervene in distinct ways ranging from more active "voice" and "exit" strategies to more passive informal negotiations, often known as "jawboning." Let us assume that the value created by institutional owner's active interposition in such as proxy fights is G. If the institutional owner's initial fractional ownership is α, then, the value gained by the institutional owner will be $\alpha G.$ But activism is costly and is prone to free-rider problems. It can be reasoned that it is economically feasible for the institutional owner to actively intervene only when the cost of active intervention $C_A < \alpha G$, where the higher is the initial stake α of the blockholder, the greater is the return of active intervention.

Therefore, based on the above theoretical setup, it can be argued that the higher the initial fractional ownership α of the institutional owner, the greater the chances that the institutional owner would take the path of an active intervention. On the other hand, if α is small, the institutional owner would likely choose more passive informal negotiations and avoid a more direct costly conflict. Theoretically, there exists a minimum level of ownership, α_A, below which it would be prohibitively costly for an institutional owner to initiate active intervention.

Such a stylized model would predict that firms and their incumbent management would ideally like institutional shareholders, especially the active ones, to have a shareholding below α_A

at all times to minimize the probability of active interventions. However, it does not necessarily imply that managers are always opposed to value-increasing suggestions from the activist. They are opposed if it threatens their job or entrenchment. If one believes that external IR firms are playing a key role in helping management cope with activism as they constantly keep a watch on the shareholder base, it can be argued that IR firms possibly help in keeping the shareholdings of institutional investors below the threshold level of α_A.[9] This leads to the principal prediction of this model, which is:

H3A. *All else equal, there will be a negative association between average individual institutional ownership and the use of an external IR by a firm.*

Such negative relation is also attainable if the incumbent management only hires an external IR when institutional ownership is low and the benefits of hiring an IR are greater than its costs. However, it is also possible that firms with high institutional ownership would need to hire an external IR to manage their relationship with institutional owners. This line of thinking would lead to a positive association between average individual institutional ownership and the use of an external IR by a firm, and therefore an *alternative hypothesis* could be:

H3B. *All else equal, there will be a positive association between average individual institutional ownership and the use of an external IR by a firm.*

The direction of this relation is not obvious, and therefore, it is ultimately an empirical question.

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[9] The above governance model can also be extended to passive interventions. If an institutional owner decides to go the route of passive intervention like "jawboning," the potential total value creation would not be *G,* but lesser and let us say it is *(1-β) G*, where *β>0*. Hence, on a successful passive intervention, the gain to the institutional owner will be *α (1-β) G* and if we assume the cost of passive intervention is C_P, it will naturally be a lot less than C_A. This would not alter the principal prediction of the model.

Most activism campaigns start with private communications or meetings, unobservable to the empiricist, between the activist and the target firm.[10] Such conversations can begin with either a simple telephone call, an e-mail or a one-to-one meeting. Such private communications could also be held with other major institutional shareholders such as mutual funds, pension funds, endowment funds, indexed funds etc., who may not be activists themselves but could eventually play a key role in the case of a proxy fight, as both the activist and the incumbent management would want them to be on their respective sides at the time of voting. Unlike acquisitions, where the key to completing a deal is often the level of ownership and control, and the price offered (cash or stock or both), the secret in the case of shareholder activism campaigns is the ability to persuade the counterparty and the other large shareholders, as in this case the value effects need to be estimated (Aggarwal, Erel and Starks, 2018; Brav, Jiang and Li, 2018).

Both theoretical and empirical extant literature has indicated that most activist institutional shareholders, many of whom are hedge funds, are less risk-averse and more return-driven than other passive institutional investors such as pension funds or indexed funds. For example, activist hedge funds are undiversified as they take large positions in just a handful of companies, and they often use short positions, high leverage and derivative instruments in their investment strategies. Such funds are also not subject to disclosure standards of other institutional investors such as the pension funds and mutual funds. Activist fund managers are often compensated through nonlinear incentive payments, which also makes them more risk-

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[10] Recently, Solomon and Soltes (2015) and Bushee, Gerakos and Lee (2016) have found some empirical evidence on the importance of such private meetings with institutional owners, using proprietary data and data on flights undertaken by firms, respectively. The main thrust of both their findings is that private meetings and conversations enable the institutional owners to make better and more informed decisions.

seeking and return-focused. By contrast, passive institutional investors, such as the pension funds, mutual funds, endowment funds, etc., have a stricter regulatory oversight and transparency requirements, greater restrictions on investing styles, and are required to be well-diversified. Such requirements make them more risk-sensitive and longer-term focused. Hence, both these groups have their own perceived risk-return trade-offs and are more focused on either return (more return-driven) or risk (more risk-sensitive) depending on their degree of risk aversion.

If we believe that IR can choose to emphasize certain risk-return characteristics based on the type of institutional investors, then we can argue that IR might be able to influence the composition of a firm's ownership structure indirectly through persuasion (Mullainathan and Shleifer (2005a) and Mullainathan, Schwartzstein and Shleifer (2008)). On the one hand, in order to mitigate the potential threat of activism (which is often initiated by active shareholders such as hedge funds), IR is likely to take an approach to persuade shareholder activists to walk away from their campaign by convincing them that the potential return from the costly campaign might not be as high as they expect, which might lead to the reduction of the active institutional ownership because activists will reallocate their limited capital to targets with potentially higher returns. On the other hand, IR will focus their message on low risk (with the guarantee of the minimum threshold required return) while communicating with other large institutional owners to maintain the passive institutional ownership.

Therefore, my following hypotheses are:

H4A. *All else equal, there will be a negative association between active institutional ownership and the use of an external IR by a firm.*

H4B. *All else equal, there will be a non-negative association between passive institutional ownership and the use of an external IR by a firm.*

A plausible, but not necessarily contradicting, alternative reasoning for the above hypotheses could be that since the presence of IR consultants lowers the probability of successful activism, the instance of active institutions to own shares is lower.

2.2 Managing Media

The final stage of activism when the parties are unable to reach any agreement in the private negotiations stage is a public fight or a proxy contest. Since, such political contests between the incumbent management and the activist institutional shareholder can be seen as a market for gathering influence in support for their respective agendas, media can potentially play a crucial role. Survey evidence suggests that IR aggressively uses media to generate sentiments in favor of their client firm and its incumbent management. The extant literature has also found media to be effective in impacting investor sentiments (Tetlock, 2007; Fang and Peress, 2009; Engelberg and Parsons, 2011; Liu and McConnell, 2013; Dai, Parwada and Zhang, 2015). IR firms also claim on their websites that one of the key services they provide is communicating their clients' stories more vigorously to highlight the companies' or the management's point of view. Both Bushee and Miller (2012) and Solomon (2012) also find that media coverage is increased in the presence of an IR firm in their respective samples. Therefore, to understand the role of media in the context of activism campaigns and how IR can use it, I follow a very basic and stylized model similar to Engelberg and Parsons (2011).

Let us say that a particular publicly listed firm's stock demand function is given by D (F, IR (F, Y)). Note that sufficient demand for the firm's stock in the market indicates support for the strategies of the current management. Here, D is a function of F and IR where F refers to the firm and market fundamentals which are publicly available and are known to all and IR is the coverage provided by IR firms through media. IR, in turn, is a function of F, the fundamentals, and Y, which is a vector of characteristics that only influence the IR coverage and has nothing to do with the change in fundamentals. Taking the derivative of such a demand function with respect to F (i.e., the fundamentals) we get,

$$D = \frac{\partial D}{\partial F} dF + \frac{\partial D}{\partial IR} \frac{\partial IR}{\partial F} dF + \frac{\partial D}{\partial IR} \frac{\partial IR}{\partial Y} dY$$

In the above equation, the first term on the right-hand side refers to how investors' demand fluctuates with the underlying changes in the firm's or market's fundamentals and is independent of the services provided by IR. Hence, in an efficient capital markets world in which IR has no causal impact, the next two terms should be zero. On the contrary, if we believe that IR has an important role to play, then, the second term captures the key process by which IR coverage through media can shape investors' perceptions and hence the stock's demand. In other words, this term shows that even if we believe that IR is not adding any new information and reducing information asymmetry, the way it helps investors to process and understand the information plays a key role. In other words, this is consistent with Merton's (1987) argument on the importance of the form of release of the information. The last term captures the IR firm's influence which is not related to changes in fundamentals of the firm or the market. It can be treated as IR using media to "slant" (Mullainathan and Shleifer, 2005b) stories or "spin"

(Solomon, 2012) news in the incumbent management's favor using different tones to generate sentiments.

If we believe that media coverage, especially negative/positive news, can generate negative/positive sentiments and support for the incumbent management and IR uses it as a tool, then, one can hypothesize:

H5A. *All else equal, there will be greater firm-originated media coverage for firms that have hired an external IR consultant, as compared to a matched sample of firms that do not have an external IR.*

Furthermore, I conjecture that IR would help to generate less negative news (or, more positive news) for the firm and its management to instill positive sentiments in the market. Hence,

H5B. *All else equal, there will be less negative sentiments (or, more positive sentiments) generated through the texts used in firm-originated news, for firms that have hired an external IR consultant, as compared to a matched sample of firms that do not have an external IR.*

The following section introduces the data, discusses sample construction and presents summary statistics.

IV. DATA AND SUMMARY STATISTICS

The period considered in this study is twelve years from 2003-2014. Several different databases have been used to extract the main variables and the control variables for this paper, and I describe them below:

1. Investor Relation (IR) Firms' Data

The IR firm data was hand collected from physical copies of O'Dwyer's PR (Public Relations) firms' annual directories (2003-2014). O'Dwyer's PR firms' annual directories have been published since 1971 and contain information on firms in the public relations industry including fees (either audited by a Certified Public Accountant or carrying full endorsement of the CPA firms which is often referred to as an "agreed-upon-procedure"), rankings, specializations (including investor relations), clients etc. Although Solomon (2012) and Gurun (2016) have used this data source in their papers, using O'Dwyer's PR firms' annual directories has several challenges. First, the directories contain information on PR firms. Therefore, I manually select only those PR firms that mention IR as one of their specializations. When there is ambiguity, I double check it by visiting their websites. For instance, in the year 2010, the total number of PR firms listed in the 2010 O'Dwyer directory is 1,700, amongst which only 148 are IR firms. Second, O'Dwyer's PR firms' annual directories list both the private and public clients of the PR firms. I manually extract the public clients from those lists and match them with their corresponding Compustat names. For instance, 2010 O'Dwyer directory lists 7,700 clients, of which only 673 clients are publicly traded and had hired IR firms. Third, O'Dwyer directories use

general names or common acronyms of public firms instead of some unique firm identifier. There are many instances where the names are ambiguous. I sorted out such ambiguity using fuzzy text string matches and Google searches. My final sample consists of 2,336 different public firms that use one or more of 422 distinct external IR firms at some point during the sample period (2003-2014). During this process, I also collected information on whether the activists in my sample are in the client lists of any IR firms so that I can identify those activists who also hired external IR consultants.

Table I presents summary statistics of firms using IR. Panel A, column 1 presents the number of distinct external IR firms hired each year by publicly listed companies. Column 2 gives the number of Compustat firms that use external IR consultants each year during the sample period. And column 3 shows the percentage of Compustat population represented by these IR firms every year in terms of market capitalization. Several trends are worth noting in this table. As shown in Panel B and Panel C in Table I, the mean and median sizes of the firms that use external IR have stayed relatively stable over the years, both in terms of total assets and market capitalization respectively (adjusted for inflation). However, Panel D indicates that during the period from 2003 to 2014, it is the mid-cap and large-cap firms that have increasingly hired external IR consultants. At the same time, there is a clear decreasing trend in small cap firms in hiring an outside IR firm. Such trends suggest a plausibly important but yet unexplored role played by IR firms other than providing visibility and liquidity, as documented by Bushee and Miller (2012), since mid-cap and large-cap firms usually do not need help with visibility.

Insert Table I here

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The average age (calculated from year founded) and the average number of employees of these 422 IR firms is 30.3 years and 108.4 employees respectively. Other summary statistics for IR firms are given in Table II. Note that the average number of publicly listed clients annually per IR firm in the twelve-year period ranges from 4.21 to 6.08.[11] The rankings of the IR firms in a particular year are based on the total annual fees generated in the prior year solely from the IR services provided by these firms. However, not all IR firms disclose their fees and hence this is one of the limitations of the rankings data provided by O'Dwyer directories. The total fees generated by the top-tier (top-20) IR firms every year varied from $90.9 million in 2003 to $184.80 million in 2014. Also, it is worth noting that although the number of clients using the top-tier IR firms every year decreased from 246 in 2003 to 150 in 2014, the average amount spent per year by a publicly listed client for hiring a top-tier IR firm steadily increased over the years from $369,515 (2003) to $1,232,024 (2014) as shown in Figure 2, which could be an indication of IR firms getting more specialized in their IR functions over the years. Karolyi and Liao (2017) estimate that the average value of total IR budget for firms, based on their survey conducted in 2012, is $1.1 million which is very close to the average amount spent per year per client to hire top-tier IR firms during the more recent years (2011-2014) as shown in Table II.

Insert Table II here

Insert Figure 2 here

Figure 2 also depicts the rising trend in the number of shareholder activism campaigns I collected from SEC filings during the sample period (detailed descriptions on the activism

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[11] The client list in the O'Dwyer directory includes both IR and PR clients. And no information has been provided on the specific services requested by each of their clients.

campaign data are discussed in the following section). Note that the trend follows a similar path

as that of the average amount spent per year by a publicly listed client on hiring a top-tier IR firm

as shown in the same figure. It indicates that over the last twelve years both the amount spent

on external IR and shareholder activism have risen concomitantly.

2. Activism Campaign Data

I crawled publicly available SEC-EDGAR's electronic filing system using simple Python

programs and downloaded all the proxies and information statements filed with the SEC between

Jan 1st, 2003 and Dec 31st, 2014.[12] The most important ones in terms of retrieving activism

campaign data in this paper are the Schedule 13D, Schedule 13D/A (Amendment to Schedule 13D

filings in case there are any "material" changes to initial 13D filings), preliminary (PREC 14A &

PREN 14A), definitive (DFAN 14A & DEFN 14A) proxy statements filed and the notice of exempt

solicitation (PX14A6G). Schedule 13D is required to be filed by any investor who attains an

ownership of 5% or more of voting shares of a public company within 10 days of such a

transaction and would like to reserve the right of pursuing an activist strategy. PREC 14A is a

preliminary proxy statement containing contested solicitations, and PREN 14A are non-

management preliminary proxy statements not involving contested solicitations. DFAN 14A and

DEFN 14A are definitive proxy statements filed by non-management. My final list of activism

events is based on the intent of the 13D filer disclosed under the "purpose of transaction" section

of 13Ds. Note that not all 13D filers intend to pursue an activist strategy. Then, I merged the data

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[12] There were 365,260 such proxy and information filings made with the SEC during this time period. More specifically, 51,658 Schedule 13Ds; 113,821 Schedule 13D/As; 388 PREN 14As; 11,902 DFAN 14As; 313 DEFN 14As and the rest, other SEC form types related to proxy and information filings.

with my sample, and the propensity score matched sample (as described in detail in the next sub-section) using their SEC Central Index Key (CIK).

Shareholder activists challenge the status quo of a target firm in different ways and stages which I have broadly classified into two categories, namely, *private negotiations* and *public negotiations* as shown in Figure 1. Private negotiations are less costly for both the sides, i.e., the activist and the incumbent management, but the chances of success for the activist is also considerably lower. Such private negotiations can take place both before and after 13D filings. As recognized by Brav, Jiang, Partnoy, and Thomas (2008), private negotiations or nonpublic activist campaigns can also be initiated by hedge funds that do not cross the threshold of 5% ownership and hence do not appear in the 13D filings. Their sample is restricted to 13D filings by activist hedge funds only, however, they also complement their sample with activism campaigns by hedge funds that do not cross a threshold of 5%. External IR firms can play a role during such private negotiations (it is unobservable from publicly available data and hence has not been included in this study), but I argue that the role of external IR is likely to be more important in public negotiations.

Public negotiations begin once the private negotiations have failed and I have further categorized them into *exempt solicitations, stockholder campaigns,* and finally the last resort for activists, i.e., the *proxy fights. Exempt solicitations* are different from actual contested proxy fights as they do not require the activist or the dissident to comply with the SEC proxy filings and to provide their own proxy card. It is simply a public communication (usually through the notice of exempt solicitation or PX14A6G) with other shareholders persuading them to vote one way or the other on a resolution. *Stockholder campaigns* are public communications facilitated through

publicly disclosed letters sent to the management, press releases, and television interviews and almost always through 13D filings. Therefore, I start with the 13D filings and then search the internet for news articles related to such campaigns. These campaigns are like threats to management, pressuring them to take certain actions such as increasing dividends or share buybacks, divesting, etc. If stockholder campaigns fail, it might lead to *proxy fights,* which are actual voting contests. Finally, I manually collect the voting outcomes of proxy fights from 8-K and 10-Q filings.

Table III shows the summary statistics of the activism campaign data during 2003-2014 for firms without external IR (Panel A) and firms with external IR (Panel B) that were targeted during this period. It further classifies all the public activism campaigns as exempt solicitations, stockholder campaigns, and proxy fights. There was an increasing trend in the total number of activism campaigns in the last twelve years for both the firms with external IR and the firms without external IR.

Insert Table III here

3. Firm-Level Data

Data on firm return and volatility come from CRSP, and firm-specific accounting data was obtained from Compustat. Investor portfolio data and analyst data was collected from Thomson's 13f filings and I/B/E/S respectively. Following Bushee (2001) and Appel, Gormley and Keim (2016), I define quasi-indexers as passive institutional investors and transient and dedicated institutional investors as non-passive.

Table IV-a compares the descriptive statistics at the firm-year level of the various accounting variables of the firms that use external IR (Panel B) versus the firms that do not (Panel A). On average, the firms that use IR during the sample period are significantly larger, both in terms of total assets and revenues, use significantly more external financing, have higher operating cash flows and they also have a higher number of analysts following them. Table IV-a further explores the differences between these two sets of firms in terms of institutional ownership and ownership concentration. Both the number of block owners that is greater than 5% and the number of institutional owners from 13F filings, are significantly larger for firms using IR. It also appears that firms using IR have significantly higher institutional ownership, but lower ownership concentration given by HHI index, that is, more dispersed institutional ownership. Firms using IR also have significantly less insider ownership. They also appear to have higher active institutional ownership in the univariate results as shown in Table IV-a. Overall, it seems that there are systematic differences between firms that hire external IR and firms that do not. Therefore, I use a propensity score matched sample for all the empirical analyses conducted in this paper.

Insert Table IV-a here

Specifically, I use propensity score matching to construct a matched sample for my sample firms with external IR, based on the following firm characteristics: market value, market-to-book ratio, and ROA. In other words, I first match on the propensity to hire an external IR, and then test whether the presence of an IR is associated with a firm being targeted by an activist. Therefore, for each firm in my sample that has an external IR (treated firm), I have a propensity score-matched firm from the same year and industry that does not have an external IR (untreated

firm) and serves as a de facto counterfactual. Table IV-b shows that the firm characteristics of the matched sample are not significantly different from those of the treated sample, for both mean (reported) and median (unreported), not only in the three matched characteristics, but also in sales growth, leverage, dividend yield, R&D, Institutional ownership, and E-Index that have been documented in the extant literature to be correlated with the probability of a firm hiring an external IR. Put differently, empirical tests run in the paper use treatment and control groups that are balanced, with the same distribution of observed covariates and therefore plausibly also in unobserved characteristics.

Insert Table IV-b here

4. Media Coverage Data

Ahern and Sosyura (2014) identify two distinct categories of news sources on corporations. The first one is independent news coverage that includes major newspapers and business publications such as the Wall Street Journal, the New York Times, and the Financial Times, etc. The second category is the firm originated news coverage, primarily available through newswires such as the Reuters, the Business newswires, the PR Newswire, etc. I focus on firm-originated news as it can be reasoned that it is this category of news that can be directly impacted or managed by the corporation or its designated IR. I use Factiva to search articles sourced from the different newswires. To proxy for media coverage generated, I simply calculate the number of articles and take the natural log (1 + # of articles) following Solomon (2012). In order to proxy for sentiments generated, I use Loughran and McDonald's (2011) positive and negative word lists

and follow their methodology to measure tone for each of the articles using the formula: *Tone =*

(Number of Negative Words – Number of Positive Words) / Total Number of Words.

5. Mutual Funds Voting Data

Mutual funds and other registered management investment companies are required to file Form N-PX with the SEC, no later than August 31 of each year, providing information on their proxy voting records for the most recent twelve-month period ending June 30 of each year. Under the Item 1 of their proxy voting record on N-PX filings, mutual funds are also required to report whether they cast their vote for or against the incumbent management of their investee company.

Since Form N-PX filing has been made mandatory for mutual funds in the year 2003, I began by searching and collecting all Form N-PX filings using SEC-EDGAR's electronic filing system during my sample period from 2003 to 2014. During this time-period, a total of 36,324 N-PX filings and its amendments were filed with the SEC. In order to identify mutual funds amongst all these filers, I used CRSP mutual fund database. I used mutual fund names from the CRSP database and match them to the registrant's name on the N-PX filing. In case of ambiguity, I manually checked their addresses as given in the CRSP mutual fund database and on the N-PX filing. If there was still ambiguity, I did not include that mutual fund. Finally, I manually collected the voting information from the N-PX filings of the mutual funds.

6. Investor Day and Investor Conference Data

Following Green, Jame, Markov, and Subasi (2014) and Kirk and Markov (2016), I hand-collected a comprehensive sample of analyst/investor days and broker-hosted investor conferences from Bloomberg and Capital IQ terminals using their firm-level events calendar for my sample and the matched sample for the period 2003-2014. My final sample of analyst/investor days was comprised of 650 analyst/investor days hosted by 464 distinct firms. And, the final sample of investor conferences consisted of 2,736 investor conferences attended by 1,577 unique firms.

V.   EMPIRICAL METHODOLOGY AND MAIN RESULTS

1. Results on IR and Activism

Table V tests my first hypothesis, H1A, in a logistic regression model where the dependent variable is a campaigns dummy (i.e., 1 = targeted in an activism campaign and 0 = not targeted in an activism campaign) and the main independent variable is whether the incumbent management has hired an external IR firm or not. The multivariate empirical design here is intended to test if there is a negative association between a publicly listed company's probability of being a target of shareholder activism and its use of an external IR consultant. If there is such a negative relation, that would be consistent with the hypothesis that hiring an external IR consultant helps firms to reduce their probability of being targeted in future.

Insert Table V here

Four models are tested for various time periods (in years) after the external IR firm was brought on board by the incumbent management. The results of Model 1 show that for firms that have hired external IR, the log-odds of being a target of shareholder activism within the sample period decreases by 0.155. The results are similar when we look at the shareholder activism within the next two or three years in Model 2 and Model 3, even though there is a decrease in the magnitude of the coefficients. Interestingly, this negative association is not significant when we only look at the shareholder activism within one year after an external IR is hired, as shown in Model 4. It seems that it takes some time for the external IR to make a difference in preventing their client firms from being targeted.

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Overall, the results in Table V are consistent with the hypothesis that external IR consultants help in reducing a company's likelihood of being targeted by an activist. I include the lagged values of the firm characteristics that have been found to influence the likelihood of a firm being an activist's target in the extant literature (Brav, Jiang and Kim, 2009; Brav, Jiang and Kim, 2015) in all specifications. The signs of the coefficients for these controls are also consistent with the prior literature. For instance, target firms tend to have lower market value, higher leverage, lower market-to-book ratio, lower sales growth, lower ROA, lower dividend yield, lower R&D, higher institutional ownership, and higher liquidity. All tests in Table V have been conducted using a matched sample, with industry and year fixed effects, and clustering at the firm level. While using a propensity score matched sample ensures that the treated (i.e., firms with external IR) and the control firms (i.e., firms without external IR) are similar in observable firm characteristics that determine the use of an external IR, the different fixed effects attempt to control for the unobservable factors. Finally, clustering at the firm level accounts for a possible serial correlation.

Table VI reports the results for hypothesis H1B, where I test whether there is a negative association between the number of activism campaigns and the use of an external IR by a firm. Here, the sample only includes firms that have been targeted by activists. I hypothesize that if external IR firms are truly making a difference in coping with activism, it should also be reflected as a reduction in the number of campaigns. I test my hypothesis in four different models that are presented in Table VI. Model 1 of Table VI is an OLS model with the number of activism campaigns as the dependent variable, and the IR dummy as the main variable of interest on the right-hand side. The results depict that firms that have hired an external IR have 0.13 fewer campaigns than

those firms that have not hired external IR, holding all the other independent variables constant. These results are significant at the 5% level. Model 1 controls for industry fixed effects and model 2 is the same specification but also controls for year fixed effects. The results of model 2 are similar to model 1, also significant at the 5% level. It can be argued that since the dependent variable in this specification is a count variable, it is imperative that we use a Poisson regression. Hence, I re-estimate the regressions using Poisson models in specifications 3 and 4. The signs and significance levels of the coefficients of the IR dummy stay the same indicating a negative association between the number of activism campaigns and the use of an external IR by a firm which is robust to the use of controls.

Insert Table VI here

The next set of results focus on the actual outcomes of activism campaigns that have been manually collected from SEC filings. I further classify the campaign outcomes into three categories: management wins, activist or dissident wins, and settlements. In case of settlements, it covers mainly two scenarios: 1) Activists get partially what they ask for, for example, activists ask the company to grant them board seats and also to increase dividend payout, but eventually, the company agrees to one of the conditions, board seats or dividends, but not both; 2) Activists do not get what they ask for, but are compensated with something else. For instance, activists ask the company to divest or sell itself, but the company rejects the proposal. Instead, the company is willing to review its strategic alternatives or grant activists board representation. It can be argued that settlements to a certain degree are a partial win for both sides, even more so for management.

I hypothesize a positive association between firms with external IR and their campaign outcomes as a management win as compared to settlement or dissident win in hypothesis H1C and test this hypothesis using an ordered logit model where the dependent variable is management win, settlement (partial win for both management and dissident), or activist win. The main independent variable is whether the targeted firm has hired an external IR consultant or not. The results are reported in Table VII Panel A. Model 1 in Panel A includes all types of activism campaigns. Then, I categorize activism type into exempt solicitations, stockholder campaigns, and proxy fights as described in sample construction and data section. In Model 2, I exclude proxy fights to see whether there is any differential effect for those activism campaigns that do not lead to proxy fights. In Model 3, I exclude exempt solicitation because this type of campaign is not always reflected through 13D filings, hence the data is likely to be incomplete, and the information might not be accurate. As presented in the table, even though the coefficients of all models are positive, they are not significant.

Insert Table VII here

In a recently published theoretical paper, Dasgupta and Piacentino (2015) argue using a stylized game-theoretic model that shareholder activism, more often than not, is initiated and is more effective by only certain types of active institutional owners such as hedge funds rather than mutual funds. Therefore, I further categorize all the dissidents each year into the most prolific activists (e.g., hedge funds) and less prolific activists (e.g., mutual funds) based on the number of campaigns they initiated in the prior year. I include the top fifty such activists in the most prolific list and the rest as non-prolific activists. Following this, I repeat the regressions used in Panel A, for campaigns by prolific activists and campaigns by non-prolific activists separately.

The results are reported in Panel B and Panel C of Table VII respectively. It appears that the IR firms are indeed effective when dealing with non-prolific activists (Panel B), but not so much when dealing with prolific activists (Panel C). As shown in Model 4, which is for all campaigns by non-prolific activists, I find that using an external IR firm raises the predicted log odds of a management win by 0.867, which is significant at a 5% level. Moreover, when we exclude proxy fights from the campaigns (i.e., Model 5), such a log odds increase is even higher at 0.995 (significant at the 1% level). However, as shown in Panel C, IR is not able to influence the outcome of activism campaigns initiated by prolific activists. Such results indicate that IR firms perhaps influence the results of activism campaigns, but only when the dissident is a non-prolific activist.

Trading volume reactions to the announcement of activism campaigns can provide useful insights into the divergence of opinion across investors. Using proprietary limit order and market order data, Garfinkel (2009) shows that unexpected trading volume is the best proxy for divergence of opinion. Prior research on the theory of trading volume also hints in the similar direction. For instance, Karpoff (1986) concludes that unexpected trading volume can indicate divergence of opinion amongst investors in two distinct manners. It could either imply heterogeneous interpretation of the same information, or it could insinuate heterogeneous prior expectations. Either way, unexpected or abnormal trading volume, proxies for the lack of consensus in opinion amongst investors. If one believes that the use of external IR firms can help diminish such divergence in opinions, then we should find a significantly less unexpected trading volume on the announcement of activism campaigns that target companies with IR consultants as compared to companies without IR consultants.

To empirically test it, I first retrieve daily trading volume data from CRSP around the announcement of activism for firms with external IR and firms without external IR. Then, I compute the mean cumulative abnormal trading volumes (CATVs) around the announcement of activism campaigns for six different event windows: (0,+1), (-1,+1), (-2,+2), (-5,+5), (-10,+10) and (-20,+20). Abnormal trading volume has been computed as the difference between the actual log-transformed volume and the expected market model (CRSP Value Weighted Index) log-transformed volume over these windows following prior literature (Campbell and Wasley, 1996). Following Brav, Jiang, Partnoy, and Thomas (2008), I estimate the market model using 60 days of daily trading volumes ending 40 days prior to the activism campaign announcement date. The results of such an event study on trading volume are presented in Table VIII.

Insert Table VIII here

Panel A of Table VIII presents the results of such volume event study for activism campaigns conducted by prolific activists. For three windows, i.e., (-5,+5), (-10,+10) and (-20,+20), the mean cumulative abnormal trading volumes (CATVs) are significantly less for firms with external IR, indicating that IR functions may have helped in reducing divergence in opinions. Also, note that in case of activism by non-prolific activists, such differences as given by the p-values on the last column are significant at the 1% level for all six different windows (Panel B of Table VIII). Given that the mean cumulative abnormal trading volumes (CATVs) are significantly less for firms with external IR for all the windows in case of non-prolific activists, it suggests that IR firms are more effective in dealing with non-prolific activists as compared to prolific activists.

Finally, I empirically test hypothesis H1D, to explore the relation between the presence of an external IR consultant on management's side and support of the other institutional

investors for management during proxy voting. I run logit regressions on a propensity score matched sample with the dependent variable being a dummy variable indicating whether mutual funds vote with management on a certain proposal and the main independent variable of interest, the IR Dummy. The results are provided in Table IX.

Insert Table IX here

As shown in Table IX, while Model 1 includes all different types of shareholder proposals, Model 2 only includes proposals on the election of directors. This is because shareholder activists often settle on getting a director on the board as a first step to facilitate other operational, financial or strategic changes (Bebchuk, Brav, Jiang and Keusch, 2017). However, the results from both these models show that mutual funds are significantly more likely to vote with management on shareholder proposals if management has hired an external IR consultant. Such results are another indication of the role played by external IR firms in garnering support for management from other influential large shareholders in activist situations.

The next set of tests focus on the possible channels through which IR firms are making differences in helping management with shareholder activism.

2. Results on IR and Active Interactions between Management and Investors

As mentioned earlier, private meetings with key institutional investors can play a critical role in impacting the preemptive channel. Unfortunately, the details of such meetings are not publicly observable to an empiricist. Some researchers (Soltes, 2014; Solomon and Soltes, 2015) have been able to access proprietary data on such private meetings. Such studies provide us with crucial clinical evidence with the caveat of the lack of external validity.

Since I do not observe information on private meetings, I focus on other key face-to-face (publicly available) interactions between the management and institutional investors/analysts. Particularly, I focus on two such important interactions between the management and influential investors, where the IR functions of firms play a crucial part, namely, investor/analyst days and broker-hosted investor conferences:

1. Investor/Analyst Days: Investor/Analyst days are organized by the IR function of a firm, where key institutional investors and analysts get access to management at either the corporate head office or a major investment center such as New York City, Chicago or San Francisco. Such events can typically cost the firm from $30,000 and up to $250,000 and are planned for half a day to one and a half days (Kirk and Markov, 2016). In organizing such days, it is the IR firm, in conjunction with senior management, that decides the location, agenda, list of invitees and speakers and events for the day. Note that this is different from broker-hosted investor conferences, as in this case, it is the management and its IR consultants, who get to decide which current or potential institutional investors or analysts to target and invite for such events. Although the presentations and discussions during an analyst/investor day are posted online for all investors in accordance with the Regulation FD requirements, opportunities for interacting in person with senior and mid-level management, key operational managers, suppliers and buyers of a firm is incredibly valuable for institutional investors.

To test whether firms with external IR consultants organize investor/analyst days more aggressively, I run a logit regression on matched sample with dependent variable as a dummy indicating whether the firm organized an investor/analyst day. The results are reported in Model 1 of Table X.

Insert Table X here

Consistent with the hypothesis that external IR firms facilitate greater interaction with institutional investors, Model 1 shows that firms that hire external IR firms are significantly more likely to organize and hold such investor/analyst days. For a firm that has hired an external IR, the log odds of organizing investor/analyst days increases by 0.24, significant at the 5% level. However, these results do not rule out the possibility that IR is hired in response to the increasing demand for interaction between management and institutional investors.

2. Broker-Hosted Investor Conferences: Broker-hosted investor conferences is another channel through which IR firms and their clients can offer institutional investors an opportunity for face-to-face conversations. Although such conferences are organized by the brokerage firms to cater to the research needs of their major institutional clients, many public companies take a keen interest in such opportunities as they perceive them to be an important investor relations activity (Green, Jame, Markov, and Subasi, 2014).

I hypothesize that firms with external IR consultants are more likely to participate in investor conferences. I test my hypothesis by running a logit regression on matched sample with dependent variable as a dummy indicating whether the firm participated in an investor conference. The results are reported in Model 2 of Table X. Note that firms that hire external IR firms are significantly more likely to participate in broker-hosted investor conferences. For a firm that has hired an external IR, the log odds of being a participant at an investor conference increases by 0.42, significant at the 5% level.

Such invitation-only selective interactions between the management and influential investors can be beneficial to both the groups. While on the one hand, the current and potential

key institutional investors get to meet the management in a one-to-one and small group setting, on the other hand, it gives an opportunity to the firm to focus and target its investor relations efforts where it could matter the most. According to NIRI, IR consultants are trained and careful not to release any material information and violate Regulation FD requirements during such meetings. However, it can be argued that these selected investors have a better opportunity for assessing the verbal and nonverbal cues in such in-person meetings (Bushee, Jung, and Miller, 2017).

In addition to the investor/analyst days and the broker-hosted investor conferences, IR firms also help their client companies to organize "governance roadshows." Governance roadshows are a recent but growing trend in investor relations and is targeted towards the largest shareholders.[13] Since it a recent phenomenon, there is not enough data to test it formally. However, the objective of such governance roadshows is nicely encapsulated in a disclosure by Hewlett Packard Co. in their DEF 14A, 2014 filing,

"As part of this governance outreach program, we conducted a governance roadshow enabling several of our directors to meet directly with major stockholders, and we initiated a director video interview series through which directors address specific issues of importance to stockholders, such as capital allocation, board dynamics and our overall compensation philosophy, via pre-recorded videos posted on our website."[14,15]

Another method that the management commonly employs to communicate with its company's shareholders, including retail shareholders, is through sending written material in the

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[13] http://www.huffingtonpost.com/lex-suvanto/governance-roadshows-adde_b_6506478.html
[14] https://www.sec.gov/Archives/edgar/data/47217/0001047469-14-000517-index.htm
[15] Hewlett Packard Co. is in my sample and has hired multiple IR firms over the sample period of 2003-2014.

form of letters to all its shareholders, delineating reasons to vote in their favor. The Securities

Exchange Commission (SEC) monitors such communications, and hence the management is

required to file Form PX14A6G under the rule 14a-6(g) of the Securities Exchange Act of 1934,

whenever, such communication is sent out to its shareholders.

I hypothesize that if IR consultants facilitate more active communication with its

investors, managers who have hired IR consultants would be more likely to send written

materials to its shareholders, as recorded in the Form PX14A6G. To test it empirically, I search

SEC-EDGAR's electronic filing system and retrieve such filings, which are often also known as the

notice of exempt solicitation. I use it as a dummy in a multivariate regression, where the PX14A6G

dummy indicates whether a firm has filed at least one PX14A6G report with the SEC during that

year. The results have been provided in model 3 of Table X. The results show that managers that

have hired external IR consultants, indicated by the IR dummy, are significantly more likely to

send written materials to all its shareholders. This is yet further evidence that companies with

external IR consultants try to communicate and engage with their shareholders.

3. Possible Consequences on Ownership

I test hypotheses H3A and H3B that posit a negative/positive association between

average individual institutional ownership and the use of an external IR consultant, and

hypotheses H4A and H4B that predict a negative (non-negative) association between active

(passive) institutional ownership and the use of an external IR. I apply propensity score matching

to find matched control firms for my sample with external IR consultants, based on various firm

characteristics (e.g., market value, market-to-book ratio, and ROA for firms in the same year and

industry) that have been found to be correlated with the probability of a firm hiring an external IR consultant.

To start with, I look at the association between institutional ownership and the use of an external IR. I also include controls that have been used in the extant literature (Karolyi and Liao, 2017) and have been known to influence institutional ownership. The results are reported in the first three columns of Table XI. In Model 1, the dependent variable is institutional ownership as a percentage of total shares outstanding. The results indicate that there is a negative association between institutional ownership and the use of external IR. I further classify institutional owners into active and passive, as defined in Bushee (2001) and Appel, Gormley and Keim (2016). Model 2, which has active institutional ownership (as a percentage of shares outstanding) as the dependent variable, shows that the negative association found in Model 1 is likely due to the lower active institutional ownership of firms with external IR, because there is no significant difference in the passive institutional ownership between firms with and without external IR as shown in Model 3.

Insert Table XI here

In the next step, I look at the relationship between the number of institutional ownership and the use of external IR.[16] The results are presented in the last three columns of Table XI. In Model 4 of Table XI, the dependent variable is the number of institutional owners, and the main variable of interest on the right-hand side is the IR dummy indicating whether the firm uses an external IR or not. This model shows that a firm that has hired an external IR has nearly 30 more

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[16] In untabulated results, I also use log (1+number of institutional owners) instead of the number of institutional owners and the results are similar.

institutional owners than a firm which has not hired any external IR. Moreover, these multivariate results are significant at the 1% level. Model 5 and model 6 have the number of active institutional owners and the number of passive institutional owners respectively as dependent variables. A firm that has hired an external IR firm has approximately 3 more active institutional owners and 26 more passive institutional owners.

To further mitigate the endogeneity issue due to selection bias, I adopt a difference-in-differences methodology. Using propensity score matching (i.e., size, market-to-book ratio, and ROA), I construct two groups of firms, one with external IR and the other, a matched sample without external IR. The year when a firm hires an external IR is also used as the "pseudo" hiring year for their matched firm. The results are shown in Table XII. The coefficient on the interaction term between IR Dummy and Post-IR Dummy captures the differential changes in institutional ownership in firms after hiring IR, compared to that for their matched firms. Columns 1 to 3 show that hiring of IR does lead to a reduction in active institutional ownership while maintaining overall institutional ownership as well as passive institutional ownership. Moreover, columns 4 to 6 show that hiring of IR does increase the number of institutional owners for the firm, and this increase is due to the increase in the number of passive, not active institutional owners.

Insert Table XII here

Combined with the results in the prior table, it seems that even though IR firms are able to attract more institutional owners, the institutional ownership tends to be lower, making them more manageable. IR firms' differential impacts on active versus passive institutional investors are also worth noting in the difference-in-differences set-up, as they indicate that IR firms not only attract relatively more passive institutional investors but also try to reduce active ownership

that is more likely to initiate activism campaigns. An alternative way to interpret the results is through the theoretical arguments of Merton (1987) and Miller (1977). It can be argued that if external IR firms are instrumental in expanding the breadth of ownership amongst the institutional owners, they should also attract more individual owners. The results indirectly suggest an increase in the number of retail owners.

4. Results on IR and Media Coverage and Tone

The following tests investigate the second channel, that is, managing media, through which IR firms are plausibly enabling their client companies' management to influence public opinion. The sets of analyses in this section test hypothesis H5A, that there is greater media coverage for public corporations that have an external IR. In this section, I also test hypothesis H5B, that there are significantly fewer negative sentiments (i.e., more positive sentiments) generated through the texts used in media if the companies have an external IR.

For all the tests in this section, I focus only on company generated news or press releases on PR Newswire found in Factiva, as the company and its IR consultants have full control over the timing and choice of words in such public news releases as compared to a news item written about the firm by an objective journalist, working for instance, at the *Wall Street Journal*. Based on a recent survey study on 610 investor relations officers representing publicly traded U.S. companies, Brown, Call, and Clement (2018) find that IR personnel have a major influence in preparing company issued press releases. Hence, I collect the total number of such press news releases from Factiva. However, for the analyses of press release tones, I double check and download those press releases directly from firms' websites' IR sections (or the press release

sections on the company websites) which is a more direct evidence that IR is playing a causal role in such press releases. Press releases that are not found on the firms' websites are not included for tonal analyses. Unlike Solomon (2012), who only analyzes the tone of the article headline and the lead paragraphs, I analyze the tone of the entire press releases.

I utilize Loughran and McDonald's (2011) positive and negative word lists and measure the negative tone of each press release using the formula below:

Negative Tone = (# Negative Words - # Positive Words)/Total # Words[17]

In the first set of tests conducted in Table XIII, I run the following OLS regressions on the propensity score matched sample, with the dependent variable as Ln (1 + # of articles):

$$Ln (1 + \text{\# of articles}) = \beta_0 + \beta_1 * IRFirm + \beta_2 * Controls + \varepsilon$$

and,

$$Ln (1 + \text{\# of articles}) = \beta_0 + \beta_1 * IRFirm + \beta_2 * Tone + \beta_3 * IRFirm * Tone + \beta_4 * Controls + \varepsilon$$

Insert Table XIII here

The goal of these tests is to examine whether the presence of an external IR consultant disproportionally increases firm generated news and more positively toned press releases. The main independent variables of interest in these models are the IR Dummy, indicating whether the firm has an external IR firm and the interaction term between the IR Dummy and Negative Tone. The controls include market capitalization, market-to-book ratio, sales growth, return on assets, leverage, dividend yield, R&D, institutional ownership, liquidity, analyst coverage, stock volatility and stock return. All models also incorporate industry and year fixed effects, and the regressions are clustered at the firm level. While in Model 1 and Model 2, the sample includes all

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[17] The results are similar if the press release negative tone is defined as # Negative Words/Total # Words.

company generated press releases, Model 3 and Model 4 are restricted only to non-repeated press releases.

Model 1 in Table XIII reports that firms with external IR consultants provide significantly more press releases. The coefficient on the IR dummy in Model 1 is 0.227, significant at the 1% level, which means that on an average, firms with external IR consultants are associated with 22.7% more PR news coverage. In Model 2, I append the original specification of Model 1 with Negative Tone variable and the interaction term between the IR Dummy and Negative Tone. In this model, firm issued press releases that are not found on the company's websites or that have a neutral tone are not included. The results of Model 2 report that firms with external IR consultants are not only associated with 58.1% (significant at the 1% level) more press releases, but also that the coverage reduces (coefficient on the interaction term is -0.769, significant at the 10% level) when the tone gets more negative. Models 3 and 4 in Table XIII rerun the analyses with only non-repeated press releases. The results reported in both these models corroborate that there is a significant increase in the company generated press releases when a company has an external IR firm.

In the next set of results, I explore the possible impact of hiring an external IR firm, on the company generated press releases, by analyzing press releases one year before and after the year of hiring of an external IR using a difference-in-differences methodology. The results are shown in Table XIV, and the OLS regressions ran on propensity score matched sample are:

$$\text{Ln}(1 + \text{\# of articles}) = \beta_0 + \beta_1 * \text{IRFirm} + \beta_2 * \text{Post-Hiring IRFirm} + \beta_3 * \text{IRFirm} * \text{Post-Hiring IRFirm} +$$

$$\beta_4 * \text{Controls} + \varepsilon$$

and,

Negative Tone = β_0 + β_1*IRFirm + β_2*Post-Hiring IRFirm + β_3*IRFirm*Post-Hiring IRFirm +

β_4*Controls + ε

Insert Table XIV here

While in Model 1, the dependent variable is the natural log of (1 + # of press release articles), that proxies for company generated press release coverage, in Model 2, the dependent variable is the negative tone of such press releases. The main variable of interest on the right-hand side of both these models is the coefficient on the interaction term, β_3.

The results in Model 1 show that after hiring an external IR firm, there is significantly more news coverage via firm press releases even after adding all controls (coefficient on the interaction term is 0.236, significant at the 1% level). Moreover, Model 2 shows that significantly less negatively toned news is generated (coefficient on the interaction term is -0.007, significant at the 10% level) post-hiring.

In the following set of analyses, I test the change in company released media coverage around the activism campaign announcement dates. Such tests can provide an even more direct evidence on the public negotiation channel via media. The results are reported in Table XV.

Insert Table XV here

Model 1 uses an OLS regression on a matched sample, where the dependent variable is news coverage, given by the natural log of (1 + # of press release articles), one-year pre- and post-activism announcement. The main independent variable of interest is the IR dummy. The results show that firms that have an external IR generate a significantly greater number of press releases (coefficient on the IR Dummy is 0.701, significant at the 5% level). The results in Model 2, where the dependent variable is news coverage, given by the natural log of (1 + # of press release

articles), six months pre- and post- activism announcement are similar (coefficient on the IR Dummy is 0.695, significant at the 10% level).

These results are robust to the use of various controls used in the extant literature and all the models are clustered at the firm level with industry and year fixed effects. However, these results do not fully rule out the possibility that firms that have more information to communicate to investors hire IR.

5. Valuation Impact of IR

5.1 Announcement of Hiring IR

In this section, I conduct several tests on how the market responds to the use of IR by a firm. These tests help us understand whether the market perceives the use of external IR consultant as value-enhancing to shareholders or does it think that IR entrenches the incumbent management. I begin by testing the market reactions to the announcements of hiring an external IR by a firm. The exact dates of announcements of hiring external IRs have been manually collected from news articles and different SEC filings of firms. Since not all firms publicly announce the hiring of IR, I find only 52 such IR hiring announcement dates. I conduct short-term event studies around such announcements using six different symmetric and variable event windows in days ([0,1], [0,2], [-1,+1], [-1,+2], [-2,+2], and [-5,+5]).

Table XVI presents the mean cumulative abnormal returns (CARs) around the announcements of hiring an external IR. The IR-hiring announcement returns have been computed using the abnormal returns as the difference between the actual stock price return and the expected market model (CRSP Value Weighted Index) return over the windows indicated

in the first column. The market model has been estimated using 100 days of daily returns ending 40 days before the announcement date of hiring an IR. I also report both the Patell Z-statistic and the corresponding p-value. I find that overall the market responds negatively to the announcement of hiring external IR (even though not all statistically significant), indicating that the market perceives that the dominant effect of external IR is to entrench management at the expense of shareholders.

Insert Table XVI here

5.2 Announcement of Activism Campaign

The next set of tests analyze both the short-term and long-term valuation impacts of using external IR firms. One view is that since external IR firms are hired by management to support their agenda during activism situations, they help to entrench the incumbent management. Another view holds that contrary to management, who are long-term focused, shareholder activists are usually short-term focused and having a communication specialist such as an IR firm on management's side enhances the long-term value for firms. I test these competing conjectures by measuring both short-term price reactions around the announcement of shareholder activism and the market adjusted buy-and-hold long-term abnormal returns over the course an activism intervention.

To tease out the differential impact of IR consultants on activism campaigns, I conduct sub-sample analyses of short-term event studies comparing firms with and without IR on campaigns led by prolific versus non-prolific activists. The results for the short-term valuation impact are presented in Table XVII-a. Panel A shows the mean cumulative abnormal returns

(CARs) using market model around the announcement of activism campaigns initiated by prolific activists for six different event windows in days ([0,1], [0,2], [-1,+1], [-1,+2], [-2,+2], and [-5,+5]). I further separate the sample into the target firm that does and does not hire an external IR. The mean CARs are positive and significant for both groups varying from 1.52% to 4.40%, which is in line with the extant literature (Brav, Jiang and Kim (2015)), and they are not statistically different as indicated by the p-value in differences in the last column. I conduct the same analysis in Panel B but include only those activism campaigns that were initiated by non-prolific activists. In this case, although the mean CARs are still positive and significant for both groups, the magnitudes are significantly different as shown by the p-value in the last column. I find similar results for all event windows. Such short-term event study results indicate that the markets anticipate the differential impacts that an external IR consultant can have in managing shareholder activism led by prolific versus non-prolific activists. Such results might also suggest that in some cases, IR functions can accentuate management entrenchment.

Insert Table XVII-a here

Table XVII-b extends the analysis to longer-term windows to test the long-term valuation impacts of the presence of IR consultants in activism situations. Panel A of Table XVII-b presents the results on activism campaigns led by prolific activists, both with and without external IR. I use six different event windows in months ([-1,-1], [-1,0], [-1,+1], [-1,+6], [-1,+12], and [-1,+18]). The choice of these month-windows is motivated by the extant literature (Greenwood and Schor (2009)) and by the fact that the average holding period of activists is close to two years (Brav, Jiang, Partnoy, and Thomas (2008)). Long-term abnormal returns have been computed as the difference between the actual stock price return and the expected market model (CRSP Value

Weighted Index) return over the windows indicated in the first column. Market model has been estimated using monthly returns ending three months prior to the announcement date. The last column also reports the p-values by comparing the mean CARs of two firm groups with and without external IR. Panel A shows that even though the long-term cumulative abnormal returns are positive for both the firms with and without external IR, the differences are not significant. However, in Panel B, when the activists are non-prolific, five out of six windows show significantly lower long-term abnormal returns for firms with external IR, indicating that an external IR consultant can help to entrench the incumbent management when the activist is a non-prolific activist. Also, it is worth noting that the mean long-term cumulative abnormal returns are higher when the intervention is from a prolific activist versus a non-prolific activist, corroborating the results from the extant literature.

Insert Table XVII-b here

Overall, the results suggest that both the short-term and long-term valuation impacts of using external IR firms is negative, as it mutes the positive impact of the activist intervention, but only for non-prolific activists. This also indicates that the market correctly perceives that the external IR consultants are successful in helping management only when the intervention is from a non-prolific activist.

5.3 Announcement of Activism Outcome – Management Winning

So far, the tests conducted to estimate the valuation impact of IR were limited to the market response to IR-hiring and the announcements of shareholder activism campaigns. In this sub-section, I estimate the market responses to the actual outcomes of management wins in

activism battles for firms with and without IR. The idea here is to test whether the market perceives such IR-assisted management wins as entrenching managers or benefitting shareholders. The results are presented in Table XVIII.

Insert Table XVIII here

I have used the same six event windows as before and have followed the same methodology for the event studies as described in earlier tables. Panel A presents the results for firms without external IR and Panel B shows the mean CARs for firms with external IR. The results show that the announcements of external IR-assisted management wins are perceived negatively in the market. Such results are statistically significant and economically meaningful as the mean CAR can drop up to -1.20%. However, when the management win is without any help from an IR, the market perceives it to be value enhancing, as indicated by significant positive CARs. Such differences are significant as shown by the p-values presented in the last column of Table XVIII. Overall, such evidence suggests that management's use of an external IR to cope with shareholder activism is perceived primarily as entrenching management and hence, value destroying.

VI.   ROBUSTNESS

1. Additional Controls

In this section, I conduct the analyses with additional controls that could potentially affect the outcome of the activism campaigns: the proxy advisory firms' recommendations, activists' hiring of external IR, and firms' stock return and stock volatility.

1.1 Controlling for Proxy Advisory Firms' Recommendations

Proxy advisory firms such as the Institutional Shareholder Services (ISS) and the Glass, Lewis & Co., the two leading proxy advisory services in the world, render advice to investors on how to vote in proxy battles. Recent studies from the extant finance literature have documented the role and influence of such proxy advisory firms on the voting behavior of institutional investors such as the mutual funds (e.g., Ertimur, Ferri and Muslu, 2011; Iliev and Lowry, 2014; Malenko and Shen, 2016). For instance, using a regression discontinuity design, Malenko and Shen (2016) document that a negative recommendation from Institutional Shareholder Services (ISS) on the say-on-pay proposal can cause a 25-percentage point reduction in say-on-pay voting support.

Therefore, in Table XIX, I test the relation between activism campaign outcomes and the use of external IR firm, after controlling for Institutional Shareholder Services' (ISS) or the Glass, Lewis & Co.'s support. It can be seen that the results stay qualitatively similar. Another interesting result to note in that table is that the coefficients on the Glass Lewis or ISS Support are only significant at 10% level in two out of nine models and only when the dissident is a non-prolific

activist. Such findings are along similar lines of a recent working paper by Aggarwal, Erel, and Starks (2018), who find that over time investors are increasingly ignoring the recommendations of proxy advisors, and are rather influenced by public opinion, as reflected in surveys and media.

Insert Table XIX here

1.2 Controlling for Activists Hiring IR

If Investor Relation (IR) firms are effective in garnering support for the management in activism situations as shown in the prior results, it is possible that shareholder activists could also hire external IR firms for similar purposes. However, in my sample, less than 5% of activism campaigns have a dissident, who has hired an external IR. There are two distinct reasons for it.

First, shareholder activists consider themselves experts in knowing and providing the best strategic direction and advice for their target companies. So, hiring an external IR consultant could send out a negative signal to both the management and the other shareholders, from whom they are trying to get support. Such sentiments are echoed in a statement released by activist, Sardar Biglari of Biglari Capital Corp., regarding their target firm Cracker Barrel's management, "*The Board is wasting shareholders' money — lots of it — to implement its entrenchment strategy to resist placing a nearly 10% stockholder on the Board. … (They have also hired Kekst and Company for public relations and Bass, Berry & Sims as additional legal counsel.) We, on the other hand, do not outsource thinking; you can count on the fact that every missive you receive will be penned by me, not by attorneys, advisors, or consultants.*"

Second, when hedge funds hire investor relations personnel, it is not to deal with the target firms and its shareholders, but to help them market their own funds to their current and

potential clients (investors). These clients (investors) are usually high net worth individuals, family offices, and endowments, etc. The IR function in hedge funds is restricted to creating monthly updates of fund marketing materials that include trading data, risks borne and net asset values, and to preparing monthly and quarterly client newsletters.

To confirm that the results are not impacted by activists hiring IR, I re-run all the tests conducted in Table VII after controlling for activists with IR. The results remain qualitatively unchanged as presented in Table XX.

Insert Table XX here

1.3 Controlling for Stock Return and Stock Volatility

Anecdotal evidence suggests that shareholder activism is a response to sudden stock price drop and stock price volatility. Therefore, in this section I repeat the main empirical tests presented in Table V after controlling for both stock return and stock price volatility. Table XXI presents the results.

Insert Table XXI here

Table XXI presents the results using logistic regression analyses where the dependent variable is an activism campaigns' dummy (i.e., 1 = targeted in an activism campaign and 0 = not targeted in an activism campaign) and the main independent variable is whether the incumbent management has hired an external IR firm or not. Besides the controls used in the main empirical tests presented in Table V, I also control for stock return and stock volatility. While stock return has been computed using the natural logarithm of annualized stock return adjusted by inflation, stock volatility is simply the annualized standard deviation of the firm stock return. All regressions

are clustered at firm level and run on a matched sample based on the probability of hiring an external IR. It can be seen that despite controlling for both stock return and stock volatility, the main results hold and are very similar to the results presented in Table V, both in terms of statistical significance and also in terms of magnitude of coefficients.

2. Subsample Analysis

Shareholder activists make their intentions to intervene a target publicly known through the Schedule 13D filings. The activists use the section on *"Purpose of Transaction,"* i.e., Item 4 on the Schedule 13D filings to express their intentions. Shareholder activists' intentions vary from very specific demands such as dividend initiation or a board seat to more general demands such as shareholder value maximization. I manually read Item 4 on the Schedule 13D filings for the cases where ultimately there is either a management win or an activist win. I have 241 such cases. I further classify these cases into two groups: The first group comprises cases in which the activist does not have any specific demand but has a general demand of shareholder value maximization. I have 30 such cases in this group. The second group comprises cases in which the shareholder activist has a very specific demand such as a board seat or capital structure related changes. I find 194 such cases. There were 17 cases in which there were no demands.

I further conduct a cross-sectional test to check if the variation in the activism outcome is associated with the demand type. The results are presented in Table XXII.

Insert Table XXII here

In all the three models I use logit regressions where the dependent variable is either management win or activist win. I exclude the cases that are settled between management and

the shareholder activist. The main independent variable is whether the targeted firm has hired an external IR consultant or not. The controls include lagged values of market capitalization, leverage, market-to-book, dividend yield and institutional ownership. While model (1) covers activisms with all different types of demands, models (2) and (3) look at activisms with general demand of "maximize shareholder value" or "more specific demands," respectively. The results show that having an external IR consultant is significantly associated with management win as seen in model 1. However, external IR consultants are significantly more effective in helping management win if shareholder activist demand is general versus more specific (Model 2 vs. Model 3). Such results indicate that external IR firms are unable to help management win against more focused activists with specific demands.

The next section discusses two specific case studies highlighting the role of IR in shareholder activism.

VII. CASE STUDIES

Case 1. Trian Fund Management vs. DuPont

Trian Fund Management, L.P., a prolific hedge fund led by a high-profile shareholder activist, Nelson Peltz, first invested in E.I. du Pont de Nemours and Company (DuPont), a 213-year-old chemical company in March, 2013 unbeknownst to DuPont's senior management as Trian had not crossed the 5% ownership level.[18] Ellen J. Kullman, the then CEO of DuPont, became aware of Trian's investment only later on July 17th, 2013 when Nelson Peltz did an interview with CNBC's Andrew Ross Sorkin.[19] Trian's large stake in DuPont was later confirmed when it filed a 13F report on August 14th, 2013. At the time, the external IR firm advising DuPont was Kekst and Company.[20] Kekst arranged several one-to-one meetings of DuPont's management with Trian, where Trian laid out its demands including its demand to put its four nominees on DuPont's board with an intention to split the company to maximize shareholders' value.[21]

After several months of unsuccessful private negotiations, a public battle ensued, culminating with a proxy fight on May 13th, 2015 at DuPont's annual shareholder meeting. Prior to the proxy fight, Trian owned 2.7% (24.4 million shares) of DuPont.[22] Three influential proxy advisory firms, Institutional Shareholder Services, Inc. (ISS), Glass, Lewis & Co. and Egan-Jones Proxy Services even advised the shareholders to vote for Nelson Peltz as one of the board members. The share price of DuPont rose by 5% on the announcement by ISS supporting Nelson

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[18] Trian's Letter to DuPont Stockholders, dated February 11th, 2015.
[19] http://www.cnbc.com/id/100893349
[20] Kekst's team supporting DuPont included Lissa Perlman (Senior VP), Andrea Calise (Managing Director), Lyndsey Estin (Managing Director), Kathleen Deveny (Managing Director), Jim David (Managing Director) and Anntal Silver (Principal).
[21] Trian's nominees were Nelson Peltz, John H. Myers, Arthur B. Winkleblack and Robert J. Zatta.
[22] Press release by Trian Fund Management, L.P., dated January 8th, 2015.

Peltz, indicating that the market participants were siding with Trian's demands as well. Proxy advisory firms' advice to other shareholders in such contested fights is regarded as crucial.[23] Another large institutional owner of DuPont, California State Teachers Retirement System (CalSTRS), announced their support for Trian. DuPont did not have a staggered board and the entire slate of their directors could be elected annually. To cope with the situation and to convince the other large shareholders to support the incumbent management, DuPont's CEO Kullman hired two new IR firms, Joele Frank Wilkinson Brimmer Katcher and CamberView Partners.[24] These IR firms specialize in activist defense tactics and they advised and assisted DuPont in persuading other key shareholders such as BlackRock, Inc. and The Vanguard Group, Inc. to side with management.[25]

On May 13th, 2015 despite all the validation from three key proxy advisory firms, the public announcement of support from CalSTRS, the market's favorable reaction, and absence of a staggered board, Trian lost the proxy fight for all four of their nominees including Nelson Peltz himself, and CEO Ellen Kullman received a standing ovation from the shareholders when she thanked them for their support at the closing of the annual meeting. This case study indicates that external IR firms are probably playing a key role in assisting management to maneuver such proxy battles. Another point to note here is that DuPont, which is one of the largest companies in the world and the fourth oldest company in Fortune 500, does not need enhanced visibility or

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[23] Malenko and Shen (2016) also document the certification role played by Institutional Shareholder Services, Inc. (ISS), one of the main proxy advisory firms, in a regression discontinuity design set up.

[24] IR firm Joele Frank's effort for DuPont's defense was led by Joele Frank (Managing Partner), Jamie Moser (Partner), Andrea Rose (Partner), Sharon Stern (Partner), Aaron Palash (Managing Director) and Adam Pollack (Director). IR firm CamberView Partners' team was led by Abe M. Friedman (Founder and Chief Executive Officer of CamberView Partners).

[25] According to the company definitive proxy statement (DEFC14A) dated March 23rd, 2015 BlackRock, Inc. and The Vanguard Group, Inc. had a stake of 6.30% and 5.53% respectively in DuPont.

liquidity but still hired multiple outside IR firms which suggests that IR firms are potentially playing a greater role than just improving visibility and liquidity. I argue that IR firms are getting more specialized in providing services such as coping with shareholder activist situations as this case indicates. How are these IR firms helping the target firms to be successful against activists? Abe Friedman from CamberView Partners, who was one of the external IR firms hired by DuPont, sums it up nicely, *"If you can frame the activist agenda as a short-term plan and yours as a long-term one, that's persuasive. The governance folks are "buy and hold." BlackRock, for example, manages something like $3 trillion of indexed funds. They're going to be in these stocks for 50 or 100 years. They want good, long-term, sustainable performance."*[26]

Case 2. Biglari Holdings vs. Cracker Barrel

Biglari Capital Corp., a Texas based activist hedge fund that specializes in targeting restaurant chains, has waged activism campaigns targeted at Cracker Barrel Old Country Store, Inc., (Cracker Barrel), a forty-year-old restaurant and country store chain, six times during the period 2011-2015.[27] Biglari Capital Corp., headed by Sardar Biglari, a prolific activist hedge fund manager, held 9.9% (2,287,987 shares) of the shares outstanding before the first proxy fight, held on 20th, December, 2011.[28] The other big shareholders at that point of time were BlackRock Advisors, LLC and the Vanguard Group, Inc., who owned a stake of 9.83% (2,252,067 shares) and

[26] https://www.brunswickgroup.com/media/608659/Brunswick-Review-spotlight-on-shareholder-activism.pdf
[27] Announcement dates of the six activism campaigns: 13th, June, 2011; 19th, April, 2012; 15th February, 2013; 17th, September, 2013; 18th, December, 2013; 23rd, October, 2015.
[28] As per the 13D/A filed by Biglari Capital Corp. on 21st, October, 2011.

5.65% (1,294,714 shares) respectively in Cracker Barrel, besides the directors and officers of Cracker Barrel, who owned a 5% (1,166,870 shares) interest in the company.[29]

Sardar Biglari expressed disappointment with Cracker Barrel's financial performance and demanded a board seat to appoint himself on the board. The management of Cracker Barrel was taken aback to know about Biglari's intentions and his significant 10% ownership stake from the schedule 13D filing that was filed on 13th, June, 2011. Cracker Barrel did not have a staggered board and there was no poison pill in force to face a sudden challenge from such a prolific and specialized hedge fund activist. Glass Lewis, a prominent and independent proxy advisor also recommended Cracker Barrel's shareholders to vote in support of Sardar Biglari's nomination to the board. Cracker Barrel's management hired a top ranked, New York based external IR firm, Makovsky Integrated Communications, to deal with the situation in 2011.[30,31] They also hired Ruth Pachman from Kekst and Company to be their main media contact.[32]

It is interesting to note that Sardar Biglari in a press release dated September 13th, 2011 said, *"The approach the Cracker Barrel Board has taken in resisting us and the length to which it has gone do not display its sophistication but rather, in our view, a lack of good business judgment. The Board is wasting shareholders' money — lots of it — to implement its entrenchment strategy to resist placing a nearly 10% stockholder on the Board. …….(They have also hired Kekst and Company for public relations and Bass, Berry & Sims as additional legal*

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[29] According to Cracker Barrel's definitive proxy statement.
[30] Although the exact date of Cracker Barrel's management hiring Makovsky Integrated Communications is not available, multiple news searches from Factiva and LexisNexis indicate that Cracker Barrel hired Makovsky in 2011.
[31] http://www.makovsky.com/services/
[32]http://www.kekst.com/our-practice-areas/#areas-sacg

counsel.) We, on the other hand, do not outsource thinking; you can count on the fact that every missive you receive will be penned by me, not by attorneys, advisors, or consultants."

Cracker Barrel's management, led by Mike Woodhouse, responded to Biglari's campaign with several corporate governance changes of their own, such as adding two new board seats and promoting the CFO, Sandra Cochran, to the position of CEO. Two other long-time board members of Cracker Barrel declared that they would not seek re-election. The incumbent management not only claimed that the governance changes were a part of a succession plan and not a response to Biglari's intervention, but they also declined to invite Sardar Biglari to be on the board, citing that he was the CEO of Steak n Shake, a competitor, and putting Biglari on the board would expose their business plans to a competitor. In a Schedule 14A filing that was filed on September 2nd, 2011, with the SEC, Cracker Barrel responded to Biglari's announced intentions to commence a proxy fight by stating, *"Appointing the chief executive officer of a competing restaurant chain, Steak n Shake, to the Cracker Barrel Board would create serious and inappropriate business conflicts of interest. The Board has never in Cracker Barrel's 42-year history included a director who was a director or officer of another restaurant company, and such appointments would violate the Company's Corporate Governance Guidelines. Including a director of a competitor on the Cracker Barrel Board would violate the federal antitrust laws."*

Cracker Barrel started issuing more press releases and persuading the other large shareholders behind the scenes.[33] Finally, despite nearly 10% shareholdings and support from

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[33] Although behind the scene one-to-one meetings with other large shareholders is not observable to the empiricist, I find that after the hiring of two external IR firms, Cracker Barrel issued significantly more, 145 (132 articles with positive tone) press releases in 2012 as compared to 101 (54 articles with positive tone) company generated press releases in 2010.

Glass Lewis, Sardar Biglari was unsuccessful in securing a board seat in the proxy fight on 20th,

December 2011 and the incumbent management won. But Biglari Capital Corp. was persistent

and tried five more times, initiating activism campaigns, three of which again reached the proxy

fight stage.[34] However, Sardar Biglari lost again in all these fights.

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[34] The meeting dates of these three other proxy fights were: 15th, November 2012; 13th, November, 2013 and most recently, 23rd, April, 2014.

VIII. CONCLUSION

Although the literature on investor relations is still in its nascent stage, academics have identified several different roles played by investor relations in creating economic value for their clients such as enhancing visibility and liquidity (Bushee and Miller, 2012), 'spinning' their clients' news to influence investor beliefs (Solomon, 2012) and attracting greater analyst following, and engaging with institutional investors through increased one-to-one interactions (Karolyi and Liao, 2017). Combining novel hand-collected data on IR firms, shareholder activism campaigns data extracted 13D and proxy statements, and textual analysis of company-generated news, I argue that one key IR function which has been overlooked in the extant literature, but is equally important if not more, is their ability to help the management cope with rising shareholder activism. With the advent of improved and faster technologies such as the internet, social media, fully automated stock exchanges and electronic and high-frequency trading and better transparency over the past fifteen years, there is a lesser need for enhanced visibility or liquidity. IR firms have evolved, and have gone beyond providing publicity to providing more specialized and sophisticated services such as enabling their client firms' management effectively manage shareholder activism.

I document that corporations that have hired external IR consultants experience fewer activism campaigns, have a higher likelihood of management winning against the activist, and have a higher likelihood of mutual funds voting with management. I provide evidence on two possible channels through which IR firms are assisting management in coping with shareholder activism. First, I find that firms with external IR have a significantly higher number of institutional

owners, but lower institutional ownership, as compared with a matched sample of firms having no external IR. Such a negative influence on institutional ownership seems to be driven by lower active institutional ownership in firms with external IR. I also find evidence that suggests that external IR firms assist their clients in attracting more passive institutional investors as compared to active institutional investors. One possible way the IR firms and their clients target key institutional investors is through selective one-to-one interactions by organizing and participating in investor/analyst days and broker-hosted conferences. Second, I report that external IR consultants enable almost 27% more PR media coverage, and significantly fewer negative sentiments for their clients as compared to matched firms without external IRs. Finally, the event study results suggest that the market perceives firms' use of external IR consultants as increasing managerial entrenchment instead of shareholder value enhancement.

Based on the theoretical literature, as well as the empirical and anecdotal evidence presented in this article, I believe IR firms are playing a critical role in coping with shareholder activism by continuously monitoring and communicating both privately and publicly not only with the activists but also with other shareholders to contend with their shifting opinions. Such results are not only important for investor relations and shareholder activism literature in finance but also improves our understanding of the role played by media in corporate finance.

APPENDIX: VARIABLE DEFINITIONS

Variable	Definition
Targeted by Activism	Dummy variable equal to one if a firm is targeted by activism during the year, zero otherwise.
No. of Campaigns	The number of times that a firm is targeted by activism post hiring an external Investor Relation consultant.
Activism Outcome	The outcome of an activism campaign: management win, settlement, or activist win.
Mutual Funds Support	Dummy variable equal to one if majority of mutual funds vote with the management on a certain proposal, zero otherwise.
Investor Day	Dummy variable equal to one if a firm has hosted at least one Investor Day event during the year, zero otherwise.
Investor Conference	Dummy variable equal to one if a firm has attended at least one Investor Conference event during the year, zero otherwise.
PX14A6G Filings	Dummy variable equal to one if a firm has filed at least one PX14A6G report with SEC during the year, zero otherwise.
Institutional Ownership	The percentage of shares held by institutional investors.
Active Institutional Ownership	The percentage of shares held by active institutional investors, where active institutional investors are classified following Bushee (2001) and Appel, Gormley and Keim (2016).
Passive Institutional Ownership	The percentage of shares held by passive institutional investors, where passive institutional investors are classified following Bushee (2001) and Appel, Gormley and Keim (2016).
No. of Institutional Owners	The number of institutional investors.
No. of Active Institutional Owners	The number of active institutional investors, where active institutional investors are classified following Bushee (2001) and Appel, Gormley and Keim (2016).

Variable	Definition
No. of Passive Institutional Owners	The number of passive institutional investors, where passive institutional investors are classified following Bushee (2001) and Appel, Gormley and Keim (2016).
News Coverage	Natural logarithm of one plus the number of news articles (press releases).
Negative Tone	(Number of Negative Words) – (Number of Positive Words) / Total Number of Words
IR Dummy	Dummy variable equal to one if a firm has at least one external Investor Relation Consultant during the year, zero otherwise.
Size in Market Value	Natural logarithm of the market capitalization.
Size in Total Assets	Natural logarithm of the total assets.
Market to Book	(Book Value of Debt + Market Value of Equity) / (Book Value of Debt + Book Value of Equity)
Sales Growth	The growth rate of sales from year t-1 to year t.
Return on Assets (ROA)	EBITDA divided by lagged total assets.
Leverage	Book Value of Debt / (Book Value of Debt + Book Value of Equity)
Dividend Yield	(Common Dividend) / (Market Value of Common Equity)
R&D	Research and Development expenses divided by lagged assets
No. of Analyst Following	The number of analyst following the company
Liquidity	Liquidity measure following Amihud (2002)
External Financing	(Operating Cash Flow – Capital Expenditures) / Capital Expenditure
Executive Ownership	The percentage of shares held by executives.
Stock Volatility	Annualized standard deviation of the firm stock return.
Stock Return	Natural logarithm of annualized stock return adjusted by inflation
E-Index	Entrenchment Index

Note: Lagged variables included in some of the models in the paper are lagged by one year.

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Table I Summary Statistics of Firms using IR

Firms that have hired external IR during the twelve-year sample period between 2003 and 2014 are identified using O'Dwyer's PR Firm's Annual Directories. 2,336 different public firms use one or more unique 422 external IR firms at some point during the sample period. Panel A shows the number of firms that use external IR each year and the percentage of Compustat population represented by these IR firms every year in terms of market capitalization. Firm Size (total assets, AT) in Panel B and Market Capitalization (MKVALT) in Panel C are from Compustat (adjusted for inflation). In Panel D, the sample of public firms in the U.S. that use external IR has been divided into Small Cap (market capitalization < $ 2B), Mid Cap (market capitalization between $ 2B and $10B) and Large Cap (market capitalization > $ 10B).

| Year | Panel A | | | Panel B | | | Panel C | | | Panel D | | |
| | # of External IR Firms | # of Compustat Firms using External IR | % of Compustat Population Represented in terms of Mkt. Cap. | Firm Size (AT), in $ billions | | | Mkt. Cap. (MKVALT), in $ billions | | | Composition | | |
				Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Small Cap	Mid Cap	Large Cap
2003	158	939	45.27%	36.21	2.21	130.14	14.34	1.67	34.37	52.24%	20.35%	27.40%
2004	155	918	45.23%	35.53	2.17	127.68	14.07	1.64	33.72	49.51%	20.75%	29.74%
2005	142	864	42.43%	34.50	2.11	124.00	13.66	1.59	32.75	48.95%	19.82%	31.23%
2006	156	713	36.37%	33.18	2.02	119.25	13.14	1.53	31.49	44.53%	20.45%	35.02%
2007	177	802	37.89%	32.50	1.98	116.82	12.87	1.50	30.85	42.64%	21.79%	35.57%
2008	184	775	42.78%	31.17	1.90	112.03	12.34	1.44	29.59	50.29%	20.74%	28.96%
2009	163	692	35.81%	31.16	1.90	111.99	12.34	1.44	29.58	46.33%	19.82%	33.85%
2010	148	673	32.74%	30.36	1.85	109.13	12.02	1.40	28.82	44.29%	18.88%	36.83%
2011	124	577	27.73%	29.88	1.82	107.37	11.83	1.38	28.36	44.68%	23.14%	32.18%
2012	115	583	30.75%	29.03	1.77	104.32	11.50	1.34	27.55	40.10%	22.37%	37.53%
2013	96	518	30.30%	28.57	1.74	102.69	11.31	1.32	27.12	26.61%	26.32%	47.08%
2014	91	454	28.71%	28.13	1.72	101.09	11.14	1.30	26.70	23.78%	26.57%	49.65%

Table II Summary Statistics of External IR Consultants

The table summarizes the number of external IR firms (column 2) and the number of Compustat companies hiring external IR firms (column 3) in my sample for each year from 2003 to 2014. Column 4 shows the average number of publicly listed clients per each IR firm. Column 5 and Column 6 list the total fees generated by the top-20 IR firms based on the prior year fees and the average amount spend per year by a client on hiring a top-20 IR respectively. The last column is the number of clients using top-20 IR firms during my sample period. Please note, fees shown are generated through their IR services only, and do not include other professional services provided by them. Also, companies might be hiring multiple IR firms in one year.

Year	# of External IR Firms	# of Compustat Firms using External IR	Average # of Publicly Listed Clients per IR	Total Fees generated by the Top-20 IR Firms ($ million) per year	Average amount spent per year by a client on hiring a top-20 IR Firm	# of clients using top-20 IR Firms
2003	158	939	5.94	90.90	369,515	246
2004	155	918	5.92	103.64	433,642	239
2005	142	864	6.08	107.63	484,816	222
2006	156	713	4.57	147.03	706,876	208
2007	177	802	4.53	162.36	715,226	227
2008	184	775	4.21	152.04	707,146	215
2009	163	692	4.25	85.15	465,296	183
2010	148	673	4.55	105.58	685,569	154
2011	124	577	4.65	134.81	832,186	162
2012	115	583	5.07	141.66	814,141	174
2013	96	518	5.40	165.24	983,548	168
2014	91	454	4.99	184.80	1,232,024	150

Table III Summary Statistics of Activism Campaigns

This table gives the summary statistics of the activism campaign data during 2003-2014 for firms without external IR (Panel A) and firms with external IR (Panel B) that were targeted during this period. All the public activism campaigns are further classified into exempt solicitations, stockholder campaigns and proxy fights. The number of campaigns and the percentage of total for each campaign type are shown below.

Year	Panel A: Firms without External IR							Panel B: Firms with External IR						
	Total # of Activism Campaigns	Exempt Solicitation	% of Total	Other Stockholder Campaign	% of Total	Proxy Fight	% of Total	Total # of Activism Campaigns	Exempt Solicitation	% of Total	Other Stockholder Campaign	% of Total	Proxy Fight	% of Total
2003	96	1	1.04%	40	41.67%	55	57.29%	17	0	0.00%	4	23.53%	13	76.47%
2004	85	2	2.35%	47	55.29%	36	42.35%	25	2	8.00%	17	68.00%	6	24.00%
2005	169	7	4.14%	96	56.80%	66	39.05%	80	17	21.25%	45	56.25%	18	22.50%
2006	353	9	2.55%	245	69.41%	99	28.05%	90	6	6.67%	63	70.00%	21	23.33%
2007	378	11	2.91%	281	74.34%	86	22.75%	133	14	10.53%	98	73.68%	21	15.79%
2008	360	9	2.50%	254	70.56%	97	26.94%	139	10	7.19%	100	71.94%	29	20.86%
2009	277	14	5.05%	175	63.18%	88	31.77%	96	10	10.42%	62	64.58%	24	25.00%
2010	274	10	3.65%	196	71.53%	68	24.82%	90	12	13.33%	50	55.56%	28	31.11%
2011	252	11	4.37%	175	69.44%	66	26.19%	111	16	14.41%	67	60.36%	28	25.23%
2012	258	22	8.53%	188	72.87%	48	18.60%	125	30	24.00%	71	56.80%	24	19.20%
2013	282	21	7.45%	179	63.48%	78	27.66%	105	36	34.29%	51	48.57%	22	20.95%
2014	330	14	4.24%	250	75.76%	66	20.00%	126	27	21.43%	71	56.35%	28	22.22%

Table IV-a Descriptive Statistics of Firms with and without External IR Consultants

Table IV compares the descriptive statistics of the various accounting, institutional ownership, analyst following, and executive ownership characteristics of the firms that do not use external IR (Panel A) versus the firms that do use external IR (Panel B). All variables cover data from 2003 to 2014, except the active ownership data which covers from 2003 to 2013. All firm-level variables are winsorized at the 1% level in both tails of the distribution. The last column reports the p-value from t tests.

Variable	Panel A: Firms without External IR						Panel B: Firms with external IR						p-value
	n	Mean	Median	Std. Dev.	Min.	Max.	n	Mean	Median	Std. Dev.	Min.	Max.	
Total Assets ($ million)	103,840	3,574.5	234.5	13,113.0	0.0	106,685.0	6,393	55,778.3	3,582.5	201,650.6	4.0	1,527,015.0	< 0.0000
CAPEX ($ million)	101,500	114.1	3.5	400.4	0.0	2,956.0	6,321	816.7	81.0	2,141.6	0.0	14,563.0	< 0.0000
Sales ($ million)	103,168	1,526.1	95.9	4,779.1	0.0	34,733.9	6,393	15,275.0	2,683.0	30,847.3	0.0	180,929.0	< 0.0000
Operating Cash Flow ($ million)	101,796	207.9	7.7	714.6	-156.1	5,276.3	6,338	2,125.7	249.8795	5,263.8	-6,086.0	31,696.0	< 0.0000
Long-Term Debt ($ million)	103,619	695.9	7.7	2,335.6	0.0	17,410.5	6,367	7,864.6	619.124	26,681.1	0.0	201,087.0	0.2764
External Financing	90,753	11.276	-0.239	75.009	-149.185	553.500	6,064	-0.247	-1.352	21.600	-62.980	152.123	< 0.0000
Leverage	85,008	0.490	0.054	1.388	0.000	10.524	5,588	0.508	0.149	1.231	0.000	9.148	< 0.0000
R&D/Total Assets	44,748	0.163	0.038	0.373	0.000	2.652	3,738	0.071	0.034	0.107	0.000	0.677	< 0.0000
No. of Block Owners (> 5%)	67,611	1.48	1.00	1.62	0.00	6.00	5,216	1.86	2.00	1.70	0.00	7.00	< 0.0000
No. of Institutional Owners (13F)	67,611	80.00	39.00	106.49	1.00	579.00	5,216	291.46	174.00	320.14	1.00	1,491.00	< 0.0000
Ownership Concentration (HHI)	67,611	27.67%	13.46%	30.88%	2.43%	100.00%	5,216	11.55%	5.08%	18.02%	1.93%	100.00%	< 0.0000
Institutional Ownership (% of S/O)	67,519	37.83%	30.71%	33.01%	0.00%	100.00%	5,213	57.42%	65.37%	31.38%	0.02%	100.00%	< 0.0000
No. of Active Institutional Owners (13F)	61,778	43.41	20.00	53.33	0.00	249.00	4,918	124.18	100.00	104.10	0.00	468.00	< 0.0000
Active Ownership Concentration (HHI)	61,778	1.00%	0.22%	2.40%	0.00%	18.64%	4,918	0.88%	0.44%	1.24%	0.00%	6.95%	< 0.0000
Active Institutional Ownership (% of S/O)	56,657	18.33%	12.94%	18.67%	0.00%	79.34%	4,550	24.34%	22.66%	17.49%	0.00%	74.39%	< 0.0000
No. of Analysts	38,807	8.65	6.00	7.78	1.00	36.00	4,731	14.66	12.00	10.80	1.00	44.00	< 0.0000
Executive Ownership	16,462	3.19%	0.98%	6.33%	0.00%	37.60%	3,130	1.76%	1.35%	4.35%	0.00%	27.25%	< 0.0000
Executive Ownership (excluding options)	16,462	3.23%	0.75%	6.72%	0.00%	38.28%	3,130	1.91%	0.21%	5.00%	0.00%	31.70%	< 0.0000

Table IV-b Descriptive Statistics of Firms with and without External IR Consultants (matched control sample)

Table compares the descriptive statistics of the various accounting, institutional ownership, and governance (E-Index) characteristics of the firms that do not use external IR versus the firms that do use external IR post-matching. All variables cover data from 2003 to 2014. The last column reports the t-statistics for the differences in means.

	Matched Firms without External IR	Firms with External IR	Difference	
	Mean	Mean	Mean	t-value
Size (Market Value)	10,070.660	11,724.730	-1,654.072	-1.832
Market to Book	3.062	2.664	0.398	0.722
Sales Growth	0.242	0.163	0.080	1.234
ROA	0.127	0.169	-0.043	-0.901
Leverage	0.369	0.357	0.012	0.819
Dividend Yield	0.016	0.018	-0.002	-1.318
R&D/TA	0.037	0.041	-0.004	-1.542
Institutional Ownership	0.684	0.636	0.049	1.022
E-Index	2.824	2.857	-0.033	-0.616

Table V Probability of being Targeted by Activists and the Use of External IR Consultants

This table reports the results using logistic regression analysis where the dependent variable is a campaigns dummy (i.e., 1 = targeted in an activism campaign and 0 = not targeted in an activism campaign) and the main independent variable is whether the incumbent management has hired an external IR firm or not. All the models have industry and year fixed effects and have been clustered at the firm level. Standard errors are reported in parentheses (* p<0.10, ** p<0.05, *** p<0.010).

	(1)	(2)	(3)	(4)
	Dummy (Targeted within sample period After IR is Hired)	Dummy (Targeted within 3 years After IR is Hired)	Dummy (Targeted within 2 year After IR is Hired)	Dummy (Targeted within 1 year After IR is Hired)
IR_Dummy	-0.155**	-0.137**	-0.109*	-0.103
	(-2.44)	(-2.10)	(-1.65)	(-1.49)
lag_Size	-0.064**	-0.094***	-0.098***	-0.093***
	(-2.47)	(-3.62)	(-3.61)	(-3.31)
lag_M/B	-0.016***	-0.016***	-0.016**	-0.026***
	(-2.75)	(-2.61)	(-2.56)	(-3.14)
lag_Sales Growth	-0.054	-0.094**	-0.095*	-0.140**
	(-1.60)	(-1.99)	(-1.79)	(-2.25)
lag_ROA	-0.132	-0.156	-0.228	-0.329*
	(-0.79)	(-0.91)	(-1.32)	(-1.69)
lag_Leverage	0.121**	0.119**	0.122**	0.112**
	(2.37)	(2.39)	(2.39)	(2.33)
lag_Dividend Yield	-0.794	-1.678*	-2.737**	-1.979*
	(-1.29)	(-1.67)	(-2.00)	(-1.65)
lag_R&D/TA	-0.131	-0.270	-0.385	-0.431
	(-0.40)	(-0.78)	(-1.08)	(-1.10)
lag_Institutional Ownership	0.011	0.008	0.006	0.006
	(0.68)	(0.62)	(0.53)	(0.55)
lag_No. of Analyst	0.173***	0.154***	0.150***	0.170***
	(4.22)	(3.70)	(3.53)	(3.89)
lag_liquidity	0.011	0.046	0.008	0.057
	(0.09)	(0.39)	(0.05)	(0.36)
Constant	0.802	-0.027	-0.209	-0.523
	(1.22)	(-0.03)	(-0.24)	(-0.62)
Fixed Effects	Y	Y	Y	Y
N	5400	4844	4627	4391
pseudo R-sq	0.102	0.100	0.097	0.100

Table VI Number of Activism Campaigns and the Use of External IR Consultants

Model 1 of the table is an OLS model with the number of activism campaign as the dependent variable and the IR dummy as the main variable of interest on the right hand side. Model 1 controls for the industry fixed effects and model 2 is the same specification but also controls for the year fixed effects. In model 3 and 4, I use Poisson Model to re-estimate the regressions, where the signs and significance levels of the coefficients of IR dummy stay the same. Standard errors are reported in parentheses (* $p<0.10$, ** $p<0.05$, *** $p<0.010$).

	(1) OLS No. of Campaigns	(2) OLS No. of Campaigns	(3) Poisson No. of Campaigns	(4) Poisson No. of Campaigns
IR_Dummy	-0.128**	-0.123**	-0.104**	-0.100**
	(0.059)	(0.059)	(0.052)	(0.049)
lag_Log (Total Assets)	0.007	0.006	0.006	0.005
	(0.019)	(0.019)	(0.014)	(0.014)
lag_Sales Growth	-0.012**	-0.011**	-0.011*	-0.011**
	(0.006)	(0.005)	(0.006)	(0.005)
lag_No. of Analyst	0.006	0.005	0.004	0.004
	(0.005)	(0.005)	(0.003)	(0.003)
lag_Institutional Ownership	-0.115	-0.106	-0.093	-0.087
	(0.102)	(0.111)	(0.072)	(0.078)
lag_Leverage	-0.020	-0.018	-0.017	-0.014
	(0.037)	(0.037)	(0.025)	(0.025)
lag_M/B	0.003	0.003	0.003	0.003
	(0.004)	(0.004)	(0.003)	(0.003)
lag_Dividend Yield	-0.344*	-0.379*	-0.300*	-0.333**
	(0.205)	(0.210)	(0.164)	(0.167)
Constant	1.112***	1.014***	0.094	0.012
	(0.082)	(0.138)	(0.065)	(0.104)
Industry FE	Y	Y	Y	Y
Year FE	N	Y	N	Y
N	906	906	906	906
pseudo R-sq	0.009	0.012	0.010	0.011

Table VII Activism Campaign Outcomes and the Use of External IR Consultants

The results in this table use ordered logit model where the dependent variable is management win, settlement, or activist win. The main independent variable is whether the targeted firm has hired an external IR consultant or not. I further categorize all the dissidents each year into the most prolific activists and less prolific based on the number of campaigns they initiated in the prior year. I include the top fifty such activists in the most prolific list and the rest as non-prolific activists. Panel A are the results from all campaigns, and Panel B are the results from campaigns run by the less prolific activists. Standard errors are reported in parentheses (* p<0.10, ** p<0.05, *** p<0.010).

	Panel A: All Activists			Panel B: Non-Prolific Activists			Panel C: Prolific Activists		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt
	All	Fight	Solicitation	All	Fight	Solicitation	All	Fight	Solicitation
IR_Dummy	0.492	0.485	0.390	0.867**	0.995***	0.819**	0.149	-0.545	0.149
	(0.309)	(0.340)	(0.306)	(0.355)	(0.382)	(0.400)	(0.500)	(0.734)	(0.500)
lag_Log (MV)	0.000*	0.000	0.000*	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
lag_Institutional Ownership	-0.103	-0.220	-0.351	0.071	-0.100	-0.288	-0.003	-0.140	-0.003
	(0.438)	(0.489)	(0.453)	(0.513)	(0.578)	(0.559)	(0.850)	(1.038)	(0.850)
lag_Leverage	0.671**	0.779**	0.543*	0.520	0.693	0.508	0.279	0.375	0.279
	(0.298)	(0.377)	(0.320)	(0.349)	(0.447)	(0.384)	(0.760)	(1.082)	(0.760)
lag_M/B	-0.144**	-0.131	-0.113	-0.134	-0.200	-0.030	-0.058	0.334	-0.058
	(0.072)	(0.124)	(0.077)	(0.137)	(0.140)	(0.141)	(0.180)	(0.338)	(0.180)
lag_Dividend Yield	0.431	0.460	0.346	0.308	0.371	0.267	30.918*	22.095	30.918*
	(0.336)	(0.343)	(0.297)	(0.284)	(0.293)	(0.280)	(17.509)	(24.415)	(17.509)
cut1									
Constant	-2.150**	-1.793	-2.316**	-1.857**	-1.195***	-1.972**	-2.195	-1.329	-2.195
	(1.053)	(1.181)	(1.080)	(0.868)	(0.375)	(0.959)	(2.102)	(2.268)	(2.102)
cut2									
Constant	-0.495	-0.190	-0.595	-0.330	0.343	-0.388	0.023	0.932	0.023
	(1.055)	(1.184)	(1.079)	(0.890)	(0.395)	(0.980)	(2.077)	(2.294)	(2.077)
N	350	252	290	254	199	194	96	53	96
pseudo R-sq	0.065	0.101	0.043	0.092	0.146	0.066	0.063	0.082	0.063

Table VIII Cumulative Abnormal Trading Volume around Activism Announcements

Table shows the mean cumulative abnormal trading volume (CATVs) around the announcement of activism campaigns for six different event windows. Panel A presents results on activism campaigns led by prolific activists (with vs. without external IR). Panel B presents results on activism campaigns led by non-prolific activists (with vs. without external IR). The last column reports the p-value by comparing the CATVs of two firm groups (with vs. without external IR) in both scenarios. I compute the abnormal trading volume as the difference between the actual log-transformed volume and the expected market model (CRSP Value Weighted Index) log-transformed volume over the windows indicated in the first column. Market model has been estimated using 60 days of daily trading volumes ending 40 days prior to the announcement date. I also report both the Patell Z-statistic and the corresponding p-value.

	Panel A: Activism by Prolific Activists						
	Firms without external IR			**Firms with external IR**			**Differences**
Windows	**Mean CATV**	**Patell Z**	**p-value**	**Mean CATV**	**Patell Z**	**p-value**	**p-value**
(0, 1)	111.80%	48.604	<.0001	110.26%	17.764	<.0001	0.9349
(-1,+1)	151.51%	52.521	<.0001	152.87%	19.739	<.0001	0.9611
(-2, 2)	220.03%	58.717	<.0001	205.73%	20.662	<.0001	0.7397
(-5, +5)	405.11%	71.419	<.0001	258.96%	19.317	<.0001	0.0820
(-10,+10)	667.09%	84.082	<.0001	373.73%	20.067	<.0001	0.0455
(-20, +20)	927.01%	86.479	<.0001	427.59%	17.218	<.0001	0.0427

	Panel B: Activism by Non-Prolific Activists						
	Firms without external IR			**Firms with external IR**			**Differences**
Windows	**Mean CATV**	**Patell Z**	**p-value**	**Mean CATV**	**Patell Z**	**p-value**	**p-value**
(0, 1)	110.84%	52.229	<.0001	55.32%	15.012	<.0001	0.0001
(-1,+1)	133.04%	51.374	<.0001	58.85%	14.216	<.0001	0.0001
(-2, 2)	192.62%	56.141	<.0001	81.47%	15.202	<.0001	0.0001
(-5, +5)	317.01%	61.585	<.0001	142.25%	17.176	<.0001	0.0013
(-10,+10)	486.12%	65.861	<.0001	207.42%	17.523	<.0001	0.0025
(-20, +20)	684.07%	63.949	<.0001	228.48%	16.808	<.0001	0.0042

Table IX Mutual Funds Voting Results

The table uses logit regressions on matched sample. The dependent variable is a dummy variable indicating whether mutual funds vote with the management on a certain proposal. In Model 1, I include all different types of proposals. In Model 2, I only include proposals on electing directors. Standard errors are in parentheses (* p<0.10, ** p<0.05, *** p<0.010).

	(1) All Proposals Vote with management	(2) Proposals on Electing Directors Vote with management
IR_Dummy	0.309***	1.442***
	(0.114)	(0.413)
Size (Market Value)	-0.049*	0.381*
	(0.028)	(0.204)
Market-to-Book	-0.050	-0.089
	(0.040)	(0.124)
Sales Growth	0.016	-0.515
	(0.153)	(0.390)
ROA	-0.006	3.112
	(0.614)	(2.170)
Leverage	0.229	2.647***
	(0.167)	(0.876)
Dividend Yield	0.872	-3.574
	(2.147)	(9.127)
R&D	5.613***	10.142
	(1.570)	(6.898)
Institutional Ownership	-0.026	3.291**
	(0.305)	(1.432)
Liquidity	-0.034	70.575**
	(0.304)	(29.527)
Constant	2.287**	-3.793
	(1.123)	(3.065)
N	4867	2517
pseudo R-sq	0.029	0.135

Table X Investor Day, Investor Conference, and PX14A6G Filings

The table uses logit regressions on matched sample. In Model 1, the dependent variable is a dummy indicating whether a firm has hosted at least one Investor Day Event during that year. In Model 2, the dependent variable is a dummy indicating whether a firm has attended at least one Investor Conference Event during that year. In Model 3, the dependent variable is a dummy indicating whether a firm has filed at least one PX14A6G report with SEC during that year. And t-statistics in parentheses (* $p<0.10$, ** $p<0.05$, *** $p<0.010$). All regressions are clustered at firm (gvkey) level.

	(1) DV: Investor Day	(2) DV: Investor Conference	(3) DV: PX14A6G Filings
IR_Dummy	0.240**	0.419**	0.534*
	(2.03)	(2.43)	(1.94)
Size (Market Value)	0.031	0.195***	0.892***
	(0.62)	(3.99)	(9.32)
Market-to-Book	0.001	-0.016	-0.001
	(1.06)	(-0.75)	(-0.04)
Sales Growth	-0.094	0.354*	-0.417
	(-1.40)	(1.74)	(-1.24)
ROA	-0.123	-0.788	0.618
	(-0.42)	(-1.00)	(1.02)
Leverage	0.046	-0.009	-0.128
	(0.79)	(-0.05)	(-0.39)
Dividend Yield	-0.672	-2.619**	-30.135***
	(-0.48)	(-2.12)	(-3.06)
R&D	0.406	1.706	-1.403
	(0.73)	(0.78)	(-0.56)
Institutional Ownership	-0.036	0.034	0.061
	(-0.22)	(1.27)	(0.96)
Liquidity	-0.458	-0.154	-4.120
	(-0.47)	(-0.92)	(-0.72)
No. of Analyst Following	0.551***	0.875***	
	(5.30)	(8.51)	
Constant	-2.451**	-2.946***	-13.620***
	(-2.13)	(-4.27)	(-9.56)
Fixed Effects	Y	Y	Y
Clustering	Y	Y	Y
N	4958	3081	6727
pseudo R-sq	0.133	0.623	0.293

Table XI Institutional Ownership and the Use of External IR Consultants

The table uses OLS regressions. In model 1 the dependent variable is institutional ownership as a percentage of total shares outstanding. Model 2 has active institutional ownership (as a percentage of shares outstanding) as the dependent variable. In model 3, the dependent variable is passive institutional ownership (as a percentage of shares outstanding). In model 4, the dependent variable is the number of institutional owners. Model 5 and model 6 have the number of active institutional owners and the number of passive institutional owners respectively as dependent variables. Standard errors in parentheses (* p<0.10, ** p<0.05, *** p<0.010). All regressions are clustered at firm (gvkey) level.

	(1) Institutional Ownership (%)	(2) Active Institutional Ownership (%)	(3) Passive Institutional Ownership (%)	(4) Number of Institutional Owners	(5) Number of Active Institutional Owners	(6) Number of Passive Institutional Owners
IR Dummy	-0.017**	-0.017**	-0.011	29.633***	3.331*	26.302***
	(0.008)	(0.008)	(0.007)	(7.024)	(1.946)	(6.711)
Sales Growth	0.007	0.035***	-0.037***	36.700*	10.029***	26.671
	(0.012)	(0.012)	(0.012)	(19.941)	(2.989)	(18.136)
External Financing	-0.000***	-0.000	0.000	-0.011	-0.001	-0.010**
	(0.000)	(0.000)	(0.000)	(0.007)	(0.004)	(0.005)
Log (Total Assets)	0.000	-0.015***	0.000	119.245***	13.537***	105.708***
	(0.004)	(0.003)	(0.003)	(4.812)	(0.853)	(4.642)
Leverage	-0.008***	-0.000	-0.004***	-5.515	-0.692	-4.823
	(0.001)	(0.002)	(0.001)	(4.139)	(0.465)	(3.691)
R&D/Total Assets	-0.051***	-0.016***	-0.039***	65.462***	6.653***	58.809***
	(0.006)	(0.006)	(0.009)	(17.883)	(2.018)	(16.038)
Executive Ownership	-0.004***	-0.002***	-0.004***	-0.471	-0.168*	-0.303
	(0.001)	(0.001)	(0.001)	(0.479)	(0.089)	(0.457)
M/B	0.003	0.001	-0.001	10.072**	0.999	9.073**
	(0.002)	(0.002)	(0.002)	(4.918)	(0.737)	(4.245)
Constant	0.813***	0.462***	0.586***	-764.762***	-57.853*	-706.909***
	(0.073)	(0.044)	(0.050)	(114.185)	(29.528)	(89.495)
Industry FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
N	3073	2881	2881	3073	3073	3073
adj. R^2	0.210	0.162	0.152	0.673	0.157	0.622

Table XII Institutional Ownership and the Use of External IR Consultants

Difference-in-Differences Framework

The table presents results using difference-in-differences set-up. In model 1 the dependent variable is institutional ownership as a percentage of total shares outstanding. Model 2 has active institutional ownership (as a percentage of shares outstanding) as the dependent variable. In model 3, the dependent variable is passive institutional ownership (as a percentage of shares outstanding). In model 4, the dependent variable is the number of institutional owners. Model 5 and model 6 have the number of active institutional owners and the number of passive institutional owners respectively as dependent variables. Standard errors in parentheses (* p<0.10, ** p<0.05, *** p<0.010). All regressions are clustered at firm (gvkey) level.

	(1) Institutional Ownership (%)	(2) Active Institutional Ownership (%)	(3) Passive Institutional Ownership (%)	(4) Number of Institutional Owners	(5) Number of Active Institutional Owners	(5) Number of Passive Institutional Owners
IR Dummy x Post IR	-0.009	-0.015*	0.007	11.779**	-0.886	13.241**
	(0.009)	(0.008)	(0.007)	(5.369)	(1.842)	(5.298)
IR Dummy	0.010**	-0.008**	0.020***	-2.815	-0.717	-0.421
	(0.005)	(0.004)	(0.004)	(2.437)	(1.352)	(2.426)
Post IR	-0.006	-0.009	0.004	7.369	-0.918	10.375**
	(0.009)	(0.007)	(0.007)	(4.857)	(1.848)	(4.975)
Log (MV)	0.007**	-0.013***	-0.000	123.077***	13.537***	104.522***
	(0.003)	(0.002)	(0.003)	(3.193)	(0.583)	(3.081)
Constant	0.705***	0.491***	0.495***	-693.021***	-62.023***	-619.368***
	(0.093)	(0.068)	(0.065)	(32.963)	(7.814)	(28.409)
Industry FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
N	11711	9282	9282	11711	10072	10072
adj. R^2	0.219	0.174	0.142	0.782	0.156	0.715

Table XIII Media Coverage/Tone and the Use of External IR Consultants

The table uses OLS regressions on matched sample. The dependent variable is news coverage as Log (1 + # of News Articles). The main independent variables of interest include IR_Dummy and the Interaction between IR_Dummy and Negative Tone. Negative Tone is calculated as (the number of Negative Words – the number of Positive Words) / Total Number of Words. Negative words are from the word list provided by Loughran and McDonald (2011). In Model 1 and Model 2, the sample include all press releases. In Model 3 and Model 4, the sample only include non-repeated press releases. Standard errors in parentheses (* $p<0.10$, ** $p<0.05$, *** $p<0.010$). All regressions are clustered at firm (gvkey) level.

	DV: News Coverage				
	(1)	(2)		(3)	(4)
IR_Dummy	0.227***	0.581***		0.213***	0.650**
	(0.035)	(0.223)		(0.054)	(0.298)
Negative Tone		-0.485			-0.417
		(0.346)			(0.459)
IR_Dummy x Negative Tone		-0.769*			-0.936
		(0.462)			(0.611)
Market Cap	0.000***	0.000***		0.000***	0.000***
	(0.000)	(0.000)		(0.000)	(0.000)
Market-to-Book	-0.001***	-0.005		-0.009**	-0.009**
	(0.000)	(0.005)		(0.004)	(0.004)
Sales Growth	-0.046***	-0.036		-0.040	-0.041
	(0.015)	(0.030)		(0.033)	(0.034)
ROA	-0.209***	-0.205**		-0.190**	-0.208**
	(0.074)	(0.092)		(0.089)	(0.092)
Leverage	0.108	0.012		0.142*	0.141*
	(0.071)	(0.108)		(0.075)	(0.074)
Dividend Yield	0.136	0.340		0.191	0.227
	(0.252)	(0.406)		(0.429)	(0.426)
R&D	-0.163	0.214		0.347	0.332
	(0.155)	(0.244)		(0.241)	(0.245)
Institutional Ownership	0.046	0.213**		0.160	0.188
	(0.096)	(0.102)		(0.122)	(0.123)
Liquidity	-0.437***	-0.419***		-0.411***	-0.419***
	(0.086)	(0.102)		(0.117)	(0.113)
No. of Analyst Following	0.057***	0.047***		0.052***	0.050***
	(0.003)	(0.004)		(0.004)	(0.004)
Stock Volatility	-0.133	0.184		0.161	0.185
	(0.088)	(0.117)		(0.124)	(0.127)
Stock Return	-0.002	0.013		0.067**	0.072**
	(0.016)	(0.019)		(0.032)	(0.032)
Constant	4.052***	3.720***		3.738***	3.877***
	(0.216)	(0.348)		(0.398)	(0.460)
Fixed Effects	Y	Y		Y	Y
Clustering	Y	Y		Y	Y
N	4527	1114		844	844
adj. R-sq	0.575	0.557		0.534	0.541

Table XIV Media Coverage/Tone Pre- vs. Post-hiring External IR Consultants

The table uses OLS regressions on matched sample. The dependent variable for Model 1 is news coverage as Log (1 + # of News Articles). The dependent variable for Model 2 is Negative Tone as (the number of Negative Words – the number of Positive Words) / Total Number of Words. Negative words are from the word list provided by Loughran and McDonald (2011). Both models include repeated press releases. Standard errors in parentheses (* p<0.10, ** p<0.05, *** p<0.010). All regressions are clustered at firm (gvkey) level.

	(1)	(2)
	News Coverage	Negative Tone
IR_Dummy	-0.081	0.006**
	(0.076)	(0.003)
Post-Hiring IR	-0.244***	0.003
	(0.080)	(0.003)
IR_Dummy x Post-Hiring IR	0.236***	-0.007*
	(0.089)	(0.004)
Market Cap	0.000***	-0.000
	(0.000)	(0.000)
Market-to-Book	-0.011	0.000
	(0.019)	(0.000)
Sales Growth	-0.042	0.001
	(0.058)	(0.002)
ROA	-0.660**	0.003
	(0.257)	(0.006)
Leverage	0.347***	-0.001
	(0.119)	(0.002)
Dividend Yield	0.392	0.019**
	(0.286)	(0.008)
R&D	1.514***	-0.011
	(0.555)	(0.013)
Institutional Ownership	-0.390***	-0.003
	(0.146)	(0.004)
Liquidity	-7.699***	0.009
	(1.178)	(0.018)
Constant	5.396***	0.485***
	(0.251)	(0.005)
Fixed Effects	Y	Y
Clustering	Y	Y
N	1595	1595
adj. R-sq	0.535	0.003

Table XV Media Coverage around Activism Campaign Announcement Date

The table uses OLS regressions on matched sample. The dependent variable is news coverage as Log (1 + # of News Articles). The main independent variables of interest is IR_Dummy. In Model 1, the sample includes all press releases one year pre- and post- activism campaign announcement dates. In Model 2, the sample includes all press releases six months pre- and post- activism campaign announcement dates. Standard errors in parentheses (* p<0.10, ** p<0.05, *** p<0.010). All regressions are clustered at firm (gvkey) level.

	(1)	(2)
	News Coverage	News Coverage
	One Year Pre and Post Announcement	Six Month Pre and Post Announcement
IR_Dummy	0.701**	0.695*
	(0.279)	(0.404)
Market Cap	0.269***	0.197*
	(0.085)	(0.117)
Book-to-Market	-0.326	-0.401
	(0.281)	(0.365)
Sales Growth	-0.647	-0.789
	(0.432)	(0.497)
ROA	0.402	0.864
	(1.134)	(1.510)
Dividend Yield	-2.226***	-1.469
	(0.755)	(1.239)
Institutional Ownership	0.472	0.824
	(0.676)	(1.032)
Liquidity	-0.891**	-0.970**
	(0.351)	(0.389)
Leverage	-0.318	-0.842***
	(0.297)	(0.251)
R&D	1.595	6.356**
	(2.187)	(2.993)
Constant	1.098	1.381
	(0.794)	(1.091)
Clustering	Y	Y
N	340	178
adj. R-sq	0.087	0.100

Table XVI Market Response (CAR) at the Announcement of Hiring IR

Table shows the short-term mean cumulative abnormal returns (CARs) at the announcement of hiring IR for six different event windows. I compute the abnormal returns as the difference between the actual stock price return and the expected market model (CRSP Value Weighted Index) return over the windows indicated in the first column. Market model has been estimated using 100 days of daily returns ending 40 days prior to the announcement date. I also report both the Patell Z-statistic and the corresponding p-value.

	Announcement of Hiring IR		
Windows	**Mean CAR**	**Patell Z**	**p-value**
(0, 1)	-0.66%	-2.021	0.0433
(0, 2)	-0.41%	-1.000	0.3173
(-1, 1)	-1.12%	-2.703	0.0069
(-1, 2)	-0.87%	-1.778	0.0755
(-2, 2)	-0.97%	-1.863	0.0625
(-5, +5)	-0.47%	-0.668	0.5041

Table XVII-a Value Impact of the use of External IR Consultants (short-term)

Table shows the mean cumulative abnormal returns (CARs) around the announcement of activism campaigns for six different event windows. Panel A presents results on activism campaigns led by prolific activists (with vs. without external IR). Panel B presents results on activism campaigns led by non-prolific activists (with vs. without external IR). The last column reports the p-value by comparing the CARs of two firm groups (with vs. without external IR) in both scenarios. I compute the abnormal returns as the difference between the actual stock price return and the expected market model (CRSP Value Weighted Index) return over the windows indicated in the first column. Market model has been estimated using 100 days of daily returns ending 40 days prior to the announcement date. I also report both the Patell Z-statistic and the corresponding p-value.

| | Panel A: Activism by Prolific Activists | | | | | | |
| | Firms without external IR | | | Firms with external IR | | | Differences |
Windows	Mean CAR	Patell Z	p-value	Mean CAR	Patell Z	p-value	p-value
(0, 1)	2.03%	28.523	<.0001	1.52%	6.745	<.0001	0.3751
(0, 2)	2.15%	24.939	<.0001	2.12%	6.142	<.0001	0.9573
(-1, 1)	2.48%	28.442	<.0001	2.25%	8.350	<.0001	0.7315
(-1, 2)	2.61%	26.060	<.0001	2.84%	7.781	<.0001	0.7383
(-2, 2)	2.85%	25.527	<.0001	2.90%	7.481	<.0001	0.9496
(-5, +5)	3.70%	22.355	<.0001	4.40%	7.249	<.0001	0.6127

| | Panel B: Activism by Non-Prolific Activists | | | | | | |
| | Firms without external IR | | | Firms with external IR | | | Differences |
Windows	Mean CAR	Patell Z	p-value	Mean CAR	Patell Z	p-value	p-value
(0, 1)	3.16%	44.377	<.0001	0.93%	7.745	<.0001	0.0000
(0, 2)	3.59%	39.546	<.0001	1.21%	7.015	<.0001	0.0000
(-1, 1)	3.47%	38.216	<.0001	1.00%	7.622	<.0001	0.0000
(-1, 2)	3.90%	35.963	<.0001	1.28%	7.200	<.0001	0.0000
(-2, 2)	4.00%	33.186	<.0001	1.19%	6.669	<.0001	0.0000
(-5, +5)	5.36%	28.695	<.0001	1.19%	4.740	<.0001	0.0000

Table XVII-b Value Impact of the use of External IR Consultants (long-term)

Table shows the long-term mean cumulative abnormal returns (CARs) after the activism campaigns for six different event windows. Panel A presents results on activism campaigns led by prolific activists (with vs. without external IR). Panel B presents results on activism campaigns led by non-prolific activists (with vs. without external IR). The last column reports the p-value by comparing the CARs of two firm groups (with vs. without external IR) in both scenarios. I compute the abnormal returns as the difference between the actual stock price return and the expected market model (CRSP Value Weighted Index) return over the windows indicated in the first column. Market model has been estimated using monthly returns ending three months prior to the announcement date. I also report both the Patell Z-statistic and the corresponding p-value.

Panel A: Activism by Prolific Activists							
Windows	Firms without external IR			Firms with external IR			Differences
(month)	Mean CAR	Patell Z	p-value	Mean CAR	Patell Z	p-value	p-value
(-1, -1)	1.81%	3.963	<0.0001	0.29%	0.692	0.489	0.3320
(-1, 0)	6.72%	12.213	<0.0001	3.70%	2.277	0.023	0.1678
(-1, 1)	6.66%	11.605	<0.0001	4.44%	1.961	0.050	0.1994
(-1, 6)	6.43%	9.637	<0.0001	4.63%	2.113	0.035	0.3993
(-1, 12)	6.24%	9.671	<0.0001	8.59%	2.346	0.019	0.8869
(-1, 18)	3.91%	9.842	<0.0001	13.31%	3.503	0.001	0.0248

Panel B: Activism by Non-Prolific Activists							
Windows	Firms without external IR			Firms with external IR			Differences
(month)	Mean CAR	Patell Z	p-value	Mean CAR	Patell Z	p-value	p-value
(-1, -1)	0.39%	-1.315	0.1885	-1.14%	-0.689	0.491	0.1835
(-1, 0)	4.90%	7.257	<0.0001	0.82%	1.913	0.056	0.0122
(-1, 1)	5.13%	5.754	<0.0001	2.30%	2.884	0.004	0.0000
(-1, 6)	6.31%	4.165	<0.0001	2.78%	3.295	0.001	0.0000
(-1, 12)	4.95%	4.295	<0.0001	-1.57%	2.137	0.033	0.0000
(-1, 18)	-0.22%	2.984	0.0028	-11.95%	1.886	0.059	0.0000

Table XVIII Market Response (CAR) at the Announcement of Management Winning Activism Campaign

Table shows the short-term mean cumulative abnormal returns (CARs) at the announcement of management winning activism campaign for six different event windows. Panel A presents results on firms without external IR. Panel B presents results on firms with external IR. The last column reports the p-value by comparing the CARs of two firm groups (with vs. without external IR). I compute the abnormal returns as the difference between the actual stock price return and the expected market model (CRSP Value Weighted Index) return over the windows indicated in the first column. Market model has been estimated using 100 days of daily returns ending 40 days prior to the announcement date. I also report both the Patell Z-statistic and the corresponding p-value.

	Announcement of Management Win						
	Panel A: Firms without external IR			Panel B: Firms with external IR			Differences
Windows	Mean CAR	Patell Z	p-value	Mean CAR	Patell Z	p-value	p-value
(0, 1)	0.67%	5.921	<.0001	-1.20%	-4.458	<.0001	0.0086
(0, 2)	0.46%	3.232	0.0012	-1.16%	-4.039	<.0001	0.0167
(-1, 1)	0.98%	6.283	<.0001	-0.78%	-3.185	0.0015	0.0221
(-1, 2)	0.77%	4.056	<.0001	-0.74%	-3.099	0.0019	0.0355
(-2, 2)	0.88%	4.314	<.0001	-0.78%	-2.976	0.0029	0.0406
(-5, +5)	1.28%	3.780	0.0002	-0.18%	-0.590	0.5553	0.4379

Table XIX: Controlling for the Support of Proxy Advisors

The results in this table use ordered logit model where the dependent variable is management win, settlement, or activist win. The main independent variable is whether the targeted firm has hired an external IR consultant or not. I further categorize all the dissidents each year into the most prolific activists and less prolific based on the number of campaigns they initiated in the prior year. I include the top fifty such activists in the most prolific list and the rest as non-prolific activists. Panel A are the results from all campaigns, and Panel B are the results from campaigns run by the less prolific activists. Standard errors are reported in parentheses (* p<0.10, ** p<0.05, *** p<0.010).

Support of Glass Lewis

	Panel A: All Activists			Panel B: Non-Prolific Activists			Panel C: Prolific Activists		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt
	All	Fight	Solicitation	All	Fight	Solicitation	All	Fight	Solicitation
IR_Dummy	0.449	0.525	0.325	0.906**	0.976**	0.875**	-0.083	-0.600	-0.083
	(0.320)	(0.343)	(0.316)	(0.362)	(0.383)	(0.405)	(0.505)	(0.873)	(0.505)
lag_Log (MV)	0.000*	0.000	0.000*	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
lag_Institutional Ownership	-0.136	-0.203	-0.399	0.061	-0.111	-0.309	-0.065	-0.151	-0.065
	(0.442)	(0.490)	(0.460)	(0.514)	(0.578)	(0.560)	(0.913)	(1.050)	(0.913)
lag_Leverage	0.680**	0.791**	0.562*	0.546	0.691	0.544	0.255	0.324	0.255
	(0.302)	(0.379)	(0.329)	(0.360)	(0.445)	(0.396)	(0.777)	(1.198)	(0.777)
lag_M/B	-0.147**	-0.134	-0.118	-0.137	-0.198	-0.036	-0.053	0.342	-0.053
	(0.073)	(0.124)	(0.080)	(0.141)	(0.140)	(0.151)	(0.184)	(0.354)	(0.184)
lag_Dividend Yield	0.446	0.453	0.357	0.351	0.377	0.305	28.252*	22.399	28.252*
	(0.335)	(0.339)	(0.295)	(0.282)	(0.294)	(0.277)	(16.440)	(25.214)	(16.440)
Glass Lewis Support	0.657	-0.917	0.783	1.442*	11.144***	1.490*	0.722	0.306	0.722
	(0.556)	(1.223)	(0.558)	(0.824)	(1.129)	(0.840)	(0.897)	(1.513)	(0.897)
cut1									
Constant	-2.183**	-1.792	-2.366**	-1.884**	-1.196***	-2.016**	-2.253	-1.318	-2.253
	(1.060)	(1.183)	(1.089)	(0.867)	(0.375)	(0.960)	(2.104)	(2.283)	(2.104)
cut2									
Constant	-0.517	-0.188	-0.628	-0.330	0.342	-0.396	-0.015	0.943	-0.015
	(1.061)	(1.185)	(1.088)	(0.890)	(0.394)	(0.982)	(2.074)	(2.312)	(2.074)
N	350	252	290	254	199	194	96	53	96
pseudo R-sq	0.068	0.102	0.049	0.102	0.147	0.079	0.070	0.082	0.070

Support of ISS

	Panel A: All Activists			Panel B: Non-Prolific Activists			Panel C: Prolific Activists		
	(1)	(2) Excluding Proxy Fight	(3) Excluding Exempt Solicitation	(4)	(5) Excluding Proxy Fight	(6) Excluding Exempt Solicitation	(7)	(8) Excluding Proxy Fight	(9) Excluding Exempt Solicitation
	All			All			All		
IR_Dummy	0.466	0.498	0.350	0.897**	0.995***	0.863**	-0.287	-0.600	-0.287
	(0.315)	(0.336)	(0.307)	(0.358)	(0.382)	(0.402)	(0.433)	(0.873)	(0.433)
lag_Log (MV)	0.000*	0.000	0.000*	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
lag_Institutional Ownership	-0.075	-0.220	-0.327	0.106	-0.101	-0.252	0.114	-0.151	0.114
	(0.439)	(0.489)	(0.456)	(0.513)	(0.577)	(0.559)	(0.913)	(1.050)	(0.913)
lag_Leverage	0.666**	0.784**	0.540*	0.547	0.693	0.540	0.019	0.324	0.019
	(0.298)	(0.378)	(0.323)	(0.354)	(0.447)	(0.389)	(0.751)	(1.198)	(0.751)
lag_M/B	-0.144**	-0.135	-0.113	-0.129	-0.201	-0.027	0.004	0.342	0.004
	(0.072)	(0.125)	(0.078)	(0.139)	(0.140)	(0.146)	(0.178)	(0.354)	(0.178)
lag_Dividend Yield	0.459	0.449	0.368	0.349	0.369	0.306	22.892	22.399	22.892
	(0.334)	(0.341)	(0.293)	(0.284)	(0.295)	(0.279)	(15.121)	(25.214)	(15.121)
ISS Support	1.008*	-0.496	1.091*	0.894	-0.062	0.917	1.924*	0.306	1.924*
	(0.570)	(0.783)	(0.575)	(0.656)	(0.816)	(0.675)	(1.056)	(1.513)	(1.056)
cut1									
Constant	-2.149**	-1.802	-2.323**	-1.833**	-1.196***	-1.952**	-2.118	-1.318	-2.118
	(1.057)	(1.184)	(1.085)	(0.862)	(0.376)	(0.953)	(2.059)	(2.283)	(2.059)
cut2									
Constant	-0.473	-0.199	-0.574	-0.291	0.342	-0.348	0.195	0.943	0.195
	(1.058)	(1.186)	(1.084)	(0.887)	(0.395)	(0.977)	(2.021)	(2.312)	(2.021)
N	350	252	290	254	199	194	96	53	96
pseudo R-sq	0.072	0.101	0.053	0.097	0.146	0.072	0.097	0.082	0.097

Support of Glass Lewis or ISS

	Panel A: All Activists			Panel B: Non-Prolific Activists			Panel C: Prolific Activists		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt
	All	Fight	Solicitation	All	Fight	Solicitation	All	Fight	Solicitation
IR_Dummy	0.468	0.498	0.351	0.911**	0.995***	0.883**	0.003	-0.600	0.003
	(0.315)	(0.336)	(0.311)	(0.360)	(0.382)	(0.404)	(0.493)	(0.873)	(0.493)
lag_Log (MV)	0.000*	0.000	0.000*	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
lag_Institutional Ownership	-0.112	-0.220	-0.367	0.097	-0.101	-0.265	-0.023	-0.151	-0.023
	(0.440)	(0.489)	(0.457)	(0.513)	(0.577)	(0.559)	(0.890)	(1.050)	(0.890)
lag_Leverage	0.674**	0.784**	0.551*	0.547	0.693	0.539	0.263	0.324	0.263
	(0.300)	(0.378)	(0.325)	(0.355)	(0.447)	(0.390)	(0.768)	(1.198)	(0.768)
lag_M/B	-0.145**	-0.135	-0.115	-0.126	-0.201	-0.021	-0.055	0.342	-0.055
	(0.073)	(0.125)	(0.079)	(0.140)	(0.140)	(0.149)	(0.182)	(0.354)	(0.182)
lag_Dividend Yield	0.446	0.449	0.360	0.359	0.369	0.316	29.032*	22.399	29.032*
	(0.336)	(0.341)	(0.295)	(0.283)	(0.295)	(0.279)	(16.872)	(25.214)	(16.872)
Glass Lewis or ISS Support	0.425	-0.496	0.542	1.023*	-0.062	1.083*	0.449	0.306	0.449
	(0.497)	(0.783)	(0.500)	(0.620)	(0.816)	(0.632)	(0.869)	(1.513)	(0.869)
cut1									
Constant	-2.161**	-1.802	-2.338**	-1.837**	-1.196***	-1.958**	-2.216	-1.318	-2.216
	(1.056)	(1.184)	(1.084)	(0.865)	(0.376)	(0.958)	(2.097)	(2.283)	(2.097)
cut2									
Constant	-0.501	-0.199	-0.606	-0.291	0.342	-0.347	0.010	0.943	0.010
	(1.058)	(1.186)	(1.083)	(0.889)	(0.395)	(0.983)	(2.070)	(2.312)	(2.070)
N	350	252	290	254	199	194	96	53	96
pseudo R-sq	0.066	0.101	0.046	0.098	0.146	0.075	0.066	0.082	0.066

Table XX: Controlling for whether Activist has IR

The results in this table use ordered logit model where the dependent variable is management win, settlement, or activist win. The main independent variable is whether the targeted firm has hired an external IR consultant or not. I further categorize all the dissidents each year into the most prolific activists and less prolific based on the number of campaigns they initiated in the prior year. I include the top fifty such activists in the most prolific list and the rest as non-prolific activists. Panel A are the results from all campaigns, and Panel B are the results from campaigns run by the less prolific activists. Standard errors are reported in parentheses (* p<0.10, ** p<0.05, *** p<0.010).

	Panel A: All Activists			Panel B: Non-Prolific Activists			Panel C: Prolific Activists		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt		Excluding Proxy	Excluding Exempt
	All	Fight	Solicitation	All	Fight	Solicitation	All	Fight	Solicitation
IR_Dummy	0.495	0.485	0.392	0.845**	0.971**	0.842**	0.099	-0.735	0.099
	(0.310)	(0.342)	(0.306)	(0.360)	(0.388)	(0.402)	(0.517)	(0.757)	(0.517)
lag_Log (MV)	0.000*	0.000	0.000*	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
lag_Institutional Ownership	-0.108	-0.221	-0.345	0.063	-0.120	-0.355	-0.374	-1.816	-0.374
	(0.440)	(0.496)	(0.455)	(0.514)	(0.575)	(0.574)	(0.850)	(1.575)	(0.850)
lag_Leverage	0.677**	0.779**	0.534*	0.518	0.687	0.521	0.319	0.956	0.319
	(0.303)	(0.383)	(0.323)	(0.348)	(0.441)	(0.390)	(0.756)	(1.528)	(0.756)
lag_M/B	-0.145**	-0.131	-0.111	-0.124	-0.186	0.009	-0.065	0.432	-0.065
	(0.073)	(0.125)	(0.078)	(0.137)	(0.141)	(0.127)	(0.178)	(0.479)	(0.178)
lag_Dividend Yield	0.428	0.460	0.351	0.313	0.381	0.285	30.391*	26.373	30.391*
	(0.335)	(0.342)	(0.297)	(0.283)	(0.293)	(0.278)	(16.980)	(28.986)	(16.980)
Activist with IR	-0.115	-0.005	0.238	0.434	0.591	1.906	-1.827	-4.401**	-1.827
	(0.511)	(0.589)	(0.707)	(0.777)	(0.798)	(1.371)	(1.169)	(1.738)	(1.169)
cut1									
Constant	-2.155**	-1.793	-2.310**	-1.850**	-1.181***	-1.965**	-2.484	-2.173	-2.484
	(1.055)	(1.184)	(1.080)	(0.871)	(0.373)	(0.972)	(2.179)	(2.339)	(2.179)
cut2									
Constant	-0.500	-0.191	-0.588	-0.320	0.364	-0.364	-0.209	0.353	-0.209
	(1.057)	(1.187)	(1.080)	(0.894)	(0.396)	(0.996)	(2.146)	(2.322)	(2.146)
N	350	252	290	254	199	194	96	53	96
pseudo R-sq	0.065	0.101	0.043	0.092	0.148	0.075	0.077	0.151	0.077

Table XXI: Controlling for Stock Return and Stock Volatility

This table reports the results using logistic regression analysis where the dependent variable is a campaigns dummy (i.e., 1 = targeted in an activism campaign and 0 = not targeted in an activism campaign) and the main independent variable is whether the incumbent management has hired an external IR firm or not. All the models have industry and year fixed effects and have been clustered at the firm level. Standard errors are reported in parentheses (* $p<0.10$, ** $p<0.05$, *** $p<0.010$).

	(1) Dummy (Targeted within sample period After IR is Hired)	(2) Dummy (Targeted within 3 years After IR is Hired)	(3) Dummy (Targeted within 2 year After IR is Hired)	(4) Dummy (Targeted within 1 year After IR is Hired)
IR_Dummy	-0.159**	-0.145**	-0.113*	-0.109
	(-2.49)	(-2.21)	(-1.69)	(-1.56)
lag_Size	-0.050*	-0.084***	-0.086***	-0.078***
	(-1.81)	(-3.04)	(-3.02)	(-2.64)
lag_M/B	-0.018***	-0.019***	-0.017***	-0.026***
	(-2.86)	(-2.79)	(-2.58)	(-2.96)
lag_Sales Growth	-0.058*	-0.099**	-0.097*	-0.142**
	(-1.68)	(-2.07)	(-1.85)	(-2.31)
lag_ROA	-0.103	-0.141	-0.189	-0.277
	(-0.62)	(-0.81)	(-1.08)	(-1.38)
lag_Leverage	0.135**	0.138**	0.127**	0.106**
	(2.31)	(2.29)	(2.25)	(2.10)
lag_Dividend Yield	-0.702	-1.541	-2.581**	-1.825
	(-1.16)	(-1.56)	(-1.97)	(-1.59)
lag_R&D/TA	-0.208	-0.324	-0.466	-0.546
	(-0.61)	(-0.90)	(-1.24)	(-1.31)
lag_Institutional Ownership	0.007	0.005	0.003	0.002
	(0.43)	(0.36)	(0.25)	(0.22)
lag_No. of Analyst	0.169***	0.154***	0.151***	0.168***
	(4.13)	(3.68)	(3.52)	(3.83)
lag_liquidity	0.043	0.078	0.051	0.091
	(0.37)	(0.67)	(0.35)	(0.58)
Stock Return	-0.153***	-0.204***	-0.214***	-0.217***
	(-3.87)	(-4.66)	(-4.49)	(-4.12)
Stock Volatility	0.426***	0.357**	0.375**	0.431***
	(3.06)	(2.43)	(2.40)	(2.59)
Constant	0.771	0.114	-0.076	-0.417
	(1.15)	(0.13)	(-0.09)	(-0.48)
Fixed Effects	Y	Y	Y	Y
N	5366	4819	4605	4371
pseudo R-sq	0.107	0.107	0.103	0.106

Table XXII: Variation in Outcome Results based on Different Types of Activists' Demands

The results in this table use logit model where the dependent variable is management win or activist win (excluding cases that are settled between management and activist). The main independent variable is whether the targeted firm has hired an external IR consultant or not. Model (1) covers activisms with all different types of demands. Model (2) and (3) look at activisms with general demand as "maximize shareholder value" or "more specific demands". Standard errors are reported in parentheses (* $p<0.10$, ** $p<0.05$, *** $p<0.010$).

	(1) All	(2) Demand: Maximize Shareholder Value	(3) Demand: Other More Specific
IR_Dummy	1.055*	5.579**	0.887
	(0.591)	(2.725)	(0.689)
lag_Log (MV)	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)
lag_Institutional Ownership	-0.468	-2.515	-0.013
	(0.666)	(2.647)	(0.826)
lag_Leverage	1.389**	9.575*	0.871
	(0.595)	(5.134)	(0.691)
lag_M/B	-0.086	-3.819	-0.141
	(0.132)	(2.634)	(0.149)
lag_Dividend Yield	0.132	-0.490	7.671
	(0.314)	(0.671)	(10.602)
Constant	1.306	4.710	0.569
	(1.259)	(3.273)	(1.189)
N	241	30	194
pseudo R-sq	0.137	0.573	0.129

Figure 1 Anatomy of Activism Campaigns

The figure demonstrates how shareholder activists challenge the status quo of a target firm in different ways and stages. The first sign of potential activism campaign is 13D filing, which is required for shareholders with more than 5% of a company's shares. Activism campaigns can be broadly classified into two categories, namely, private negotiations and public negotiations. And public negotiations can be further categorized into Exempt Solicitation, Stockholder Campaign, and Proxy Fight.
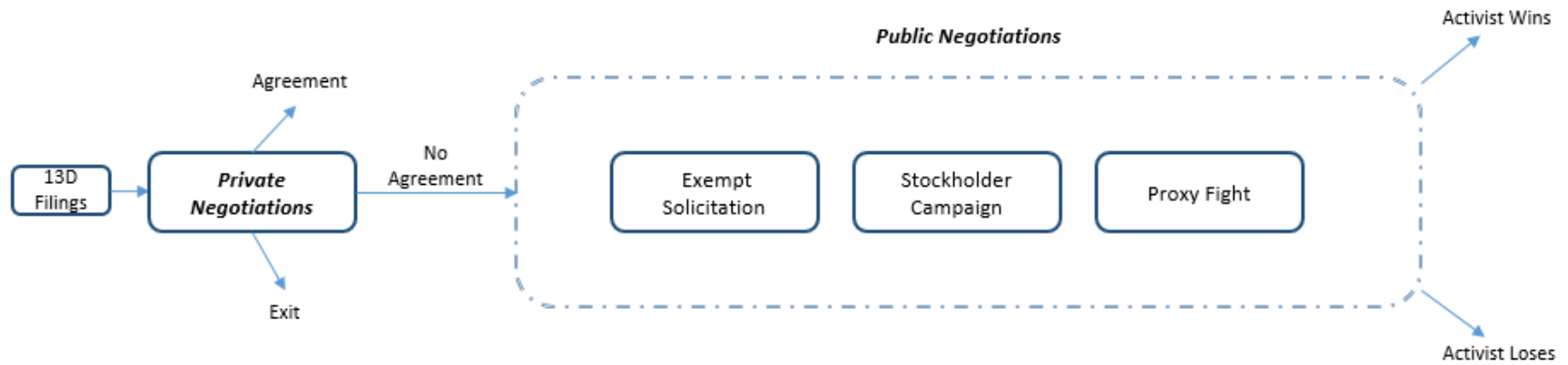
Figure 2 Trends in Activism Campaigns and Average Amount Spent on Hiring Top-Tier IR Consultants

The figure depicts two trends over my sample period from 2003 to 2014. The grey line shows the increasing trend of the average dollar amount spent per year by a publicly listed client for hiring a top-tier IR firm. The orange line shows the rising trend in shareholder activism during the sample period.