

2010

# Activist Investor Impact on CEO Compensation of Investment Targets

Eric Zacharias

*Claremont McKenna College*

---

## Recommended Citation

Zacharias, Eric, "Activist Investor Impact on CEO Compensation of Investment Targets" (2010). *CMC Senior Theses*. Paper 2.  
[http://scholarship.claremont.edu/cmc\\_theses/2](http://scholarship.claremont.edu/cmc_theses/2)

This Open Access Senior Thesis is brought to you by Scholarship@Claremont. It has been accepted for inclusion in this collection by an authorized administrator. For more information, please contact [scholarship@cuc.claremont.edu](mailto:scholarship@cuc.claremont.edu).

**CLAREMONT McKENNA COLLEGE**

**ACTIVIST INVESTOR IMPACT ON CEO COMPENSATION OF INVESTMENT  
TARGETS**

SUBMITTED TO

PROFESSOR HENRIK CRONQVIST

BY

ERIC ZACHARIAS

FOR

SENIOR THESIS

FALL 2010

NOVEMBER 29, 2010



## Table of Contents

<b>Abstract</b> .....	<b>4</b>
<b><u>I. Introduction</u></b> .....	<b>5</b>
<b><u>II. Literature Review</u></b> .....	<b>7</b>
<b><u>III. Data</u></b> .....	<b>11</b>
<b>A. Data Sources and Selection</b> .....	<b>11</b>
<b>B. Metrics and Summary Statistics</b> .....	<b>12</b>
<b><u>IV. Methodology</u></b> .....	<b>16</b>
<b><u>V. Results</u></b> .....	<b>19</b>
<b>A. Total Compensation</b> .....	<b>19</b>
<b>B. Bonus Compensation</b> .....	<b>20</b>
<b>C. Salary Compensation</b> .....	<b>21</b>
<b>D. NEI Compensation</b> .....	<b>22</b>
<b>E. RSU Compensation</b> .....	<b>23</b>
<b>F. Option Compensation</b> .....	<b>24</b>
<b><u>VI. Conclusion</u></b> .....	<b>25</b>
<b>References</b> .....	<b>28</b>
<b>Tables</b> .....	<b>29</b>
<b>Regression Tables</b> .....	<b>34</b>

### **Abstract**

This paper examines the “activist effect” on the levels and structures of CEO compensation when a company is targeted by a sample of activist groups. Activist investors are focused funds that use their resources to influence management of target investments in an effort to increase shareholder value. Due to their efforts to impose return enhancing agendas on the management of targets, activists have developed a reputation as “raiders” and are commonly feared by management. In this paper, the nature of activist investing is discussed, including a review of previous research on activism, and an explanation of why compensation changes are a logical focus for extension of the previous research. The study is based on a sample of hand-collected data of 53 activist investments from 2007 to 2008. This analysis finds that contrary to fears, evidence suggests that the presence of an activist – particularly larger more famous activist investors – is associated with an increase in total CEO compensation achieved through a change in compensation structure.

## **I. Introduction**

This paper will examine whether activist investors have had a meaningful impact on chief executive officer (CEO) compensation in corporations targeted by activist groups. While shareholder activism is by no means a new phenomenon, hedge funds focused on activist investing campaigns are a relatively recent development. As discussed in Gillan and Starks' (2007) paper, *The evolution of shareholder activism in the United States*, traditional shareholder activism by pension and mutual funds has long sought to work with management of targeted firms to increase value. But, such funds' influence over management has been stymied for a variety of reasons, most notably strict regulation and conflicts of interest. Activist hedge-funds and activist investors have emerged as a significant force over the past decade. They tailor their investment selections, and pursue activist strategies, to establish financial and operational controls over their investment targets with the intention of unlocking shareholder value. In the end, if the activists' intervention is successful, shareholders could realize a substantial increase in their stock's value.

Activists are distinct from institutional shareholders on several accounts. First, activist investors and activist hedge funds face lighter regulatory burdens than traditional investment firms. The lack of strict regulation allows activists to adapt their portfolios to best suit the fund's interest and increase the influence on the management of their investments (Black 1998). Due to the fact that activist funds are accessible only to institutional clients and not the public, activist funds do not need to maintain a diversified portfolio, allowing these activist groups to take large stakes in a few investments. Thus,

by controlling a large number of a target company's shares, activists hold significant power to push across their agendas.<sup>1</sup>

Second, activist funds are focused exclusively on maximizing shareholder value. Activist fee structures are generally based on a portion of excess returns. As a result, fund managers can direct all of their efforts towards achieving short and long-term profit objectives. They avoid building the relationships and pursuing the non-return driven agendas with the target company that are commonplace with institutional investors (Black 1998).

These advantageous investing conditions have allowed activist investors to become very successful in producing increased shareholder returns, as summarized by Karpoff (2001). Brav, Jiang, and Kim's (2010) survey of research on activism provides clear evidence that activist funds are quite accomplished in "achieving the goals of creating value for shareholders by effectively influencing the governance, capital structure decisions, and operating performance of the target companies." They found 5-10% excess returns after the initial investment of activists (Brav, Jian, and Kim 2010). Ryan (2006) concluded that activism events that focus on the sale of the target firm and changes in a business' strategies produce the highest short-term jumps in returns. Furthermore, Boyson and Moordian's (2007) long-term analysis shows that there is little to no reversion over multiple years following intervention, indicating the value creation is both genuine and justified.

In light of the recent economic recession, executive compensation practices have been increasingly in the public eye. The risk-encouraging compensation practices, including the issuance of stock options and restricted stock units (RSU), have been

---

<sup>1</sup> Typical activist agendas will be discussed later in this paper

addressed by some as a potential cause of the banking collapse. As a result, compensation levels, and the composition of compensation, of top executives has faced increased scrutiny.

It would follow that activists would move to reduce a CEO's compensation package if they deem the CEO to be markedly overpaid, but would be willing to increase incentive-based to create an environment that would more effectively lead to maximized shareholder value. Activists would, ideally, see this increase in incentive based pay simultaneously with a decrease in stock options issued to CEOs because stock options encourage risky behavior that may artificially increase shareholder value in the short-term, but not be in shareholder's interest in the long-run.

## **II. Literature Review**

Due to the fact that focused activist hedge funds and activist investors have only existed for a short period of time, research on activist investment funds is relatively limited and focused almost exclusively on market reactions and firm performance (Brav, Jiang, and Kim 2010). Though some previous research classifies the intentions of shareholder activism over a large sample of activist campaigns, the matter of potential influence on corporate governance and executive compensation has not been analyzed in previous work. Furthermore, there is a dearth of research on activist campaigns since the early to mid 2000s. As stakeholder activism has evolved, so too must the research on the effect of activist efforts. The majority of prior literature on activism (Gillan and Stark 1996, Karpoff 2001) focuses mainly on the shareholder activism of the late 80's and 90's as opposed to fund activism of the new millennium. Early shareholder activism consisted



of considerably more passive campaigning geared towards monitoring boards of directors (Ryan 2006). These institutional shareholders faced vast regulatory impediments, conflicts of interest, and other barriers that often rendered their activist intents ineffectual (Brav, Jiang, and Kim 2010).

Bratton (2007) breaks down activist agendas for target investments into five major objectives: undervaluation, capital structure issues, business strategy, the sale of the target company, and governance concerns that are depressing value. Often activist get involved in a company with more than one of the aforementioned agendas in mind as they may push for agendas that institute reform on many levels to realize maximum shareholder return.

Agendas revolving around the “undervaluation” thesis are generally the most passive. In this scenario, activist investors seek to communicate with management to help the company achieve its true intrinsic value. Capital structure oriented agendas seek to address the firm’s payout policies and general structure. Activists generally aim to generate higher payoffs for all shareholders through potential increases in leverage, dividends, or share repurchases. Strategy related agendas focus on making the business operation most efficient. These include growth strategies, restructuring, mergers and acquisitions strategies, or streamlining the focus of the firm.

Agendas which focus on the selling of a company of interest and on the corporate governance of a company of interest are often seen in conjunction with more aggressive tactics on the activist investor’s part (Greenwood and Schor 2009). When activists identify an investment with an agenda to sell the business, they often attempt to force the sale to a third party via a proxy fight. Or, the activist firm itself moves to purchase a

majority holding in the target. Holderness and Sheehan (1984) theorize that despite evidence of the success of activist investors in generating positive excess returns for shareholders, these aggressive tactics have created a negative connotation for activist funds as “corporate raiders” and “notorious opportunists”.

Governance agendas also have a tendency to result in aggressive tactics. According to Brav, Jiang, Partnoy, and Thomas (2008) these governance agendas include policies as drastic as removing and replacing the CEO, running for board seats, getting rid of takeover defenses, and reforming executive compensation to better align the firm with fair compensation and shareholder objectives.

The emerging activist fund industry, this decade, is outfitted with stronger financial incentives, greater investable capital, and fewer regulations that allow them to pursue agendas that shareholders and institutional investors formerly could not (Brav, Jiang, Partnoy, and Thomas 2008). Unlike institutional investors and traditional shareholders, activist funds do not need to maintain balanced portfolios, often allocating a significant portion of their capital base to a concentrated investment (Ryan 2006). With large-scale investments, activist funds seek to influence the target company based on a series of tactics which they believe will result in a sizeable increase in shareholder return, on which the funds management fees are based. Activists typically pursue board seats to further pressure management to take action.

Due to this recent rise of specialized activist funds, there has been a spike in activist events stemming from campaigns of such investors. Klein and Zur published a paper in 2006 which examined 194 hedge-fund activist events between 2003 and 2005.

However, they omitted activist events in which the funds did not issue a 13D form.<sup>2</sup> A more recent study covers a sample of 1,059 activist fund events between 2001 and 2006, and analyzes the activist objectives and abnormal returns following these events (Brav, Jiang, Partnoy, and Thomas, 2008). Other papers by Boyson and Mooradian (2007) and Clifford (2005) also look at hedge fund activism prior to 2005 and both focus entirely on stock reactions.

There is a surprising lack of analysis of activist events in the latter half of this decade in the published research. During this time period, the markets have seen a great deal of volatility and consolidation, presenting ample opportunity for activist funds to identify undervalued and underperforming companies to invest in and correct. Concurrent to the market volatility in the second half of the decade, excessive and misaligned executive compensation has emerged as a major public and fiduciary issue.

It follows, then, that activist funds, which traditionally have monitored companies' boards and management, would take a particular interest in attempting to reform executive compensation practices among their investments as a way to align executives' interests with that of shareholders. While Brav, Jiang, Partnoy, and Thomas' paper indicates 50 of the 1059 activist events focused primarily on excessive compensation, there is minimal research done on the actual impact of activist investment on the size and structure of executive compensation. This paper seeks to evaluate how, if at all, the presence of an activist investor changes CEO compensation with the expectation that the activist presence is positively associated with incentive based pay (RSUs and Non-Equity Incentive (NEI) plans), but

---

<sup>2</sup> 13Ds are Securities and Exchange Commission (SEC) filings that must be issued once an investor goes over a 5% stake in an investment

negatively related with option compensation and, to a lesser degree, fixed pay (bonus and salary).

### **III. Data**

#### *A. Data Sources and Selection*

To begin this study, activist investment events between 2007 and 2009 were identified. Since there “is no centralized database of . . . activism” as acknowledged by Brav, Jiang, and Kim (2010), to find usable events for this paper, a selection criterion of activist investors and activism focused hedge funds needed to be established. Using Lawyerlinks.com, a database for legal research, a list was compiled of investment firms legally classified as activists.<sup>3</sup> From this source, a collection of 49 activism-focused funds were found. While this selection is not an exhaustive database, it provided a representative group of the most active and publicly identifiable activist funds. That collection of funds was then narrowed down by eliminating those which did not fit within the parameters of this paper.<sup>4</sup>

The next step was to identify when the study set of activist funds made their initial investments in their target companies. The observation period for initial investments focuses on 2006-2008 due to the fact that a change in compensation reporting, specifically how option vesting and recognition is reported, took place in 2005. In an effort to compare apples to apples, the investment window was selected to reflect compensation changes occurring in a time of constant reporting standards. Furthermore, in order to observe changes in executive compensation, both preceding and trailing data was required. Thus, with at least 2005

---

3

[http://content.lawyerlinks.com/default.htm#http://content.lawyerlinks.com/sec/Proxy/activist\\_shareholders/shareholders/activist\\_shareholders\\_f\\_m.htm](http://content.lawyerlinks.com/default.htm#http://content.lawyerlinks.com/sec/Proxy/activist_shareholders/shareholders/activist_shareholders_f_m.htm)

<sup>4</sup> Eliminated funds did not have searchable 13F filings or the fund did not exist throughout the 2005-2009 timeframe.

compensation as a base, and 2009 compensation as trailing data, any initiated transaction in the interim would provide sufficient data for comparison.

Using 13F filings<sup>5</sup> initial investments were identified for the funds. Firms with over 70 holdings at a given time period proved too daunting a task to piece together initial investments and had to be excluded from the data set, as did funds that failed to make any investments between 2006 and 2008. Useable transactions were defined as those that were initiated in the time frame, not sold or taken private, and held for 3 or more quarters by the activist, indicating a serious and long term commitment on the part of the investor. With these parameters used to identify relevant activist investors and transactions, a final subsample of investment targets was compiled. That data set included 12 activist investors and 67 activist events (see Table 1). While this is a relatively small sample, it is a quite diverse set of actors with total AUM ranging from \$100 million to \$18.5 billion.<sup>6</sup>

### *B. Metrics and Summary Statistics*

Once the investor and initial investment data was defined, the executive compensation data for the companies in which the activist funds invested was gathered, using ExecuComp on the WRDS database.<sup>7</sup> Data was collected for both the overall level of compensation (total executive compensation) and for the structure of the compensation. Compensation elements evaluated included: total options, total restricted stock units (RSU), total salary, total bonus, total non-equity incentives (NEI), and total “other annual compensation” of the companies from 2005-2009. There were several companies that did not have any accessible

---

<sup>5</sup> SEC filings in which all institutional investment managers who are managing over \$100 million on the last trading day of any month of the calendar year must disclose their holdings on a quarterly basis

<sup>6</sup> Table 2 shows summary stats of activist investor sample

<sup>7</sup> <http://wrds-web.wharton.upenn.edu/wrds/>

compensation data because they were too small, and were accordingly cut from the study leaving the sample of usable initial investments at 53.<sup>8</sup> Table 3 shows the participant target companies after the elimination process.

A simple observation of trends in the executive compensation data shows the dynamic compensation landscape from 2007-2009. Table 4 presents the total compensation on an annual basis (represented in millions USD) of the companies targeted by activist groups in the study sample. The mean total compensation of CEOs in the sample declined from \$10.7 million in 2005 to a mean of \$7.8 million in 2009.

As shown in Table 4, a significant drop in compensation occurred after 2006. A drop of this magnitude (over 25%) could be due to the recessionary environment in which the managers were operating (failing to hit incentive targets and devaluation in stock options). With that being said, these years (2007 and 2008) are also the years of activist entry under investigation in this paper, and the impact of the activists will be fleshed out in the analysis portion of this research. In order to do so, I will control for year specific effects to separate them from activist influences.

When compared to the total compensation of the entire ExecuComp universe (S&P 1500) as seen in Table 10, statistics may reveal that compensation is a factor in investment selection of activists. The mean total CEO compensation of the activist target selection in the screening years (2005 and 2006) is considerably higher than that of the S&P 1500 universe. On average, the activist targets' CEOs received \$1.15 million and \$1.48 million more in 2005 and 2006, respectively.<sup>9</sup> Surprisingly, however, the difference between CEO total compensation in companies influenced by activists and the S&P 1500 universe is even higher.

---

<sup>8</sup> ExecuComp covers only the S&P 1500 universe, data is uncollectable for companies not included in the S&P 1500

<sup>9</sup> Equivalent to 10.8% and 14.6% in 2005 and 2006

In the year trailing the activist intervention examined in this paper (2009), CEOs of activist targeted firms received 31.8% higher total compensation. This could be attributed to one of several potential causes. First, if activists influence compensation directly, they move to increase total CEO compensation in an effort to ingratiate themselves with management to better achieve subsequent goals. Second, activists may simply improve the performance of target companies and the CEO is being rewarded for company performance. Third, conflict with the CEO at the time of the activist's investment may result in an effort to force out the underperforming CEO, and replace with a new CEO who warrants higher compensation.<sup>10</sup>

Looking at the summary statistics of the subcategories of compensation as a percent of the total annual compensation similarly indicates sizeable shifts in the years of activist investor initial investment. Tables 5 through 9 represent the various components of compensation as a percent of the total CEO compensation package in each year from 2005-2009. The trends in each of these factors of compensation are in line with expectations of compensation reform in worsening operational conditions.

It makes sense that executives would be compensated with a lower proportion of guaranteed pay (salary and bonus) on the heels of weakening performance resulting from the economic contraction and reduced spending.<sup>11</sup> The observable drop in bonus from about 7% of executive compensation in 2006 to 2.5% in 2009, and salary comprising 24.5% of total compensation dwindling to less than 18% of pay would be in line with activist investors' desire for executives to earn their compensation packages through increasing returns and reaching targets that would lead to increased shareholder value.

---

<sup>10</sup> This possibility is controlled for in the regressions with the CEO tenure variable

<sup>11</sup> As seen in Table 5 (salary) and Table 6 (bonus)

Further evidence of the trend of moving from guaranteed pay to conditional compensation can be seen by the increase in non-equity incentive plan pay and restricted stock units issued (as percentages of total compensation) as the decade progressed.<sup>12</sup> A non-equity incentive (NEI) plan (also known as Long-Term Incentive plans) is performance-based pay where executives are compensated based on their company's success at meeting operational targets set by the firm's compensation committee as fair goals and expectations. Logically, activists prefer a heavy portion of compensation tied to performance as the company's performance tends to translate into jumps in valuation. This trend is evident in the data over the last 5 years as NEI plans have expanded from under 4% to over 21% of total executive compensation.

Restricted stock units (RSUs) are a form of conditional equity compensation that, unlike options, are not excessively risky. RSUs are equity grants to be made to the executive if shares of the company reach a certain level within a designated time frame. RSU grants directly align the executive's financial interests with both the company's and investors' interests. In the sample of executives used for this paper, RSUs as a percent of compensation increased in linear fashion over time, and nearly doubled (from 16% to 32%) during the years of activist entry into the sample firms.

Options, like RSUs, are another form of conditional equity compensation. However, the risky nature of options has been in the focus of compensation critics, and a source of blame for the financial crisis. Options become more valuable (more likely to be "in the money") as the volatility of the company increases. The decrease in options granted as a percentage of compensation (as seen in Table 9) is evident over the time horizon of our data set and could be attributed to various factors. Options accounted for an average of over 42%

---

<sup>12</sup> As seen in Table 7 (NEI) and Table 8 (RSU)



of compensation in 2005, but only 17% of compensation in 2009. While activist investors might push for this change, it could also be a naturally occurring trend spurred by the increased public scrutiny and the fact that options issued to executives in the recessionary period might not vest if their businesses are in decline. Table 11 shows a graphical representation of the evolution in CEO compensation structure from 2005 to 2009. The actual cause of the changes in the level of total compensation and proportions of each payout method will be discussed in the methods and results portions of this paper.

In addition to this historical compensation data, other variables that might play a factor in the compensation landscape were collected including both general company metrics such as market cap as well as indicators of the activist investor's power and reputation including Assets Under Management (AUM) and references in the Wall Street Journal (WSJ) since 2008. These variables will demonstrate whether the individual activists have a varied effect determined by their size and publicity. In a way, these new metrics will magnify the "activist presence" variable and could reflect an impact on compensation that is masked by the limited influence of smaller, less well known activists. If larger more famous activists are successful at influencing CEO compensation, the amplified AUM and WSJ terms will be more meaningful. To construct these variables, the dummy variable for the activist presence is multiplied with the total AUM or WSJ variable

#### **IV. Methodology**

To analyze the impact of the involvement of activist investment firms on CEO compensation, each measure of compensation was regressed, using Ordinary Least Squares (OLS), on a series of control variables as well as the activist investor variables. In order to

determine whether the activist variables have a tangible effect on the target company's compensation structure and compensation levels, I will control for other factors that could impact the compensation landscape. In the absence of other potential compensation drivers, the activist variables may just be a proxy for the missing necessary information. The drivers of compensation were broken down into three subcategories: firm characteristics, executive characteristics, and activist characteristics. Firm characteristics are traits or attributes of the target investment independent of other firms, or outside influences.

Variables such as the market value of the firm and the industry in which the firm operates are two factors that could explain changes in compensation from 2005 to 2009. It would follow that in a period of increased scrutiny of compensation in certain sectors (i.e. banking) that firms within that sector may see increasingly volatile compensation structures that are not attributable to activist investors' impact.

In order to classify the selected investments into industry groups, Compustat industry codes were identified for each investment target. The industry codes are 4 digit identifiers that reference the industry. The first two digits of the code can be used to identify similar industries. The data set examined in this paper is made up of companies which fall under 7 distinct groups of industries: financial services, technology, transportation, consumer, retail, materials, and telecom.

Executive characteristics are those that may reveal executives that are more or less vulnerable to activist's influence on overcompensation. The controls used to account for this measure of entrenchment are length of tenure, age, and the expected severance package. It is expected that longer tenured, older CEOs, with hefty severance pay due at termination are less susceptible or accepting of outside influence over pay level and structure. That is, the

executives would have a long standing understanding with the compensation committee and compensation for such executives may be sticky. At the same time, it could be theorized that good, young executives may not be willing to tolerate reductions or refocusing of compensation and be less likely to accept the changes and stay in place instead of jumping ship. One limitation of the results may be that short of replacing a CEO, a CEO already in place may have legal contract that obliges the target to pay various amounts and the activist effect on salary could only be seen if the old CEO was forced out and a new one came on with new contract terms negotiated with the activists.

One final control to be accounted for to assure that the activist variables were not proxying for economic trends, is a year effect. The time period in question is a very volatile period with the economic decline felt across industry. It would be natural then for options to fail to vest and incentive targets to be missed, dragging down total compensation. A binomial year effect variable was thus created to determine if the change in a measure of compensation was attributable to the compensation trends of the year or from the attention of an activist.

In order to analyze the activists' role on the various metrics of compensation, a series of regressions was run for each of the CEO compensation metrics. The units of compensation were regressed initially on the presence of an activist investor and the industry controls. The reason the industry control measure is included with the activist presence variable is that it is expected that the activist effect will not proxy for industry effects. Therefore, as more variables are added to the analysis they will serve to determine if the activist effect variable is simply representing other naturally occurring effects or if the activist effect is truly a significant determinant of CEO compensation. Once other factors are controlled for in subsequent regressions (first the year effects, and then company and CEO characteristics), the

regressions were rerun including the activist characteristic variables to see if the size and reputation of the activists plays a more significant role in compensation than simply whether or not an activist of any size is involved. The two activist characteristics will be run in separate regressions due to the fact that they are highly (84%) positively correlated.

## **V. Results**

### *A. Total Compensation*

Regression Table A shows the OLS regression output for the determinants of the level of total CEO compensation from 2005 to 2009. The initial regressions indicate that at the 5% and 10% significance levels the industry effects alone have an impact on compensation while the activist effect and the year effects do not. The industry effect coefficients are all negative, and the models explain about 13% of total executive compensation.

However, when factors that control for characteristics of the CEO and for the target company are added to the model, the variables of significance differ. All but two industries no longer showed the statistically significant influence on total compensation. All three of the CEO and company specific controls (CEO tenure, CEO age, company market value), however, are significant at the 10% level. The coefficients of the age and market value variables are significant at the 1% level and are positive, indicating that CEOs at larger firms receive higher compensation, as expected. The tenure variable has a negative coefficient suggesting that the longer the CEO has been in place then his or her compensation will be lower. This correlation could be explained by the fact that recently hired executives demand higher salaries to move firms or take a certain position. The model with these new controls explains over 25% of total CEO compensation.

Simply because the activist involvement variable is not significant in the initial regressions does not necessarily mean the activist investors do not have an impact on total compensation. It may be that the activist impact is tied to relative influence and size of the activist group. Possibly, less influential and smaller activists have less influence on compensation changes than larger, better known activist funds or that they do not have the resources to focus on CEO compensation in addition to their other agendas. The AUM and WSJ interaction variables will magnify the effect of the more influential activists and could represent a significant impact on compensation.

When the regressions are run including the AUM and WSJ variables, the model becomes more complete. The R-squared of the complete models increases by over 10% signifying that an additional 10% of total CEO compensation can be explained by the model when the activist characteristic variables are incorporated.<sup>13</sup> Additionally, both the AUM and WSJ variables are statistically significant at the 1% level. Interestingly, both activist variables have positive coefficients implying that larger, highly-publicized activist investors are associated with targets where CEO compensation is higher. While the higher level of total CEO compensation may not be a direct result of activist agendas this result may serve to refute the point that activists are intent on reducing executive pay as many managers at investment targets might fear.

### *B. Bonus Compensation*

Regression Table B shows the regression of the determinants of the level of executive bonus pay. In the base regression, the activist effect variable is the only statistically significant

---

<sup>13</sup> The determinants in the model including this publicity effect explain roughly 36% of total CEO compensation.

variable. The coefficient on the activist effect variable is negative and material, suggesting that the presence of the activist investor leads to a steeply lower level of bonus compensation for the CEOs of target companies. The base model explains just under 10% of CEO bonus pay.

However, when the year effects are incorporated into the regression model, the activist effect variable is no longer significant. The year effects variables are all significant at the 5% level and negative. This discovery implies that the activist presence indicator variable was simply a proxy for the year effects, and that bonus pay was largely determined by the changing economic trends and not company specific metrics. When the company and CEO variables are incorporated into the model, the year effects remain statistically significant as well as the age of the CEO and market value of the target. Both of the variables are positive, but the market value coefficient is very small and may not have a material impact on executive bonus pay. The new variables account for over 26% of model.

When the activist magnifying variables AUM and WSJ are incorporated into the model there is limited change. The activist variables are not significant in any of the models and the coefficients are unchanged. This result is inconsistent with the hypothesis that activist involvement would be correlated with a drop in fixed CEO pay, but would not be surprising if there is a material decrease in CEO salary – the larger component of fixed compensation.

### *C. Salary Compensation*

Regression Table C shows the regression output for the determinants of the salary portion of executive compensation. The executive salary model is the most complete, with the statistically significant variables explaining over 45% of the level of CEO salary

compensation. As with total compensation, the activist entry variable is not significant when it alone is included in the model. Several industry, CEO, and company controls are the statistically significant variables in the complete models on CEO salary: CEO age and firm's market value have positive coefficients, as anticipated, and are significant at the 1% level. The industry controls each have a negative coefficient and are also significant at the 1% level.

When the activist interaction variables are incorporated they are both statistically significant at the 1% level in their respective regressions. As expected, the activist characteristic variables are negative indicating that a decrease of CEO's salaries is correlated with investment by more powerful activists (those with highest AUM and most WSJ coverage). This is consistent with activists desire to have CEOs minimally compensated with fixed pay and instead be paid for their company's performance. The coefficients on the activist specific variables, however, are relatively small. The AUM coefficient indicates that for each additional \$100 million of assets under management of the activist, target CEO salary decreases by about \$1,600. For every additional mention in the Wall Street Journal, CEO salary is \$755 lower. These results seem immaterial but the coefficient is still economically important as it may represent activists' intentions.

#### *D. NEI Compensation*

Regression Table D shows the regression output for the determinants of non-equity incentive compensation of CEOs. Under NEI plans, CEOs receive cash payouts dependent on the company hitting certain targets. Common targets include growth, revenue, and profitability goals set out by the company's compensation committee. It was hypothesized that if activist investors did indeed have a meaningful role or interest in redesigning executive

compensation plans it would be expressed very clearly in an increase in NEI compensation. The results of the series of regressions, however, do not confirm this hypothesis as clearly as was anticipated.

The resulting outputs of the initial regressions are very similar to the regressions run on determinants of CEO bonuses. The activist presence variable and industry variables are not statistically significant at the 5% level leaving only the year effects and market value of the investment target as the statistically significant determinants at the 5% or 1% levels. Similar to the regressions on CEO bonuses, these determinants explain about 27% of the model on NEI plans.

When the individual activist WSJ variable is incorporated into the model, there is no discernable impact on the model as the coefficient on the WSJ term is not statistically significant. However, when the AUM variable is added to the model, it is significant at the 5% level and an additional 2% of CEO NEI pay is explained by the model. Surprisingly, the coefficient on the AUM term is negative, which runs counter to expectations. This coefficient indicates that the larger activist investors are associated with lower incentive-based pay at targets companies. However, the coefficient on the AUM term is very small. If this negative coefficient is seen in conjunction with a large positive and statistically significant effect in the RSU regressions it would be more understandable and would not completely run in the face of this paper's hypothesis on the effect on incentive based CEO compensation.

#### *E. RSU Compensation*

Regression Table E shows the regression output for the determinants of RSU compensation. Due to the fact that RSUs are incentive based and less risky than options, it



was hypothesized that activist involvement would lead to an increase in the level of RSUs. At the same time, other factors such as the move away from options due to economic trends, and firm conditions would most likely also lead to an increase in RSUs.

The initial set of regressions, however, show that the activist involvement dummy variable was not a statistically significant determinant of the level of RSUs received by the CEOs of target companies. Instead, CEO tenure, market value, and some year fixed effects are significant and explain about 28% of the model on RSU pay. Using the same set of assumptions before, that the true activist effect may be masked by smaller, less influential firms failing to influence CEO compensation, the regressions are run again including the WSJ and AUM variables.

Both activist variables (AUM and WSJ) are significant at the 1% level and have material, positive coefficients. The R-squared value increases to about .36, thus the new determinants of RSU compensation explain 36% of the model as opposed to the 28% when run without the AUM or WSJ activist controls. The AUM and WSJ coefficients are both positive and significantly larger than the negative coefficients in the NEI model. This implies a net positive relation between activist involvement and incentive based pay – in line with the theoretical ideals of the activists. The AUM coefficient of .694 implies that for every \$10 million of AUM, the level of RSUs increases by over \$6,900. For every additional mention of the activist investor in the WSJ, RSU pay increases by about \$26,400. This is in line with expectations of both the significance of the activist presence on RSUs and, that as the size and power of the activist increases so does the material impact on compensation.<sup>14</sup>

## *VI. Option Compensation*

---

<sup>14</sup> Fixed Pay net coefficient (RSU+NEI): AUM = .626, WSJ = 25.38

Regression Table F shows the regression output for the determinants of the level of the option component of compensation. As noted before, the financial crisis was expected to have a large negative impact on the level and value of options issued to executives. With options failing to be “in the money”, and increased attention paid to the options issued, it was hypothesized that the year effect would be both statistically significant and negative. Furthermore, it was also expected that activists would have an interest in reducing options issued.

The initial regressions indicate some activist impact on CEO option awards. The activist variable is significant at the 5% level and has a material and negative coefficient. The analysis indicated that the presence of an activist translates into a \$2.7 million drop in options issued. However, when the year effects are added to the model, no variables are significant at the 5% level. The CEO and company specific variables are not statistically significant either. Furthermore, the complete model explains only about 12% of CEO option compensation. When the regressions are run again including the activist magnifying variables (AUM and WSJ) similarly no variables are significant at the 5% level.

## **VI. Conclusion**

While the evidence is not as conclusive as hypothesized and does not extend to all aspects of CEO compensation, there is some data that suggests a statistically significant impact of activist investment on compensation. Despite the lack of a statistically significant relationship between the activist terms and stock option levels, the significance correlation of the WSJ and AUM variables on total CEO compensation, CEO salary compensation, and CEO RSU compensation at the 1% would suggest that activists do pursue and execute

meaningful CEO compensation agendas at their investment targets. Furthermore, the negative relationship with fixed compensation and positive relationship with incentive based compensation (and total compensation) suggests that the focus of activists is on aligning a larger portion of compensation towards incentive based pay.

However, the presence of statistically significant variables does not necessarily mean that the changes in RSU and compensation are determined by activist investors. The correlation of these variables with CEO compensation does not imply causation. While it would follow that these changes could be caused by the activist, they could also be a factor of other trends not accounted for in the model. Most importantly, because activists target underperforming companies, compensation reform may be expected to help reform struggling companies. It would then follow that RSUs are the subject of organic compensation reform and not impacted by activists.

While this is a concern that may call some this paper's findings into question, this can be refuted by some direct input from activist investors. In a conversation with Todd L. Leigh<sup>15</sup>, a senior partner at Relational Investors, about the possibility of compensation reform without the influence of an activist, Mr. Leigh answered succinctly, "No way." He went on to qualify his response by stating "The only time comp. plans [sic] might change is when the company goes through a compensation consultant change which is very rare". Mr. Leigh also stated that at Relational Investors, somewhere between 50 and 70% of projects involve compensation as an agenda item, claiming that executive compensation is commonly "at the root of the issue" effecting the target company's capital allocation and business scenarios.

If the results of this paper are in fact a true representation of activist investors' pursuits, they are significant in dispelling a factor of the negative connotations attached to

---

<sup>15</sup> Conversation with Todd L. Leigh of Relational Investors LLC took place via a phone call on 11/22/2010

activists and could allay the fears of CEOs of target companies. According to Holderness and Sheehan (1985) a stigma exists that activists are purely “corporate raiders who reduce the wealth of other stockholders.” With the focus on aligning CEO compensation with shareholder returns, this research would in fact imply the opposite – that the presence of activist investors is beneficial to existing shareholders as management’s focus is directed on the shareholders’ interests. Likewise, the positive coefficients on the activist terms counteract fears CEOs may have of activist involvement. Instead of slashing CEO pay as CEOs may expect, activists in actuality move to increase pay (particularly RSUs) if the companies perform. This, too, is supported by Mr. Leigh’s claims that Relational Investors is “happy to [have CEOs] paid more” if companies meet or exceed performance metrics and that compensation reform on the whole is “not about lowering the amount of compensation, [but] instead on making sure incentives are balanced”.<sup>16</sup>

---

<sup>16</sup> Conversation with Todd L. Leigh of Relational Investors LLC

## References

- Black, Bernard S., 1998, Shareholder activism and corporate governance in the United States, in Peter Newman, ed.: *The New Palgrave Dictionary of Economics and the Law* (Palgrave Macmillan: New York, NY).
- Boyson, Nicole and Robert M. Mooradian, 2007, Hedge funds as shareholder activists from 1994-2005, Working Paper, Northeastern University.
- Bratton, William W., Hedge funds and governance targets, 95 *GEO. L.J.* 1375.
- Brav, Alon, Wei Jiang, Frank Partnoy, and Randall Thomas, 2008a, Hedge fund activism, corporate governance, and firm performance, *Journal of Finance* 63:4, 1729-1775.
- Brav, Alon, Wei Jiang, and Hyunseob Kim, 2010, Hedge Fund Activism: A Review (February 12, 2010), *Foundations and Trends in Finance* 4:3.
- Clifford, Christopher, 2008, Value creation or destruction? Hedge funds as shareholder activists, *Journal of Corporate Finance* 14:4, 323-336.
- Gillan, Stuart L. and Laura T. Starks, 2007, The evolution of shareholder activism in the United States, *Journal of Applied Corporate Finance* 19:1, 55-73.
- Greenwood, Robin and Michael Schor, 2009, Hedge fund investor activism and takeovers, *Journal of Financial Economics* 92:3, 362-375.
- Holderness, Clifford G. and Dennis P. Sheehan, 1985, Raiders or saviors? The evidence on six controversial investors, *Journal of Financial Economics* 14:4, 555.
- Karpoff, Jonathan M., 2001, The impact of shareholder activism on target companies: A survey of empirical findings, Working paper, New York University.
- Klein, April and Emanuel Zur, 2009, Entrepreneurial shareholder activism: Hedge funds and other private investors, *Journal of Finance* 64:1, 187-229.
- Ryan, Joe, 2006, Examining market reactions to activist investor campaigns by hedge funds, Working paper, Stern School of Business.

## **Tables**

Table 1: Activist Investors groups and activism events

<b>Investor</b>	<b>Events</b>
Relational Investors	12
Shamrock Capital	9
Pershing Square	8
Icahn Associates	7
Barrington Capital	6
Breeden Capital	6
Triam Fund	5
Chieftain Capital	4
Third Point	4
Baupost Capital	3
Jana Partners	2
Pirate Capital	1
2007	29
2008	38

Table 2: Activist AUM (millions) and WSJ reference

Variable	Obs	Mean	Std. Dev.	Min	Max
aumActivist	196	3,860	3,778	100	18,500
wsjActivist	196	50	93	1	443

Table 3: Participant Companies

	Ticker	Company
1	ACCO	Acco Brands Corp
2	ADI	Analog Devices
3	ANN	AnnTaylor Stores Corp
4	ARRS	Arris Group
5	AXP	American Express Company
6	BAC	Bank of America Corp
7	BKS	Barnes & Noble Burlington Northern Santa Fe Corp
8	BNI	Corporation
9	CAKE	The Cheesecake Factory
10	COF	Capital One Financial Corp
11	CRL	Charles River Laboratories
12	CVG	Convergys Corp
13	DDS	Dillard's
14	DELL	Dell
15	DPS	Dr. Pepper Snapple Group
16	DST	DST Systems
17	EMC	EMC Corp
18	FRZ	Reddy Ice Holdings
19	GENZ	Genzyme Corp
20	GLRE	Greenlight Capital
21	HAR	Harman International Industries
22	HI	Hillenbrand
23	HLNQ	Hilton Hotels
24	HRC	Hillenbrand
25	IR	Ingersoll-Rand
26	IRF	International Rectifier Corp
27	JTX	Jackson Hewitt Tax Service
28	LCAPA	Liberty Media Corp
29	LO	Lorillard
30	M	Macy's
31	MBI	MBIA Inc
32	MBIA	MBIA Inc
33	MOT	Motorola
34	PCP	Precision Castparts Corp
35	PLT	Plantronics
36	PM	Phillip Morris International
37	PNRA	Panera Bread Company
38	RDEN	Elizabeth Arden
39	S	Sprint Nextel Corp
40	SHLD	Sears Holding Corp
41	SJM	The JM Smuckers Company
42	TBI	TrueBlue
43	TELK	Telik
44	TGT	Target Corp
45	TIF	Tiffany & Co
46	TTWO	Take-Two Interactive Software
47	TXI	Texas Industries
48	V	Visa
49	WBSN	Websense
50	WEN	Wendy's Arby's Group
51	YHOO	Yahoo!
52	ZBRA	Zebra Technology Corp
53	ZLC	Zale Corp

Table 4: Total Sample CEO compensation for years 2005-2009 (\$millions)

Comp Year	# CEOs	Mean	Std. Dev.	Min	Max
2005	38	10.65	11.91	0	53.28
2006	37	10.16	13.83	0.56	80.02
2007	41	7.55	9.13	0	51.69
2008	44	8.51	9.68	0	43.24
2009	36	7.79	8.66	0.01	47.23

Table 5: Sample CEO salary for years 2005-2009 (% total comp)

Salary Year	# CEOs	Mean % Total	Std. Dev.	Min	Max
2005	37	16.9%	12.9%	0.0%	60.1%
2006	37	21.5%	18.0%	0.0%	76.4%
2007	41	24.6%	22.0%	0.0%	100.0%
2008	44	22.7%	20.8%	0.0%	100.0%
2009	36	17.7%	12.6%	0.0%	56.2%

Table 6: Sample CEO bonus for years 2005-2009 (% total comp)

Bonus Year	# CEOs	Mean	Std. Dev.	Min	Max
2005	37	18.0%	13.9%	0.0%	52.7%
2006	37	7.0%	17.2%	0.0%	73.4%
2007	41	2.1%	6.2%	0.0%	28.8%
2008	44	3.5%	11.7%	0.0%	70.1%
2009	36	2.5%	7.3%	0.0%	30.5%

Table 7: Sample CEO Non-Equity Incentives for years 2005-2009 (% total comp)

NEI Year	#CEOs	Mean	Std. Dev.	Min	Max
2005	37	3.7%	11.3%	0.0%	51.9%
2006	37	21.4%	23.6%	0.0%	80.3%
2007	41	14.6%	17.5%	0.0%	61.0%
2008	44	11.7%	14.4%	0.0%	53.7%
2009	36	21.1%	18.0%	0.0%	60.9%



Table 8: Sample CEO Restricted Stock Units for years 2005-2009 (% total comp)

RSU Year	# CEOs	Mean	Std. Dev.	Min	Max
2005	37	15.2%	19.1%	0.0%	55.1%
2006	37	17.5%	22.1%	0.0%	60.4%
2007	41	16.3%	21.4%	0.0%	76.9%
2008	44	28.6%	25.2%	0.0%	96.8%
2009	36	31.7%	23.3%	0.0%	85.0%

Table 9: Sample CEO Options for years 2005-2009 (% total comp)

Option Year	# CEOs	Mean	Std. Dev.	Min	Max
2005	37	42.8%	29.1%	0.0%	99.4%
2006	37	28.1%	28.8%	0.0%	99.2%
2007	41	29.1%	28.3%	0.0%	99.6%
2008	44	21.4%	21.4%	0.0%	69.2%
2009	36	16.7%	19.5%	0.0%	79.2%

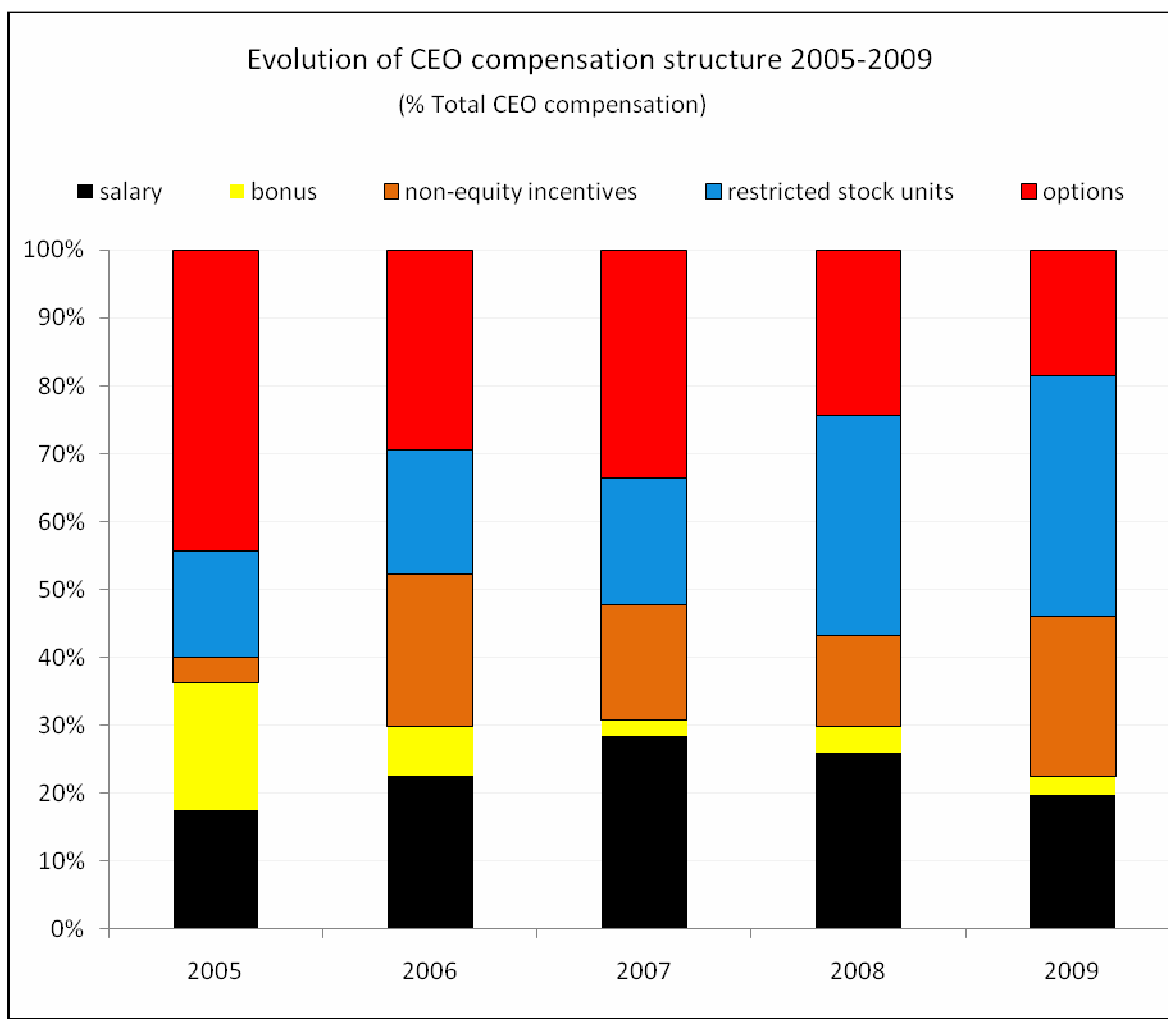
Table 10: All ExecuComp total CEO compensation for years 2005-2009 (\$millions)

Comp Year	# CEOs	Mean	Std. Dev.	Min	Max
2005	1010	9.50	20.25	0	295.14
2006	1402	8.67	16.51	0.05	304.60
2007	1531	8.69	20.06	0	556.98
2008	1419	7.98	43.86	0	1,589.84
2009	1320	5.32	7.43	0.01	106.04

Table 11a: Compensation % graphics

	bonus	salary	NEI	RSU	Option
2005	16.9%	18.0%	3.7%	15.2%	42.8%
2006	21.5%	7.0%	21.4%	17.5%	28.1%
2007	24.6%	2.1%	14.6%	16.3%	29.1%
2008	22.7%	3.5%	11.7%	28.6%	21.4%
2009	17.7%	2.5%	21.1%	31.7%	16.7%

Table 11b: Compensation % graphics



## Regression Tables

For all tables:

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Regression Table A: Total Compensation Regression Results												
				(1)			(2)			(3)		
VARIABLES	TotalComp	TotalComp	TotalComp	VARIABLES	TotalComp	TotalComp	TotalComp	VARIABLES	TotalComp	TotalComp	TotalComp	
activist	-2,416 (1,671)	-3,231 (2,978)	383.0 (2,926)	activist	-2,264 (1,619)	-2,429 (2,890)	1,519 (2,732)	activist	-2,657* (1,604)	-3,303 (2,854)	368.0 (2,707)	
ind40	-2,092 (5,132)	-2,173 (5,163)	-12,482** (5,482)	aumActivist	0.744*** (0.202)	0.746*** (0.204)	0.946*** (0.186)	wsjActivist	32.76*** (7.899)	32.96*** (7.936)	38.53*** (7.269)	
ind45	-11,641** (4,786)	-11,757** (4,825)	-6,334 (4,439)	ind40	-1,233 (4,974)	-1,247 (5,002)	-11,964** (5,103)	ind40	-2,484 (4,924)	-2,551 (4,949)	-13,067** (5,073)	
ind20	-11,510** (5,209)	-11,662** (5,253)	-5,334 (4,809)	ind45	-10,587** (4,642)	-10,598** (4,680)	-5,243 (4,137)	ind45	-13,347*** (4,610)	-13,443*** (4,642)	-9,036** (4,138)	
ind25	-12,636*** (4,768)	-12,660*** (4,794)	-8,213* (4,381)	ind20	-8,374 (5,114)	-8,403 (5,160)	-1,307 (4,545)	ind20	-10,843** (4,999)	-10,962** (5,037)	-4,569 (4,451)	
ind35	-11,376** (5,308)	-11,539** (5,356)	-6,315 (4,982)	ind25	-9,712** (4,683)	-9,685** (4,710)	-5,228 (4,119)	ind25	-12,875*** (4,574)	-12,888*** (4,595)	-8,988** (4,056)	
ind30	-9,258* (5,462)	-9,109 (5,523)	-7,901 (5,083)	ind35	-10,032* (5,151)	-10,062* (5,199)	-5,298 (4,641)	ind35	-11,304** (5,092)	-11,432** (5,133)	-7,882* (4,619)	
ind15	-17,509** (6,886)	-17,444** (6,926)	-14,241** (6,303)	ind30	-6,447 (5,342)	-6,142 (5,406)	-4,537 (4,777)	ind30	-9,856* (5,242)	-9,657* (5,295)	-9,098* (4,708)	
y2006		-520.1 (2,381)	-306.1 (2,214)	ind15	-13,767** (6,743)	-13,758** (6,777)	-10,614* (5,910)	ind15	-16,661** (6,609)	-16,611** (6,640)	-13,833** (5,832)	
y2007		-3,134 (2,326)	-2,495 (2,226)	y2006		-380.7 (2,304)	-33.95 (2,061)	y2006		-229.7 (2,283)	147.6 (2,050)	
y2008		-749.5 (2,630)	284.4 (2,555)	y2007		-3,146 (2,251)	-2,221 (2,072)	y2007		-3,153 (2,229)	-2,198 (2,060)	
y2009		-161.0 (3,706)	-1,175 (3,688)	y2008		-1,086 (2,547)	28.58 (2,379)	y2008		-739.9 (2,521)	691.4 (2,365)	
ceoage			414.5*** (143.1)	y2009		-1,032 (3,594)	-2,185 (3,438)	y2009		-321.4 (3,552)	-911.9 (3,412)	
tenure			-224.5* (120.8)	ceoage			501.0*** (134.2)	ceoage			500.3*** (133.3)	
mktvaluetotal			0.136*** (0.0291)	tenure			-227.2** (112.5)	tenure			-108.1 (113.9)	
Constant	20,187*** (4,636)	21,426*** (4,861)	-7,873 (9,414)	mktvaluetotal			0.116*** (0.0274)	mktvaluetotal			0.130*** (0.0270)	
Observations	196	196	177	Constant	15,291*** (4,681)	16,473*** (4,894)	-18,505** (9,008)	Constant	19,203*** (4,454)	20,344*** (4,665)	-14,427 (8,797)	
R-squared	0.122	0.133	0.254	Observations	196	196	177	Observations	196	196	177	
				R-squared	0.182	0.192	0.357	R-squared	0.197	0.208	0.365	

Regression Table B: Bonus Compensation Regression Results												
VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	
	bonus	bonus	bonus		bonus	bonus	bonus		bonus	bonus	bonus	bonus
activst	-627.8**	-474.1	-340.6	activst	-632.9**	-501.2	-324.0	activst	627.0**	-473.8	-340.9	
	(249.1)	(418.9)	(409.6)		(249.4)	(420.4)	(412.0)		(249.9)	(420.0)	(410.4)	
ind40	769.7	785.1	-703.3	aumActivist	-0.0250	-0.0252	0.0138	wsjActivst	-0.110	-0.176	0.673	
	(764.8)	(726.2)	(767.5)		(0.0311)	(0.0296)	(0.0280)		(1.230)	(1.168)	(1.102)	
ind45	-569.3	-548.9	-263.1	ind40	740.9	753.8	-695.8	ind40	771.0	787.1	-713.5	
	(713.2)	(678.6)	(621.5)		(766.4)	(727.6)	(769.5)		(767.0)	(728.2)	(769.2)	
ind20	-143.5	-111.4	314.4	ind45	-604.6	-588.1	-247.2	ind45	-563.6	-539.9	-310.3	
	(776.2)	(738.8)	(673.2)		(715.2)	(680.7)	(623.8)		(718.0)	(683.1)	(627.5)	
ind25	-103.2	-81.06	144.1	ind20	-248.8	-221.5	373.0	ind20	-145.7	-115.2	327.7	
	(710.5)	(674.3)	(613.3)		(787.9)	(750.6)	(685.3)		(778.6)	(741.2)	(674.9)	
ind35	-607.5	-576.7	-405.4	ind25	-201.3	-181.5	187.6	ind25	-102.4	-79.85	130.6	
	(791.0)	(753.4)	(697.5)		(721.6)	(685.1)	(621.1)		(712.4)	(676.1)	(614.9)	
ind30	311.7	453.3	422.8	ind35	-652.5	-626.6	-390.6	ind35	-607.7	-577.3	-432.7	
	(813.9)	(776.9)	(711.6)		(793.8)	(756.3)	(699.8)		(793.1)	(755.4)	(700.3)	
ind15	-655.0	-659.8	-544.7	ind30	217.3	353.1	471.8	ind30	313.7	456.2	401.9	
	(1,026)	(974.1)	(882.5)		(823.1)	(786.3)	(720.2)		(816.4)	(779.2)	(713.8)	
y2006		-1.327***	-1,452***	ind15	-780.6	-784.2	-491.8	ind15	-657.8	-664.2	-537.5	
		(334.9)	(309.9)		(1,039)	(985.8)	(891.1)		(1,029)	(977.2)	(884.3)	
y2007		-1,490***	-1,403***	y2006		1,332***	-1,448***	y2006		1,329***	-1,444***	
		(327.2)	(311.6)			(335.2)	(310.8)			(336.0)	(310.8)	
y2008		-1,163***	-907.9**	y2007		1,489***	-1,399***	y2007		1,489***	-1,398***	
		(370.0)	(357.8)			(327.4)	(312.4)			(328.0)	(312.3)	
y2009		-1,134**	-1,108**	y2008		1,152***	-911.7**	y2008		1,163***	-900.8**	
		(521.2)	(516.3)			(370.5)	(358.7)			(371.0)	(358.7)	
ceoage			43.74**	y2009		-1,105**	-1,122**	y2009		-1,133**	-1,103**	
			(20.03)			(522.8)	(518.4)			(522.7)	(517.4)	
tenure			-7.982	ceoage			44.99**	ceoage			45.23**	
			(16.92)				(20.24)				(20.22)	
mktvaluetotal			0.00833**	tenure			-8.021	tenure			-5.948	
			(0.00408)				(16.96)				(17.27)	
Constant	939.9	1,901***	-955.0	mktvaluetotal			0.00803*	mktvaluetotal			0.00822**	
	(690.9)	(683.7)	(1,318)				(0.00413)				(0.00409)	
Observations	196	196	177	Constant	1,104	2,068***	-1,110	Constant	943.2	1,907***	-1,069	
					(721.3)	(711.9)	(1,358)		(693.7)	(686.6)	(1,334)	
R-squared	0.096	0.204	0.262	Observations	196	196	177	Observations	196	196	177	
				R-squared	0.099	0.207	0.263	R-squared	0.096	0.204	0.263	

Regression Table C: Salary Compensation Regression Results												
VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	
	salary	salary	salary		salary	salary	salary		salary	salary	salary	
activist	-67.35 (60.72)	-182.4* (108.3)	-30.47 (100.2)	activist	-70.63 (60.17)	-200.5* (107.5)	-51.59 (98.72)	activist	-61.13 (59.61)	-180.5* (106.2)	-30.18 (97.99)	
ind40	559.1*** (186.4)	570.6*** (187.8)	-1,000*** (187.7)	aumActivist	-0.0161** (0.00751)	-0.0169** (0.00757)	-0.0176*** (0.00672)	wsjActivist	0.844*** (0.293)	0.852*** (0.295)	-0.755*** (0.263)	
ind45	622.8*** (173.9)	641.0*** (175.5)	-470.3*** (152.0)	ind40	-577.7*** (184.9)	-591.6*** (186.0)	-1,010*** (184.4)	ind40	549.0*** (183.0)	560.9*** (184.2)	-988.6*** (183.6)	
ind20	-364.6* (189.2)	-385.6** (191.1)	-131.3 (164.6)	ind45	-645.6*** (172.6)	-667.3*** (174.0)	-490.6*** (149.5)	ind45	578.9*** (171.3)	597.4*** (172.8)	-417.4*** (149.8)	
ind25	-362.8** (173.2)	-370.9** (174.4)	-169.8 (150.0)	ind20	-432.4** (190.1)	-459.5** (191.9)	-206.2 (164.2)	ind20	-381.8** (185.7)	-403.7** (187.5)	-146.3 (161.1)	
ind35	-299.3 (192.8)	-322.3* (194.9)	-209.7 (170.6)	ind25	-426.0** (174.1)	-438.4** (175.1)	-225.3 (148.8)	ind25	-356.7** (169.9)	-365.0** (171.0)	-154.6 (146.8)	
ind30	-173.5 (198.4)	-201.2 (200.9)	-151.3 (174.0)	ind35	-328.3* (191.5)	-355.8* (193.4)	-228.6 (167.7)	ind35	-301.1 (189.2)	-325.1* (191.1)	-179.0 (167.2)	
ind15	769.6*** (250.2)	759.4*** (251.9)	-582.8*** (215.8)	ind30	-234.3 (198.6)	-268.5 (201.0)	-213.8 (172.6)	ind30	-158.1 (194.7)	-187.0 (197.1)	-127.9 (170.4)	
y2006		6.225 (86.62)	-16.15 (75.79)	ind15	-850.5*** (250.7)	-842.9*** (252.0)	-650.3*** (213.5)	ind15	791.4*** (245.6)	780.9*** (247.2)	-590.8*** (211.1)	
y2007		15.48 (84.61)	72.04 (76.19)	y2006		3.065 (85.70)	-21.21 (74.47)	y2006		-1.282 (84.97)	-25.04 (74.21)	
y2008		87.95 (95.68)	161.2* (87.48)	y2007		15.75 (83.71)	66.96 (74.87)	y2007		15.97 (82.97)	66.23 (74.57)	
y2009		164.7 (134.8)	125.8 (126.3)	y2008		95.59 (94.72)	166.0* (85.95)	y2008		87.70 (93.83)	153.3* (85.63)	
ceoage			15.92*** (4.897)	y2009		184.4 (133.7)	144.5 (124.2)	y2009		168.9 (132.2)	120.6 (123.5)	
tenure			4.943 (4.137)	ceoage			14.32*** (4.850)	ceoage			14.24*** (4.827)	
mktvaluetotal			0.00702*** (0.000997)	tenure			4.993 (4.064)	tenure			2.662 (4.124)	
Constant	1,351*** (168.4)	1,342*** (176.8)	100.6 (322.3)	mktvaluetotal			0.00740*** (0.000990)	mktvaluetotal			0.00714*** (0.000976)	
Observations	196	196	177	Constant	1,457*** (174.0)	1,454*** (182.0)	298.2 (325.5)	Constant	1,376*** (165.5)	1,370*** (173.7)	228.9 (318.5)	
R-squared	0.171	0.179	0.432	Observations	196	196	177	Observations	196	196	177	
				R-squared	0.191	0.201	0.455	R-squared	0.206	0.215	0.459	

Regression Table D: NEI Compensation Regression Results												
VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	
	neilevel	neilevel	neilevel		neilevel	neilevel	neilevel		neilevel	neilevel	neilevel	
activist	187.6 (278.5)	-893.6* (476.7)	-106.0 (486.1)	activist	177.6 (277.9)	-951.8** (476.0)	-187.6 (482.9)	activist	195.0 (279.1)	-891.5* (477.3)	-105.6 (486.7)	
ind40	523.1 (855.3)	415.0 (826.3)	-1,102 (910.8)	aumActivist	-0.0486 (0.0347)	-0.0541 (0.0335)	-0.0679** (0.0329)	wsjActivist	-1.009 (1.374)	-0.945 (1.327)	-1.012 (1.307)	
ind45	-365.9 (797.6)	-520.8 (772.2)	-16.46 (737.5)	ind40	467.1 (854.0)	347.9 (823.8)	-1,140 (901.9)	ind40	535.2 (856.5)	425.9 (827.6)	-1,087 (912.2)	
ind20	263.5 (868.0)	76.69 (840.7)	810.6 (798.9)	ind45	-434.7 (797.1)	-604.9 (770.6)	-94.84 (731.1)	ind45	-313.3 (801.8)	-472.4 (776.2)	54.49 (744.1)	
ind25	-96.37 (794.5)	-164.3 (767.3)	567.0 (727.9)	ind20	58.74 (878.0)	-159.6 (849.8)	521.4 (803.2)	ind20	243.0 (869.5)	56.61 (842.3)	790.5 (800.3)	
ind35	-355.0 (884.6)	-571.2 (857.3)	-5.322 (827.8)	ind25	-287.3 (804.2)	-380.1 (775.6)	352.5 (728.0)	ind25	-89.02 (795.6)	-157.8 (768.4)	587.3 (729.2)	
ind30	1,321 (910.2)	1,112 (884.0)	1,592* (844.5)	ind35	-442.7 (884.6)	-678.3 (856.2)	-78.35 (820.2)	ind35	-357.2 (885.7)	-574.3 (858.5)	35.83 (830.5)	
ind15	-120.2 (1,148)	0.0289 (1,108)	699.9 (1,047)	ind30	1,137 (917.3)	897.3 (890.2)	1,351 (844.1)	ind30	1,339 (911.7)	1,128 (885.5)	1,624* (846.5)	
y2006		1,190*** (381.1)	1,123*** (367.8)	ind15	-364.6 (1,158)	-267.3 (1,116)	439.4 (1,044)	ind15	-146.3 (1,150)	-23.86 (1,111)	689.2 (1,049)	
y2007		511.3 (372.3)	625.6* (369.8)	y2006		1,179*** (379.5)	1,104*** (364.2)	y2006		1,181*** (381.8)	1,111*** (368.6)	
y2008		1,081** (421.0)	868.1** (424.6)	y2007		512.2 (370.7)	605.9* (366.2)	y2007		511.8 (372.8)	617.8* (370.4)	
y2009		2,107*** (593.1)	1,372** (612.7)	y2008		1,105*** (419.4)	886.4** (420.4)	y2008		1,081** (421.5)	857.4** (425.3)	
ceoage			14.86 (23.77)	y2009		2,170*** (591.8)	1,445** (607.6)	y2009		2,112*** (594.0)	1,365** (613.6)	
tenure			18.15 (20.08)	ceoage			8.651 (23.72)	ceoage			12.61 (23.97)	
mktvaluetotal			0.0235*** (0.00484)	tenure			18.34 (19.88)	tenure			15.09 (20.49)	
Constant	1,023 (772.6)	477.8 (778.0)	-1,386 (1,564)	mktvaluetotal			0.0250*** (0.00484)	mktvaluetotal			0.0237*** (0.00485)	
Observations	196	196	177	Constant	1,343* (803.8)	837.0 (805.9)	-622.3 (1,592)	Constant	1,053 (774.7)	508.9 (780.2)	-1,214 (1,582)	
R-squared	0.068	0.151	0.263	Observations	196	196	177	Observations	196	196	177	
				R-squared	0.078	0.163	0.282	R-squared	0.071	0.153	0.266	

Regression Table E: RSU Compensation Regression Results												
VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	
	rsulevel	rsulevel	rsulevel		rsulevel	rsulevel	rsulevel		rsulevel	rsulevel	rsulevel	rsulevel
activist	951.0 (727.1)	-293.9 (1,294)	680.2 (1,316)	activist	-1502 (918.2)	-2511* (1353)	-1459 (1333)	activist	-589.9 (765.5)	-1822 (1270)	-737.8 (1273)	
ind40	-1,218 (2,232)	-1,343 (2,243)	-4,548* (2,466)	aumActivist	0.664*** (0.161)	0.670*** (0.163)	0.694*** (0.155)	wsjActivist	27.45*** (5.906)	27.54*** (5.921)	26.39*** (5.590)	
ind45	-4,387** (2,082)	-4,592** (2,096)	-1,780 (1,997)	ind40	-865.0 (2145)	-960.8 (2153)	-4397* (2332)	ind40	-1480 (2120)	-1603 (2127)	-5087** (2320)	
ind20	-4,117* (2,266)	-4,372* (2,282)	-1,777 (2,163)	ind45	-3826* (2003)	-3991** (2016)	-1283 (1891)	ind45	-4931** (1979)	-5137** (1991)	-2467 (1882)	
ind25	-4,698** (2,074)	-4,791** (2,083)	-2,478 (1,970)	ind20	-3190 (2187)	-3401 (2201)	-781.4 (2057)	ind20	-4213* (2150)	-4468** (2164)	-1863 (2033)	
ind35	-4,133* (2,309)	-4,382* (2,327)	-1,110 (2,241)	ind25	-3665* (2007)	-3737* (2014)	-1452 (1877)	ind25	-4792** (1968)	-4886** (1974)	-2626 (1852)	
ind30	-2,007 (2,376)	-2,284 (2,400)	-1,107 (2,286)	ind35	-3526 (2222)	-3718* (2238)	-616.9 (2122)	ind35	-4240* (2192)	-4486** (2206)	-1539 (2108)	
ind15	-6,332** (2,996)	-6,283** (3,009)	-4,086 (2,835)	ind30	-1064 (2292)	-1299 (2314)	-92.29 (2174)	ind30	-2214 (2255)	-2495 (2275)	-1423 (2149)	
y2006		226.6 (1,034)	131.6 (995.7)	ind15	-5223* (2888)	-5211* (2898)	-2984 (2692)	ind15	-6242** (2843)	-6201** (2852)	-4037 (2664)	
y2007		-494.2 (1,011)	-36.06 (1,001)	y2006		222.0 (992.1)	95.03 (941.7)	y2006		218.6 (980.6)	103.3 (935.8)	
y2008		1,303 (1,143)	2,037* (1,149)	y2007		-511.6 (969.2)	-95.35 (946.7)	y2007		-500.0 (957.9)	-37.83 (940.8)	
y2009		1,440 (1,610)	1,426 (1,659)	y2008		1335 (1096)	2006* (1087)	y2008		1346 (1083)	2081* (1080)	
ceoage			81.91 (64.34)	y2009		1016 (1548)	751.8 (1576)	y2009		1394 (1526)	1348 (1559)	
tenure			-138.2** (54.35)	ceoage			82.81 (60.85)	ceoage			94.07 (60.52)	
mktvaluetotal			0.0708*** (0.0131)	tenure			-114.8** (51.66)	tenure			-107.0** (51.50)	
Constant	6,095*** (2,017)	6,098*** (2,112)	-1,245 (4,234)	mktvaluetotal			0.0714*** (0.0124)	mktvaluetotal			0.0719*** (0.0123)	
Observations	196	196	177	Constant	5349*** (1945)	5326*** (2034)	-2178 (4010)	Constant	6349*** (1915)	6349*** (2003)	-1835 (3981)	
R-squared	0.094	0.107	0.283	Observations	196	196	177	Observations	196	196	177	
				R-squared	0.169	0.183	0.363	R-squared	0.188	0.202	0.371	

Regression Table F: Option Compensation Regression Results												
VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	VARIABLES	(1)	(2)	(3)	
	optionlevel	optionlevel	optionlevel		optionlevel	optionlevel	optionlevel		optionlevel	optionlevel	optionlevel	optionlevel
activist	-2,730**	-1,083	434.0	activist	-2087	-541.8	827.0	activist	-2496*	-855.2	641.6	
	(1,238)	(2,179)	(2,325)		(1638)	(2385)	(2500)		(1381)	(2264)	(2400)	
ind40	-333.0	-168.3	-3,265	aumActivist	-0.172	-0.162	-0.127	wsjActivist	-4.080	-4.072	-3.849	
	(3,765)	(3,776)	(4,355)		(0.286)	(0.288)	(0.292)		(10.56)	(10.58)	(10.57)	
ind45	-4,206	-3,936	-2,324	ind40	-423.4	-260.6	-3289	ind40	-293.7	-129.6	-3184	
	(3,515)	(3,532)	(3,529)		(3775)	(3787)	(4367)		(3775)	(3787)	(4373)	
ind20	-5,438	-5,123	-3,004	ind45	-4342	-4073	-2408	ind45	-4120	-3851	-2219	
	(3,822)	(3,842)	(3,820)		(3528)	(3547)	(3544)		(3530)	(3547)	(3551)	
ind25	-5,667	-5,497	-4,553	ind20	-5675	-5357	-3183	ind20	-5422	-5108	-2990	
	(3,500)	(3,509)	(3,483)		(3849)	(3872)	(3852)		(3831)	(3852)	(3831)	
ind35	-4,558	-4,228	-2,974	ind25	-5934*	-5754	-4743	ind25	-5653	-5483	-4532	
	(3,895)	(3,918)	(3,958)		(3534)	(3545)	(3519)		(3508)	(3517)	(3493)	
ind30	-7,311*	-6,651	-6,792*	ind35	-4713	-4389	-3066	ind35	-4541	-4213	-2912	
	(4,007)	(4,040)	(4,039)		(3910)	(3936)	(3974)		(3904)	(3928)	(3973)	
ind15	-7,770	-7,885	-7,812	ind30	-7554*	-6890*	-6982*	ind30	-7280*	-6620	-6749*	
	(5,053)	(5,066)	(5,007)		(4035)	(4070)	(4073)		(4017)	(4050)	(4051)	
y2006		-1,083	-606.2	ind15	-8055	-8143	-8015	ind15	-7783	-7896	-7820	
		(1,753)	(1,772)		(5084)	(5096)	(5042)		(5064)	(5078)	(5021)	
y2007		-2,598	-2,775	y2006		-1080	-597.9	y2006		-1081	-601.7	
		(1,713)	(1,783)			(1757)	(1776)			(1758)	(1776)	
y2008		-2,816	-2,873	y2007		-2591	-2761	y2007		-2596	-2773	
		(1,933)	(2,042)			(1717)	(1788)			(1718)	(1788)	
y2009		-3,436	-3,840	y2008		-2823	-2864	y2008		-2822	-2878	
		(2,721)	(2,949)			(1937)	(2047)			(1938)	(2047)	
ceoage			221.3*	y2009		-3322	-3702	y2009		-3423	-3820	
			(114.4)			(2734)	(2974)			(2728)	(2958)	
tenure			-110.0	ceoage			221.8*	ceoage			219.9*	
			(96.04)				(114.7)				(114.8)	
mktvaluetotal			0.0241	tenure			-114.4	tenure			-114.6	
			(0.0232)				(96.81)				(97.13)	
Constant	8,870***	10,198***	-3,471	mktvaluetotal			0.0240	mktvaluetotal			0.0240	
	(3,402)	(3,560)	(7,528)				(0.0232)				(0.0232)	
Observations	194	194	175	Constant	9058***	10380***	-3338	Constant	8830**	10158***	-3408	
R-squared	0.085	0.101	0.123		(3423)	(3581)	(7553)		(3412)	(3570)	(7550)	
				Observations	194	194	175	Observations	194	194	175	
				R-squared	0.087	0.103	0.124	R-squared	0.086	0.102	0.124	