

## **Institutional Investors' Activism**

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The nature of equity ownership in the U.S. and Europe has been impacted significantly by the impressive growth experienced by the asset management industry. Nowadays the majority of blockholders in publicly traded firms are institutional investors, such as mutual funds, pension funds, hedge funds, etc. that are agents acting on behalf of final investors providing capital. As a result of the big presence of such investors, there is now a multi-layered agency problem in corporate governance. In this course we will review the recent developments in the empirical literature on institutional investors (as a group, and the different types of investors such as hedge funds and mutual funds) on firm decisions, ranging from corporate governance to physical and human capital investments. We will start by reviewing the main theories to set the scene for the empirical work. After setting the theoretical background we will move to discuss the different empirical methodologies used to investigate how different types of institutional investors interact with management and affect several firm decisions and the eventual impact on firm valuations. We will then discuss the main results, controversies about these results, and their implications for regulation.

#### **Papers that will be covered:**

Appel, I.R., T.A. Gormley, and D. B. Keim. (2016) "Passive Investors, Not Passive Owners," *Journal of Financial Economics*, 121(1), 111-141

Appel, I.R., T.A. Gormley, and D. B. Keim (2019) "Standing on the Shoulders of Giants: The Effect of Passive Investors on Activism," *Review of Financial Studies*, 32(7), 2720-2774

Brav, A., W. Jiang, F. Partnoy, and R. Thomas (2008), "Hedge Fund Activism, Corporate Governance, and Firm Performance," *Journal of Finance* 63, 1729–1775

Brav, A., W. Jiang and H. Kim (2015), "Recent Advances in Research on Hedge Fund Activism: Value Creation and Identification," *Annual Review of Financial Economics*, 7, 2015.

Brav, A., W. Jiang and H. Kim (2015), "The Real Effects of Hedge Fund Activism: Productivity, Asset Allocation, and Labor Outcomes," *Review of Financial Studies*, 28(10), 2015.

Gilje, E.P., T.A. Gormley, and D. Levit (2020), "Who's Paying Attention? Measuring Common Ownership and Its Impact on Managerial Incentives," *Journal of Financial Economics* 137(1): 152–178.

Iliev, P., M. Lowry, (2015), "Are mutual funds active voters?" *Review of Financial Studies* 28, 446 – 485.

Krueger, P., Z. Sautner, and L. T. Starks (2020), "The Importance of Climate Risks for Institutional Investors," *Review of Financial Studies* 33(3): 1067–1111.

Schmidt, C., and R. Fahlenbrach (2017), "Do exogenous changes in passive institutional ownership affect corporate governance and firm value?," *Journal of Financial Economics* 124, 285-306.