How Does Hedge Fund Activism Reengineer Corporate Culture?

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JEL classification: G**
Keywords: Hedge fund activism, corporate culture, CEO turnover, firm value.

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Abstract

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"We believe the new board and management are helping to instill a far better culture at Bed Bath and we think this goes a long way toward supporting their return to greatness." Christopher Kiper, Co-Founder and Managing Director of Legion Partners.[1]

1 Introduction

Hedge fund activism has risen over the past two decades. As a key middle ground player between internal and external governance mechanism, activists have been shown to be successful in improving target firms along various dimensions. For instance, following the arrival of an activist, the target firms exhibit enhanced firm performance, productivity, product market outcomes, innovation, M&A decisions, and diversification discount.[2] However, despite the importance of corporate culture for firm value that hedge fund activists ultimately care about, there is limited empirical evidence on the corporate culture dimension. In this paper, I fill this gap by investigating whether and how hedge fund activism can affect corporate culture.

The value implication of corporate culture has been studied extensively. Graham, Grennan, Harvey, and Rajgopal (2016) find that most senior executives in North America view corporate culture as one of the top three factors that affect firm values and 90% of them agree that improving corporate culture will increase firm value. Crémer (1993) and Lazear (1995) argue that corporate culture is a system of shared beliefs and values within an organization. This is crucial because employees face choices that cannot be properly regulated ex-ante (O'Reilly 1989; Kreps 1990). As such, strong corporate culture will coordinate, incentivize, and motivate employees in the right direction even with a lack of costly monitoring, thus alleviating moral hazard problems inside organizations (Akerlof and Kranton 2005; Van den Steen 2010; Guiso, Sapienza, and Zingales 2015), which will lead to better firm performance.

While hedge fund activism literature generally agrees that the major source of value gains

[1]See "Bed Bath & Beyond Investors Set For Infinity As Activist Says Market Undervalues Company By Billions" Forbes, Oct 29, 2019.

[2]See Brav, Jiang, Partnoy, and Thomas (2008); Clifford (2008); Becht, Franks, Mayer, and Rossi (2009); Brav, Jiang, and Kim (2015); Aslan and Kumar (2016); Brav, Jiang, Ma, and Tian (2018); Boyson, Gantchev, and Shivdasani (2017) ; Gantchev, Sevilir, and Shivdasani (2020); Wu and Chung (2021); Kim (2020).

are improving corporate governance (e.g., CEO turnover, pay-for-performance sensitivity, and board composition) or efficient resource reallocation, I posit that enhancing corporate culture can be another potential source of value gains in hedge fund activism.

Anecdotal evidence suggests that hedge fund activists indeed care about corporate culture. For example, in early 2019, a group of activist funds (Legion Partners, Macellum Capital Management, and Ancora Advisors) targeted Bad Bath & Beyond. In their presentation, the activists wrote: "What is broken? Company culture. We believe Bed Bath's current corporate culture is best described as one where tenure is the biggest driver of upward mobility rather than merit...Leadership restoration to start at the board level by adding fresh retail operating perspectives and institution culture of results, measurement, and accountability". The activists also raised integrity issues regarding suspicious related-party transactions with founders' children, which were not disclosed in the SEC filings and the incumbent CEO's involvement in the option backdating scandal in 2006. At the end of 2019, the company's founders retired from the board, incumbent CEO Steven Temares was ousted, and the activists picked Mark Tritton, the former Chief Merchandising Officer at Target, as a new CEO. Asking for culture turnaround, the activists identify improving corporate culture as a potential source of value creations.[3]

By using a hedge fund's filing of Schedule 13D as the beginning of a hedge fund activism event, I first empirically examine the impact of hedge fund activism on corporate culture by employing a difference-in-differences design. Next, I use the five dimensions of corporate culture measure introduced in Li, Mai, Shen, and Yan (2020b) as a proxy for corporate culture. This corporate culture measure is based on textual analyses of firms' Q & A section of earnings conference calls, classifying corporate culture into five dimensions: quality, respect, innovation, integrity, and teamwork proposed by Guiso, Sapienza, and Zingales (2015). The rationale for using the Q&A section of calls to proxy for corporate culture is that the current

[3]For details of this example, please refer to https://www.sec.gov/Archives/edgar/data/886158/000092189519001180/ex1dfan14a09050028_04262019.pdf and https://www.forbes.com/sites/jimosman/2019/10/29/bed-bath-beyond-infinity-market-billions/?sh=572ee6007050

CEO primarily shapes corporate culture (Graham, Harvey, Grennan, and Rajgopal (2017), and this is one of the few extemporaneous communication channels that periodically involve current CEOs (Lee 2016). As such, the words that CEOs use during the Q&A session can reveal the implicit set of cultural values that matter to them, which could be transmitted to their company and employees. As a result, capturing words usage by the current CEOs in less formal contexts can provide a more nuanced picture of the firms' cultural orientation.

In the baseline analysis, I find that target firms' corporate culture improves after hedge fund activism compared to non-target firms. Target firms start to emphasize building organizational culture with better quality, growing respect, more innovation, and higher integrity, although teamwork-oriented culture does not increase. Specifically, after the arrival of hedge fund activists, target firms improve corporate culture measured by the culture index (i.e., the sum of the five culture scores) by 5.8% relative to the sample average. This result is robust to including firm and industry-by-year fixed effects, using different event windows, and considering sample attrition bias.

Next, I examine the possible mechanism through which hedge fund activists improve corporate culture. I find that these positive effects of activism on corporate culture are mainly driven by CEO turnover, especially if incumbent CEOs are replaced by outsiders, not insiders. Compared to internally promoted CEOs, externally hired CEOs may be better positioned to detect cultural deficiencies that target firms need to improve because they are newcomers and have experienced various types of different corporate cultures previously. Furthermore, they may have greater discretionary power to reshape corporate culture because they are often hired to reform the company and they alter the composition of executive team members who can support their new directions (Hambrick and Finkelstein 1987; Bailey and Helfat 2003; Huson, Malatesta, and Parrino 2004; Charan 2005; Biggerstaff, Cicero, and Puckett 2015). It is well-known that hedge fund activists target firms with deteriorating performance and promote CEO turnover (Brav et al. 2008). As dissident shareholders, hedge fund activists may prefer replacing incumbent CEOs with outsiders, who are better suited to bring new perspectives and cultural changes into troubled target firms to turn them around. Thus, my finding suggests that outside CEO turnover is a plausible channel for the observed cultural improvement after activism.

Additionally, I investigate whether activist appointed directors could also affect target firms' corporate culture. Activist directors as newcomers can break like-minded culture among executive teams and have the power to implement their agenda because they are delegated by the powerful dissident shareholder groups (Kang, Kim, Kim, and Low 2020). Therefore, they could induce the cultural change in target firms as well. I find that the improvement in culture subsequent to hedge fund activism is more significant for target firms with activist appointed directors than target firms without them. However, the cultural change associated with activist appointed directors is only significant when their presence is accompanied by outside CEO turnover. These results indicate that activist appointed directors themselves do not directly set the corporate culture but instead indirectly affect the choice of culture by hiring the CEO from outside the company to change the way in which a firm is being run. This finding is also consistent with the executives' survey result in Graham et al. (2016), documenting that boards do not directly decide the corporate culture but indirectly influence the culture by selecting the CEO.

While the Q&A section of a call is useful for capturing top leadership's cultural orientation, there is still concern that managers may not "walk the talk." To address this concern, I use Glassdoor data to analyze how the employees in target firms view their firms after activism. I find that subsequent to activism, target firms' employees become more satisfied, perceive their firms' culture as improved, give higher ratings for senior management, write less Cons reviews, and show more positive sentiments in Pros reviews, compared to their industry-year peers. Further, these positive effects of activism on employee satisfaction are mainly concentrated in target firms with outside CEO turnover, not those with inside CEO turnover, consistent with the previously documented mechanism. Hence, these results provide an important validation that hedge fund activists bring about positive change in corporate culture, even from the perspective of rank and file employees.

Next, I examine the characteristics of new outside CEOs in both target firms and control firms in the post-event period. My key argument implies that hedge fund activists induce target firms' boards to search for qualified CEOs from outside, thereby instilling new and better corporate culture. I find that compared to outside CEOs in control firms, newly joined outside CEOs of target firms in the post-intervention period are more likely to be older, have worked in the same industry as their focal firms, and serve as a CEO. Also, they are recruited from firms that have better corporate culture and experience higher asset sales. Therefore, activists can detect and bring more experienced industry veterans as a new CEO, and the new leadership could be better able to restructure troubled firms along with facilitating the dissemination of better corporate culture to target firms.

I also analyze the role of culture for firm value. I find that target firms involving outside CEO turnovers show higher positive changes in firm performance than target firms involving inside CEO turnovers in the post-activism period. This provides evidence on the link between corporate culture and firm value as only target firms with outside CEO turnovers show positive cultural changes in the previous analysis. Moreover, I find that the performance improvements around the appointments of outside CEOs in target firms are greater than those in matched firms, indicating that hedge fund activists play a role in recruiting better-qualified CEOs outside the firms. Overall, these results are consistent with a positive link between culture and performance documented in the previous literature, and improving corporate culture by removing ineffective incumbent leadership is also an important source of value gain in hedge fund activism.

The above evidence so far suggests that hedge fund activism transforms corporate culture by bringing in new leadership to target firms. However, it is not clear to what extent the observed effect is causal because unobserved and omitted characteristics could be correlated with both the decision to target and corporate culture. Furthermore, due to the nonrandom nature of activists targeting, it may be argued that hedge fund activists intentionally select the targets, which are anticipated to improve corporate culture regardless of the pressure of activists.

To address those concerns, I first test the parallel trend assumption that the average change in corporate culture would be similar for both target firms and non-target firms with the absence of hedge fund activism. I find that shifts in culture start one year after and not before the intervention of hedge funds, satisfying the parallel trend assumption. Another concern is that hedge fund activists do not select the targets randomly. I address this issue by performing propensity score matching based on the same two-digit SIC industry and year combined with firm-level variables, including deteriorating operating performance in a similar spirit of Brav et al. (2018) to make the targets and non-targets similar in observable dimensions. All analysis in this study uses the matched sample. I further focus on the subsample of openly confrontational events in which management resists hedge fund activists so that it could be hard to attribute the cultural change after the events to management's voluntary or planned change. I still find that hedge fund activists affect corporate culture in the subsample of hostile engagements. Finally, outside CEO turnovers, which are the main channel for target firms' cultural changes, are unlikely to have occurred without hedge fund activists' pressure.

My paper makes several contributions. First, this paper contributes to the literature on hedge fund activism. Brav et al. (2008), Bebchuk, Brav, and Jiang (2015), Brav, Jiang, and Kim (2015), and Brav et al. (2018) collectively show that hedge fund activists increase target firms' operating performance, CEO turnover, production productivity, and innovation efficiency. Gantchev, Sevilir, and Shivdasani (2020) and Wu and Chung (2021) find that activism increases shareholder value by monitoring target firms' M&A decisions. Hedge fund activism also has spillover effects on target firms' product market rivals and industry peers (Aslan and Kumar 2016; Gantchev, Gredil, and Jotikasthira 2019). This paper extends the literature by investigating whether hedge fund activism is related to a change in target firms' corporate culture. Additionally, whereas previous studies document that enhancing corporate governance or efficient resource allocations are major channels through which activism improves firm performance (e.g., Brav et al. 2008; Brav, Jiang, and Kim 2015), my study provides evidence that improving corporate culture is also an important source of value gain in hedge fund activism. Besides, there has been a long debate whether hedge fund activism is pursuing short-term stock gains at the expense of firm's long-term value (Bebchuk, Brav, and Jiang 2015; Coffee Jr and Palia 2015; Cremers, Giambona, Sepe, and Wang 2015). I add evidence that hedge fund activism indeed increases *long-term* oriented cultural values such as *Innovation* and *Integrity*, which are key determinants for long-term value creation.

Second, this paper is broadly related to CEO turnover literature. There is mixed evidence on whether inside or outside CEOs lead to better firm performance. While Ferris, Jayaraman, and Lim (2015) find that firms show higher operating performance subsequent to inside succession, Kang and Shivdasani (1995) and Huson, Malatesta, and Parrino (2004) document that firm performance improves more following outside succession. Bai and Mkrtchyan (2020) show that outside CEOs achieve higher firms' plant productivity than inside CEOs. This paper provides evidence supporting the view that outside CEOs are more suitable to turn around firms with deteriorating performance than inside CEOs. Additionally, I document that cultural restructuring is one of the important underlying mechanisms in outside CEOs' superior performance.

Third, my study contributes to the growing literature examining the connection between corporate culture and firm value. Edmans (2011) find that firms included in the "100 Best Companies Work for" show a higher future abnormal return. Guiso, Sapienza, and Zingales (2015) find that firm value increases only if the employee perceives management who proclaims specific cultural values as trustworthy and ethical. In Graham et al. (2016), 92% of top executives in North America believe that enhancing corporate culture increase firm value. Li et al. (2020b) show that a solid corporate culture is positively related to firm performance. Li, Liu, Mai, and Zhang (2020a)) find that this is especially useful in bad times.

Apart from Grennan (2019), who shows that culture is an important factor of how corporate governance affects firm value in the context of close-call proxy voting, [4] I specifically focus on hedge fund activism as a unique setting to identify the link between culture and performance. I contribute to the literature by showing that hedge fund activists unlock the value of corporate culture concealed under ineffective incumbent leadership, which in turn leads to an increase in firm value.

In Section 2, I address the sample and variable measurement. Section 3 presents my empirical results, and Section 4 discusses further issues and concludes.

2 Data and Sample Construction

2.1 Culture

2.1.1 Earnings Conference Calls' Q&A section

The sample of culture data is from the Q&A section of earnings call transcripts over the period 2001–2017. Unlike national culture which cannot be easily changed, corporations as micro-societies can shape their own cultural values by hiring and firing employees (Zingales 2015). In a survey (Graham et al. 2017), more than half of top executives think that the current CEO primarily shapes the corporate culture. Top executives in this survey recommend using earnings conference call transcripts to measure corporate culture since mostly CEOs talk to analysts, and the tone and the words of CEOs can convey the implicit set of cultural values that matter to them. In line with this survey result, Li et al. (2020b) use earnings call transcripts as a source to measure corporate culture, and specifically focus on the Q&A section instead of the predetermined management presentation section to reflect the more informal and spontaneous nature of calls (Lee 2016). In addition, Matsumoto, Pronk, and Roelofsen (2011) show that the Q&A section is more informative than the management

[4] A large portion of hedge fund activists use various tactics such as communications, litigation, public media, and takeover threats (Gantchev 2013; Khurana, Li, and Wang 2018) in addition to shareholder proposals. According to Gantchev (2013), only 7% of activism events engage in a proxy fight.

presentation section due to active analyst involvement. Similarly, Bochkay, Hales, and Chava (2020) find that investor responses are stronger for the use of extreme tone in the Q&A section than the use of a similar tone in the management presentation section.

Following Guiso, Sapienza, and Zingales (2015), the cultural values are classified into quality, respect, innovation, integrity, and teamwork. By using a machine learning technique (i.e., word embedding model (*word2vec*) developed by Mikolov, Sutskever, Chen, Corrado, and Dean 2013), Li et al. (2020b) parse all the earnings transcripts, especially Q&A sections, and develop a firm-year score of each cultural value based on weighted-frequency count of the words related to the cultural values divided by the total number of words in the script. The weighting scheme is tf(term frequency).idf(inverse document frequency), penalizing repeated words in every document along with less important words (See Li et al. 2020b for a detailed description of the data and machining learning method). Finally, each cultural value's firm-year scores are three-year moving averages of annual scores.

Unlike most textual analysis methods that often treat words independently regardless of orders and contexts, the word embedding model (*word2vec*) can reflect the immediate context of words by giving similar vectors for words used in the similar context through a neural network. This feature of the deep learning method is especially useful to measure corporate culture since CEOs discuss their deeply rooted cultural values subtly and implicitly, which is hard to capture without knowing a specific context. As Loughran and McDonald (2011) note, experts can develop a word dictionary by manually classifying words that occurred in a context. However, corporate culture is usually expressed using idioms, abbreviations, and less frequently used words, which are understood in a specific context (Li et al. 2020b). Thus, it might be difficult for humans to go through every possible combination of word classification objectively without the help of technology.

2.1.2 Glassdoor data

In addition, I obtain employee ratings from Glassdoor to corroborate the earning- calls-based corporate culture measures from the perspectives of employees. Although the extemporaneous Q&A section of a call is useful for capturing top leadership's cultural orientation, there is still concern that managers may not "walk the talk." Accordingly, using employee ratings from Glassdoor could provide important validation of whether rank and file employees believe top managers live by their values.

Founded in 2008, Glassdoor is one of the largest employee review sites in the U.S. As of 2021, 70 million reviews and salaries & insights have been posted, covering around 1.3 million employers worldwide as of 2021.[5] Glassdoor provides five-point scaled ratings for each company in areas such as an overall rating, work/life balance, culture & values, career opportunities, compensation and benefits, and senior management. Reviewers are also required to provide pros and cons about their employer. Thus, I utilize a part of the numerical ratings and the scaled relative length of pros and cons text combined with sentiment analysis as additional proxies for corporate culture, assuming that corporate culture is positively associated with employee satisfaction.

2.2 Hedge Fund Activism

Hedge fund activism events can be obtained on SEC Edgar, using 13D filings. Section 13(d) of the 1934 Securities Exchange Act stipulates that investors must file with the SEC within ten days if they intend to influence the company's management and own more than 5% beneficial ownership of a company. My study sample covers 13D filers identified as hedge funds or those engaged in activism with less than 5% ownership in the target company over the period from 2004 to 2014. I start the activism sample from 2004 to trace the cultural change beginning three years before the year of the activism. Next, I combine this sample with the Shark-Repellent.net database, providing detailed activism campaign

[5] https://www.glassdoor.com/about-us/

purposes, strategies, and outcomes. I exclude firms in government (SIC codes 9000 to 9999) and those targeted by activists repeatedly during the sample period. My final sample consists of 691 hedge fund activism events from 2004 to 2014.

Table 1 presents the distribution of 691 hedge fund events by the year and industry. Panel A of Table 1 shows that hedge fund activism peaked in 2007 but declined during the financial crisis period. Notably, firms' innovation culture has been improving over the years. Panel B shows the industry distribution of targeted firms based on Fama-French 12. Hedge fund activists primarily target high tech firms (25%), followed by those in healthcare (12.5%) and wholesale (12.4%). The higher culture_index and innovation scores for tech firms are consistent with the popular view that tech industry has a good corporate culture and is very innovative. Interestingly, the energy industry exhibits the lowest integrity score, which is aligned with the notion that that industry is more likely to be susceptible to bribery, lobby, and corruption when doing business overseas.

2.3 Sample Construction

I combine hedge fund activism data with the culture data to construct the sample used in this study. My primary sample consists of hedge fund target firms and non-target firms matched by propensity score matching. I first match each target firm in year t with a non-target firm in the same two-digit SIC industry code from the same year that has the closest propensity scores estimated based on log firm size, return on asset (ROA), R&D ratio, leverage ratio, Tobins' Q, log firm age, the five culture scores, all measured at $t-1$, and the change in ROA between $t-3$ and $t-1$ to capture deteriorating operating performance of target firms before activism. The year of the activism event for a target firm, t, also serves as a "pseudo-event" year for its matched firm. I exclude matched firms if they are treated later. Finally, the sample is limited from three years before and after the activism event year ($t-3$, $t+3$). I obtain the firm's financial information and CEO information from Compustat and ExecuComp, respectively. I winsorize all unbounded financial variables at the 1st and

99th percentile values.

Table 2 shows the summary statistics of target firms and their matched firms in the one year prior to the event year ($t-1$). The last two columns report the difference and the t-statistics testing the equality of means of the target firms and the non-target firms. The target firms and the non-target firms report statistically similar firm characteristics, although target firms have a 2.5% greater cash ratio. Also, the five cultural values, which are the main outcome variables of interest, are statistically indistinguishable between the target firms and the non-target firms, whereas the sum of the five culture value scores is slightly higher for the target firms. Overall, the target firms and their matched non-target firms are similar in observable dimensions of firm characteristics and five dimensions of corporate culture scores, alleviating concerns that hedge fund activists do not select targets randomly.

3 Results

3.1 Hedge Fund Activism and Corporate Culture

3.1.1 Corporate Culture After Activism

In this section, I examine the impact of hedge fund activism on corporate culture. The sample is firm-year level observations from 2001 and 2017, consisting of target firms and their matched firms. The total firm-year observation is 8291. The panel data includes the observations from three years before and after the year of an activism event or pseudo-event year ($t-3$, $t+3$). I run the following difference-in-difference (DID) regression model :

$$Culture_{i,t} = \beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it} \tag{1}$$

where the dependent variable, $Culture_{i,t}$ is the sum of the five corporate culture scores (i.e., $Overall\_Culture$) or each cultural score (i.e., $s\_quality$, $Respect$, $Innovation$, $Integrity$, $Teamwork$). $Treat_i$ is equal to one if a firm i is targeted by hedge fund activists and zero otherwise. $Post_{i,t}$ is an indicator equal to one if the observations are within $(t+1,\, t+3)$ after the year of activism event (for targeted firms) or a pseudo-event year (for matched firms). $\mathbf{X}_{i,t-1}$ is a vector of control variables, including leverage ratio, ROA, Tobins' Q, the natural logarithm of asset and firm age. In addition to firm fixed effects, δ_i, industry-by-year fixed effects δ_{jt} are included. Standard errors are clustered at the firm level. The coefficient of our main interest is β_1, associated with $Treat_i \times Post_{i,t}$, which indicates that the differential change in corporate cultures for target firms after hedge fund activism, relative to those for matched firms. The results from this regression are presented in Table 3.

Columns 1-6 in Table 3 provide my main regression results, which show that the coefficients on $Treat_i \times Post_{i,t}$ are all positive and highly significant except for *teamwork* culture, indicating that, on average, hedge fund activism is associated with improving corporate culture especially *Quality*, *Respect*, *Innovation*, and *Integrity*, compared to the changes that occurred in the matched firms. More specifically, the coefficient in Column 1 suggest that target firms enhance the overall level of corporate culture by 0.33 percentage points over matched firms after activism. Additionally, the coefficient in Columns 2-5 indicate that target firms focus on building 0.079 more percentage points in quality, 0.079 more percentage points in respectability, 0.107 more percentage points in innovation, and 0.045 more percentage points in integrity relative to their matched firms after hedge fund intervention. In terms of economic significance, target firms show 5.8% (=0.33/5.66), 5.6% (=0.079/1.4), 7.6% (=0.079/1.039), 5.9% (=0.107/1.827), and 7.9% (=0.045/0.573) more significant improvement for the above cultural values (i.e., *Overall_Culture*, *Quality*, *Respect*, *Innovation*, and *Integrity*) relative to the mean of each cultural value subsequent to activism. Notably, target firms emphasize long-term cultural values such as innovation and integrity as well, adding evidence that hedge fund activists are not merely short-term oriented. Overall, these results strongly indicate that hedge fund activism positively impacts the various dimensions of corporate culture for target firms relative to their matched controls.

3.1.2 Dynamics Around Hedge Fund Activism

To ensure that different pre-event trends between targets and their matched firms do not drive my results, I explore year-by-year dynamics of corporate culture for target firms compared to matched firms by running the following regression.

$$Culture_{i,t} = \sum_{k=-3}^{+3} \lambda_k d[t+k]_{i,t} + \sum_{k=-3}^{+3} \beta_k \{d[t+k]_{i,t} \times Treat_i\} + \mathbf{X}_{it-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it} \quad (2)$$

Following the previous analysis, I use *Overall_Culture* and each cultural score for the main dependent variables. $d[t+k]_{i,t}$ is a dummy variable equal to one if the firm target year is k years from the activism event year or (pseudo-event year). The coefficients, β_{t-3}, ... β_{t+3}, are the slopes on the interactions of yearly dummies spanning three years before and after the activism event year or (pseudo-event year). $Treat_i$ is equal to one if a firm i is targeted by hedge fund activists and zero otherwise. As in equation (1), I use leverage ratio, ROA, Tobins' Q, the natural logarithm of asset and firm age, combined with firm and industry-by-year fixed effects. Standard errors are clustered at the firm level.

The regression results are presented in Table 4 and show that the differences in *Overall_Culture*, *Quality*, *Respect*, *Integrity*, and *Innovation* between target and control firms are statistically insignificant and economically negligible in the pre-event period ($t-3$ to $t-1$). However, divergence begins to emerge in the post-event period ($t+1$ to $t+3$). In Column 1, β_{t+1}, β_{t+2}, and β_{t+3} are all statistically significant and economically meaningful, suggesting that the evolution of cultural enhancement begins after hedge fund intervention. In Columns 2-5, I observe a similar pattern in which the treatment effect of hedge fund activism materializes after the intervention. Thus, the results in Table 4 highlight that the parallel pre-event trend assumption is satisfied, alleviating concerns of unobserved differences besides hedge fund intervention that might also lead to post-event differences in corporate culture between target and matched firms. Overall, these results indicate that target firms focus on building better corporate culture regarding quality, respect, innovation, and integrity after hedge fund interventions.

3.2 Hedge Fund Activism and Corporate Culture: Mechanisms

This section examines the cross-sectional nature of the sample to identify the potential mechanisms through which hedge fund activists enhance firms' corporate culture.

3.2.1 CEO Turnover

According to the survey by Graham et al. (2017), 55% of top executives in the U.S indicated that the current CEOs primarily set corporate culture. Yet, surprisingly, only 30% of executives identify the effect of founders on corporate culture. These results highlight that corporate culture is not fixed and can be reshaped by new leadership.

Previous literature finds that, after the arrival of hedge fund activists, CEO turnover significantly increases. For example, Brav et al. (2008) find a 12%-13% increase in CEO turnover after activism. Wu and Chung (2021) also show that 12.6% of target firms' CEOs are forced to leave, whereas 4% of the matched firms' CEOs are forced to leave during the post activism period. If the current CEOs primarily shape the culture and hedge fund activists expedite the replacement of incumbent CEOs, then I expect that the effect of hedge fund activism on corporate culture should be stronger for activism events involving a subsequent CEO turnover than otherwise. To test this prediction, I run the following regression model:

$$\begin{aligned} Culture_{i,t} = {} & I(CEO\_Turnover_i)\{\beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t}\} \\ & + I(No\_CEO\_Turnover_i)\{\beta_3 Treat_i \times Post_{i,t} + \beta_4 Post_{i,t}\} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it} \end{aligned} \tag{3}$$

$I(CEO\_Turnover)$ and $I(No\_CEO\_Turnover)$ are dummy variables equal to one if the firm is targeted by activists and experiences at least one or no CEO turnover within the three years subsequent to the intervention and their respective matched firms. I define turnover event in a given fiscal year t to occur, if the same CEO in year t does not appear in the following fiscal year $t+1$. The same set of control variables is used as in equation (1), combined with firm and industry-by-year fixed effects. The standard errors are clustered at the firm level.

The results are presented in Table 5. In Columns 1-6, the coefficient β_1 on $Treat_i \times Post_{i,t}$ for the CEO turnover subsample is positive and significant except for $s\_teamwork$, which is similar to my main finding in Table 3. However, in most specifications, the coefficient β_3 for the subsample without CEO turnover is insignificant. These results suggest that target firms whose incumbent CEOs are replaced with new leadership show a greater level of cultural change subsequent to activism, which is consistent with the prediction that hedge fund activists could affect corporate culture by increasing CEO turnover. Also, these findings are in line with the evidence that the current CEOs matter most in shaping corporate culture (Graham et al. 2017).

3.2.2 Inside vs Outside CEO Turnover

To corroborate the previous finding that hedge fund activists reshape target firms' corporate culture by bringing in a new CEO, I further investigate whether the impact of hedge fund activism on culture could be different based on the specific types of new CEOs (i.e., insider or outsider).

Parrino (1997) argues that outside CEO succession is more attractive to change the direction of a firm if it has not been doing well, whereas inside CEO succession is preferred to continue a firm's current policy when it is performing well. Based on the previous evidence that target firms show the deteriorating trend of operating performance prior to activism (Brav et al. 2008), I would expect that hedge fund activists as dissident shareholders with power are more likely to bring in a new CEO from outside the company to change the way in which a firm is being run. Consistent with this prediction, I find that 10.5% of the target firms underwent outside CEO turnovers, compared to 3.2% of the matched firms during the post-intervention period, indicating that hedge fund activists are more likely to promote outside CEO turnovers.

As newcomers, outside CEOs may be better able to detect cultural deficiencies that firms need to improve, compared to inside CEOs. Moreover, they may have more power (Hambrick and Finkelstein 1987; Biggerstaff, Cicero, and Puckett 2015) to implement cultural transformation because they are commonly hired to change corporate strategic direction and are backed by strong shareholders, especially in the case of target firms. Therefore, I predict that cultural improvement is greater for activism events involving an outside CEO turnover than those involving a inside CEO turnover subsequent to the arrival of hedge fund activists. To test this prediction, I further divide the subsmple with CEO turnover into two subsamples based on inside and outside CEO turnover. I then run the following regression :

$$\begin{aligned} Culture_{i,t} = {} & I(Outside\_CEO\_Turnover_i)\{\beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t}\} \\ & + I(Inside\_CEO\_Turnover_i)\{\beta_3 Treat_i \times Post_{i,t} + \beta_4 Post_{i,t}\} \\ & + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it} \end{aligned} \tag{4}$$

$I(Outside\_CEO\_Turnove_i)$ and $I(Inside\_CEO\_Turnover)$ are dummy variables which are equal to one if a firm is targeted by activists and an incumbent CEO is replaced by a firm outsider or a firm insider within the three years subsequent to the intervention and their respective matched firms. Following Parrino (1997), I define a firm outsider (insider) if a person joined the firm for less (more) than two years. The same set of control variables is used as in equation (1), combined with firm and industry-by-year fixed effects. The standard errors are clustered at the firm level.

The results are shown in Table 6. Columns 1-5 (8-12) in Table 6 show that the coefficients on the interaction term, $Treat_i \times Post_{i,t}$, are all positive and significant (insignificant), suggesting that the effect of hedge fund activism on corporate culture is mainly concentrated in the subsample in which an outsider, not an insider, replaces an incumbent CEO. The interpretation of these results is that insiders are more likely to share the tacit nature of corporate culture that predecessor CEOs have shaped than outsiders since they have worked under their predecessors' leadership and may get promoted by a board of directors, possibly due to cultural fit or maintaining the stats-quo. On the other hand, outsiders are less likely to share their newly joined firms' existing corporate culture because they were exposed to different corporate cultures at their previous workplaces. Overall, these results highlight that the observed cultural improvement after hedge fund activism is mainly driven by outside CEO turnovers promoted by activists.

3.2.3 Do Activist Directors Affect Corporate Culture?

In this section, I examine whether activist directors[6] can also affect target firms' corporate culture. Hedge fund activism is commonly associated with an increase in board turnover rates and activist board representation as a result of proxy fights or settlements with target firms (Brav et al. 2008; Bebchuk, Brav, Jiang, and Keusch 2020).[7] It is plausible that newcomer activist directors backed by large activists shareholders can bring fresh perspectives, break like-minded cultures, and challenge the existing norms (Carter, Simkins, and Simpson 2003; Kang et al. 2020), thereby inducing cultural change in target firms in addition to outside CEO turnover.

To test this prediction, I classify whether an activism event finally results in attaining target firms' board seats by using Factset data and manual search. In my sample, 30% of activism events(i.e., 205 events out of 691 hedge fund activism events) led to the appointments of activist directors in the board room, which is consistent with the finding in Brav et al. (2008) showing that activism increases board turnover in addition to CEO turnover.

If activist directors also influence target firms' culture, activism events with the appointments of activist directors should show greater cultural change than those without the

[6] Here, activist directors include activists themselves as board members and candidates backed by activist shareholders.

[7] Bebchuk et al. (2020) find that target firms accept activist board representation in 84% of settlement cases with activist funds.

appointment of activist directors. So I run the following regression :

$$
\begin{aligned}
Culture_{i,t} = {} & I(Activist\_Directors_i)\{\beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t}\} \\
& + I(No\_Activists\_Directors_i)\{\beta_3 Treat_i \times Post_{i,t} + \beta_4 Post_{i,t}\} \\
& + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}
\end{aligned} \tag{5}
$$

$I(Activist\_Directors)$ and $I(No\_Activist\_Directors)$ are dummy variables which are equal to one if a firm is targeted by activist and experiences at least one or no appointment of board members proposed by activists within the three years subsequent to the intervention and their respective matched firms. The same set of control variables is used as in equation (1), combined with firm and industry-by-year fixed effects. The standard errors are clustered at the firm level.

The results are presented in Panel A of Table 7. In most specifications, the coefficient β_1 on $Treat_i \times Post_{i,t}$ for the subsample with the appointments of activist directors is positive and significant except for $Teamwork$, while the coefficient β_3 on $Treat_i \times Post_{i,t}$ for the subsample without the appointments of activist directors shows weaker effects. These results indicate that activist directors also play a role in enhancing corporate culture.

The question still remains as to how activist directors affect corporate culture. Do activist directors directly affect corporate culture or indirectly reshape culture by selecting a new CEO from outside? To answer this question, I focus on the subsample of target firms with the appointments of activist directors and their matched firms only. I then split this subsample into two: activism events with outside CEO turnover and those without outside CEO turnover. I repeat the same analysis. The results are presented in Panel B of Table 7. I find that the positive effects of activism on corporate culture are only present in the subsample with the appointments of activist directors, along with outside CEO turnover, suggesting that the mere presences of activist directors without accompanying outside CEO turnover have minimal effect on corporate culture. This finding is also consistent with the survey evidence in Graham et al. (2016) that boards do not directly set the corporate culture but indirectly influence the choice of culture by hiring the CEO.

Given that activist directors are typically appointed through proxy fights or a settlements resulting from private negotiations between the incumbent management and dissident shareholders, activist directors could be more dissatisfied with the incumbent leadership than inside directors, leading them to search for a new CEO from outside rather than inside. Similar to this intuition, Weisbach (1988) and Borokhovich, Parrino, and Trapani (1996) find that outside directors are more likely than inside directors to dismiss a poorly performing CEO and to replace her with an executive who will improve firm performance. Accordingly, activist directors as powerful outside directors could bring in a new external CEO to reshape target firms' corporate culture in certain directions, which could increase firm value. Overall, the findings in this section confirm that outside CEO turnover is a first-order mechanism for the cultural transformation of target firms, although activist directors play an indirect role by promoting outside CEO turnover.

3.3 Employee Reviews: Do Companies "Walk the Talk"?

In this section, I investigate whether the employees of target firms also perceive their firms' corporate culture as improved after activism. Although earnings conference call Q&As can be more spontaneous and there are fewer chances of excessive self-promotion than in a scripted management presentation, it might still be possible for managers not to "walk the talk". To corroborate the top-down cultural measures from earnings calls, I utilize a bottom-up approach by using Glassdoor reviews, which provides rank and file employees' perceptions about their firms. Given that Glassdoor data dates to 2008, this analysis concentrates on firm-year observations from 2008 to 2017. Additionally, the activism event sample begins in 2011 to follow the cultural change beginning three years before the year of activism.

The results are presented in Table 9. In Column 1, the dependent variable is Culture & Values. The coefficient on the interaction term, $Treat_i \times Post_{i,t}$ is positive and statistically significant, indicating that target firms' employees view that corporate culture improves compared to their matched firms after hedge fund activism.

Column 2 shows that the overall employee satisfaction also increases following the activist intervention. Columns 3 and 4 indicate that employees in target firms become more favorable to senior management and experience better compensation, respectively. Columns 5 suggests that employees write less Cons reviews about their firms than those in control firms subsequent to activism. Column 6 (7) examines positive (negative) sentiment in Pros (Cons) reviews. The dependent variable is the ratio of the number of positive (negative) sentiment words to the total number of words in Pros (Cons) reviews. I measure sentiment with Loughran and McDonald (2011) dictionary: positive and negative.[8] I find that, after hedge fund intervention, target firms show greater positive sentiment in Pros reviews relative to matched firms, although I do not find any changes in negative sentiment of Cons reviews. Collectively, the combined evidence alleviates concerns that management in target firms may not "walk the talk."

Importantly, Columns 8 and 9 show that the effect of activism on corporate culture is only significant when incumbent CEOs are replaced by outsiders, not insiders, which is consistent with the mechanism documented in the previous analysis. Brav, Jiang, and Kim (2015) show that target firms' labor productivity increases significantly after activism and argue that this improvement could be obtained via better monitoring of employees. While the anecdotal evidence is in line with the better monitoring channel, [9] the results in Table 8 could provide evidence that reviving employees' morale through removing inefficient leadership in troubled firms may also explain the improvement in labor productivity.[10]

Taken together, the results in this section suggest that employees at target firms perceive

[8]Loughran and McDonald (2011) dictionary can be found at `https://sraf.nd.edu/textual-analysis/resources/` In this study, I use 2018 Master Dictionary to measure sentiment.

[9]In the "Restore the Bad Bath & Beyond presentation slide", activists said that "New culture will be driven by facts and data – corporate employees and store managers will be measured and rewarded on a variety of fundamental metrics that tie to growth and profitability

[10]After the activism event, employees in Bad Bath & Beyond left reviews in Glassdoor. For example, "significant change underway to improve corporate culture", "new leadership is our only hope to succeed", "important, good, but painful changes happening" and "new leadership making the right changes and aware of employee efforts"

that their firms' corporate culture is enhanced after activism and confirm that bringing in new external leadership is a key mechanism of how activists improve corporate culture.

3.4 Who are New CEOs?

Given that a key notion for my arguments is that hedge fund activists can detect and bring in the right CEOs from outside to elicit cultural turnaround of target firms, a natural question is which distinct features of the new outside CEOs enable them to achieve better corporate culture, compared to those in matched firms.

To answer this, I gather various information on new outside CEOs such as ages, previous workplaces and positions, industry backgrounds, former workplaces' culture scores, asset sales experiences, etc. from BoardEX, Execucomp, SDC, SEC filings, Linkedin, and Google searches. In the propensity scored matched sample combined with Execucomp, I find that 90 (26) outside CEO turnover events occur out of 147 (97) CEO turnover events for targeted firms (control firms) subsequent to activism. These are equivalent to 61% (=90/147) and 27% (=26/97) of outside CEO turnover rates for targeted and control firms, respectively.

Next, I investigate the characteristics of the new outside CEOs in Panel A of Table 8. I find that new outside CEOs in target firms are more likely to be older, have worked previously in the same industry as a CEO than those in matched firms, indicating that activists can bring in more experienced industry veterans as new CEOs. I find no evidence that target firms' new CEOs are more likely to be female, have larger networks, or have finance expertise. It is well documented in the literature that activists' targeting has shown an industry clustering (Aslan and Kumar 2016; Gantchev, Gredil, and Jotikasthira 2019). This enables activists to accumulate expertise in a diverse set of industry trends and obtain specific knowledge in industry best practices collectively (Brav et al. 2018). As such, activists could leverage their industry knowledge or networks to search for more capable industry veterans.

Additionally, the results in Panel B of Table 8 show that newly joined outside CEOs in target firms are recruited from firms that have higher cultural scores in several dimensions, compared to those in matched firms during the post-intervention period. These results may suggest that the newly hired outside CEOs in target firms are more likely to transmit better corporate culture to target firms relative to those in matched firms. Interestingly, target firms' new CEOs seem to experience more asset sales in their previous workplaces, which could potentially explain the findings in (Gantchev, Sevilir, and Shivdasani 2020) showing that target firms engage in more divestitures and achieve higher divestiture returns than matched firms. Overall, the results in this section indicate that hedge fund activists play a role in not only removing ineffective incumbent management, but also bringing in new CEOs whose characteristics and experiences are likely to be useful in restructuring troubled firms along with corporate culture.

3.5 Dose Corporate Culture Matter for Firm Performance?

Having established that hedge fund activism improves corporate culture for target firms through outside CEO turnover, especially by selecting new outside CEOs who have experienced better corporate culture than those in matched firms, I investigate whether the improvement in culture is associated with better firm performance.

The value-enhancing role of culture has been studied extensively. In Graham et al. (2016), 62% and 57% of top executives agree that corporate culture has a significant impact on productivity and firm performance, respectively. In addition, 92% of them believe that enhancing corporate culture would increase firm value. Li et al. (2020a) show that a strong corporate culture is positively related to firm performance, especially during bad times. Edmans (2011) find that firms included in the "100 Best Companies Work for" show a higher future abnormal return.

As a result, I predict that target firms involving outside CEO turnover could outperform those involving inside CEO turnover since the improvement in culture is mostly concentrated in the subsample with outside CEO turnover in the previous analysis. Additionally, If activists bring in new outside CEOs from firms with better corporate culture, I expect that performance improvements could be greater for target firms than matched firms in the case of outside CEO turnover.

To test these predictions, I compute the mean performance changes during the 3-year period post the outside and inside CEO turnover, respectively, for target firms and matched firms. The performance variables are $SalesGrowth$, $ProfitMargin$, and ROA. The results are presented in Table 10. I find that performance improvements are significantly higher for target firms when they replace incumbent CEOs with an outsider than for target firms that replace them with an insider, indicating improving culture is positively related to firm performance. Moreover, newly appointed outside CEOs in target firms outperform new outside CEOs hired by the matched firms, suggesting that hedge fund activists can play an active role in recruiting and supporting new outside CEOs who are more likely to implement better corporate culture, which in turn leads to performance improvement. Overall, new outside leadership change and helping them to execute their own agendase are likely to unlock the value of corporate culture increase firm value through corporate culture.

3.6 Endogeniety concerns and Robustness

In this section, I examine several alternative stories regarding the real effects of hedge fund activism and conduct various robustness tests. First, I explore an alternative story of voluntary reforms by the management of the target firms. This story assumes that management voluntarily improves corporate culture in the absence of the pressure of activists. However, this story is less applicable to hostile activism in which management of target firms typically resisted the hedge activists' agenda (Boyson and Pichler 2019). Thus, if we observed that hedge fund activism positively affects corporate culture in the confrontational activism subsample, it would be hard to argue that the changes are due to target firms' voluntary decisions rather than hedge fund interventions.

To test this alternative story, I classify hedge activism as either hostile or non-hostile based on activist's tactics in Factset corroborated with 13D and 13D/A filings. Following Brav, Jiang, and Kim (2015) and Brav et al. (2018), I consider hostile activism if the activist's approach includes either actual or threatened proxy fights, lawsuits, takeover, removal of directors/officers, or denunciation of the management.

Table 11 reports the regression results using the hostile activism events, combined with their matched control sample. The regression specification is the same as equation (1). Similar to the results for the whole sample shown in Table 3, the coefficients on $Treat_i \times Post_{i,t}$ are all positive and significant except for *teamwork* culture, suggesting target firms are more likely to improve *Innovation*, *Quality*, *Respect*, and *Integrity* culture when the pressure from hedge fund activists is strong. Interestingly, the magnitudes of these estimates in Table 10 are almost two times larger than those reported in Table 3, highlighting that hostile activism could substantially impact changing corporate culture despite managerial resistance. Therefore, these results indicate that the improvement of target firms' corporate culture is primarily due to the activists' pressure rather than the incumbent management's voluntary reforms.

Second, the results documented in the previous sections provide convincing evidence that target firms' cultural change is mainly driven by hedge fund activism. As the main channel for my findings is CEO turnover, especially outside CEO turnover, these events are less likely to occur in the absence of the pressure from hedge fund activists (Brav et al. 2008).

Lastly, I investigate whether a sample attrition bias can affect the main result. Around 26% of firms targeted by activists disappeared from the Compustat sample within two years after the intervention because they were either acquired or delisted (Brav, Jiang, and Kim 2015). To test whether the sample attrition bias might affect the main result, I re-estimate the regression specification as in equation (1) after excluding the samples which dropped from the Compustat universe within two years after the intervention, assuming that activists sell those firms. The results are presented in Table A1. I find that my main results continue to hold, alleviating the concern of the sample attrition bias. Furthermore, I investigate whether or not the main result is sensitive to the event window time period. The results are shown in Table A2, indicating that my results are robust even if I use different target windows such as $(t-2, t+2)$ or $(t-5, t+5)$. Finally, in Table A3, I try different cutoffs for minimum number of reviews in the Glassdoor sample, and continue to find that employees in target firms become more favorable about their firms after activism.

4 Conclusion

In this paper, I study how hedge fund activists affect target firms' corporate culture. By using the novel culture measure developed by Li et al. (2020b) through the word embedding model (i.e., *word2vec*, machine learning methodology to quantify the context-specific meaning of a word or phrase) out of earnings conference call Q&A scripts, I show that hedge fund activists improve the overall level of target firms' corporate culture compared to non-target firms. Specifically, I find that, while teamwork culture does not change, target firms start to build more quality-oriented, innovative, high integrity, and respectable cultures. This result partially refutes the view that hedge fund activism is merely short-term or financial engineering-focused because hedge fund activism is also related to the improvement in a set of long-term oriented cultural values such as innovation and integrity.

Moreover, I find that the target firms' cultural change is mainly driven when incumbent CEOs are replaced by outsiders, not insiders. The new outside CEOs are recruited from firms that have better corporate culture those in matched firms. This result supports the view that hedge fund activism has a real impact on various corporate outcomes beyond the results of luck or mere stock picking. Without the pressure of hedge fund activists as dissident shareholders, CEO turnovers, especially outside CEO turnovers, are less likely to have occurred. Furthermore, I find that target firms' corporate culture improves even when management resists activists' agendas, suggesting that the observed improvement is not from planned change or management voluntary reform but from the effects of hedge fund activism. Additionally, I find that the increase in firm performance is more substantial for target firms with positive cultural change than those without such change, indicating that improving culture could be an important source of value gains in hedge fund activism. Finally, employees in target firms perceive their firms' corporate culture as enhanced and become more satisfied.

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Figure 1: Hedge Fund Activist Presentation

The figures show examples of activists presentation released by a group of activist investors (Legion Partners, Macellum Capital Management, and Ancora Advisors), criticizing Bed Bath & Beyond.

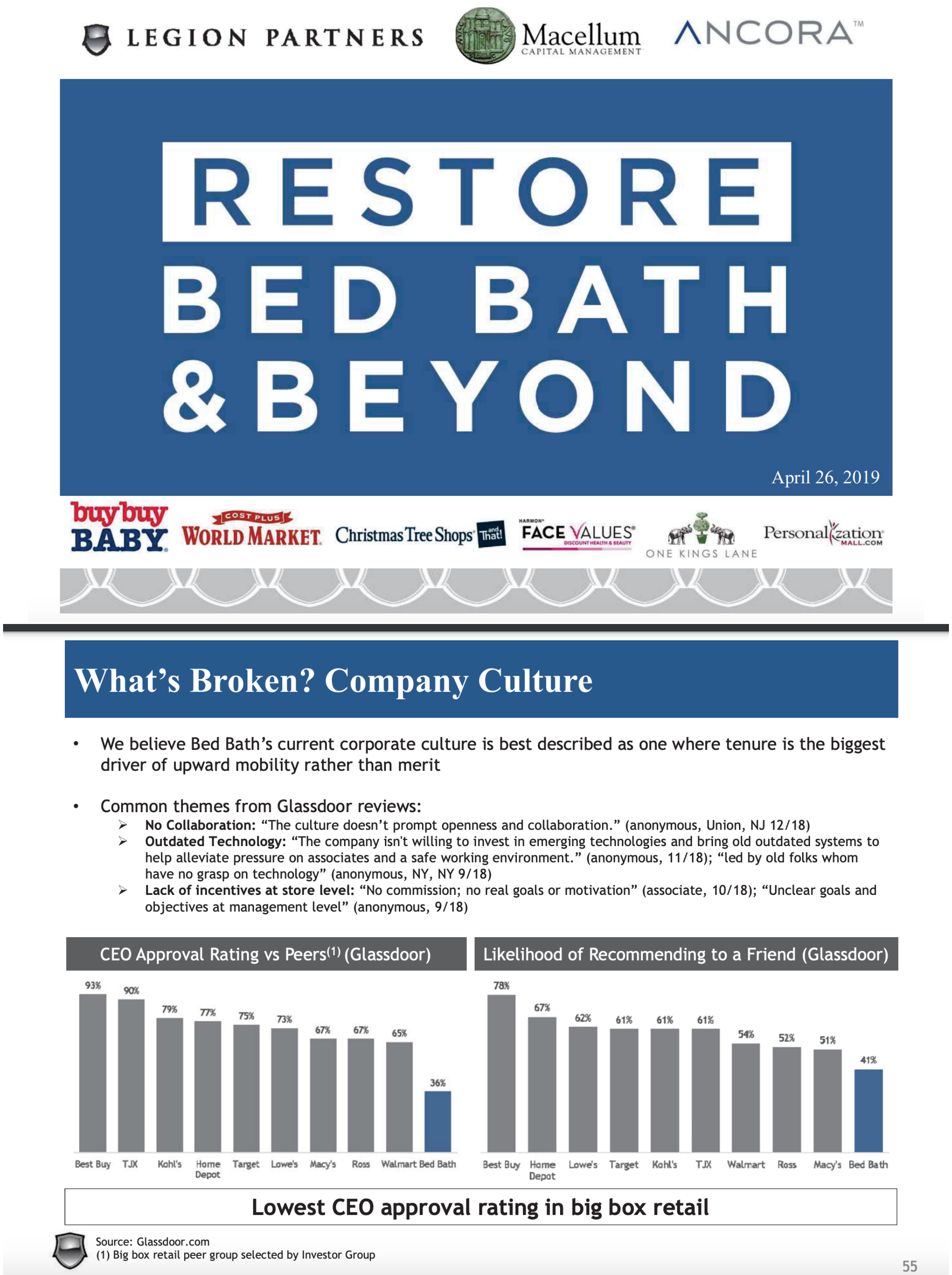

Figure 2: Hedge Fund Activist Presentation (Continued)

Questionable Transfer of Wealth from Shareholders to Founders' Children

buybuy BABY

$86m in consideration to Feinstein sons

- Buybuy BABY, a retailer of infant and toddler merchandise, was acquired on March 22, 2007 for approximately $67 million (net of cash acquired) and repayment of debt of approximately $19 million – buybuy BABY only had 7 stores at the time of acquisition
  - buybuy BABY was founded in 1996 by Richard and Jeffrey Feinstein, both of **whom were previously employed by Bed Bath**, and are the sons of Leonard Feinstein, one of the Company's Co-Chairmen
  - The aforementioned repayment of approximately $19 million of debt resulted in the retirement of all indebtedness of buybuy BABY, which debt was held by Richard and Jeffrey Feinstein (approximately $16 million) and Leonard Feinstein (approximately $3 million)

  Investor Group View:
  1. Founder's sons left Bed Bath after learning the business
  2. They copied the Company's operating model and store design then applied it to baby products
  3. Were given a loan by their dad, the Co-Chairman of the Company from which they defected
  4. Bed Bath rewards these children by paying the former employees $86m to acquire buybuy BABY and gives the two sons jobs at Bed Bath

CHEF CENTRAL

- Failed retailer of kitchenware, cookware and homeware items catering to cooking and baking enthusiasts, Chef Central, was acquired on January 27, 2017 from Ron Eisenberg, son of Co-Chairman Warren Eisenberg, for a cash purchase price of $1,000,000, and incremental earnout payments potentially aggregating up to $1,250,000
  - Ron Eisenberg earned a salary of $250k plus $60k in restricted stock in 2017
- Despite having to "close its locations due to rising operation costs and internet competition, according to founder Ron Eisenberg," (lesdudis.com) the Company hosted a lavish grand reopening party on May 9, 2018
- How much additional capital is being deployed into turning around the founder's son's pet project?

Nepotism still persists at the Company

- Martin Eisenberg, son of Warren Eisenberg, is the Company's Regional Vice President for the Northeast Region earning a salary of $548,137, a restricted stock award valued at $150,000, and an automotive allowance and employer 401(k) match aggregating $10,157 in 2017
- Dana Eisenberg, daughter of Ron Eisenberg and granddaughter of Co-Chairman Warren Eisenberg, is listed on Linkedin as "Associate Editor, Content & Social, Design Brand Group at Bed Bath & Beyond" (not reported in Proxy filing)

Source: SEC Filings, Investor Group estimates

What other related-party issues aren't reported in the Company's SEC filings?

36

Turnaround the Culture: Improving Company Culture

- **Major upgrade of C-suite is needed to revitalize enthusiasm of employee base**
  - Leadership restoration to start at the board level by adding fresh retail operating perspective and instituting culture of results, measurement and accountability
  - New CEO to rebuild a culture of openness, sharing best practices and winning
  - New culture will be driven by facts and data – corporate employees and store managers will be measured and rewarded on a variety of fundamental metrics that tie to growth and profitability
- **Employee training and education to become major area of focus to better support and motivate employee base**
  - At Best Buy, associates earn the right to wear the Blue Shirt through training and performance hurdles – experts in interior design at Bed Bath will earn right to dress differently than peers
  - Employee training will improve morale and help foster better service levels
- **Utilizing technology and embracing change**
  - Empowering store employees with tools and best practices which will facilitate a better customer experience
  - Seamlessly integrating technology throughout the organization to equip employees to make better decisions
- **Pushing greater P&L responsibility down through the organization through sales, margin and inventory related metrics in store manager compensation plans**

Figure 3: Examples of Glassdoor Reviews

The figures show examples of Glassdoor reviews on Bed Bath & Beyond before and after the activism event.

3.0

Current Contractor, more than 1 year

Prediction: Out of Business Within 2 Years

May 20, 2016 - IT Professional in Union, NJ

Recommend CEO Approval Business Outlook

Pros

Don't have to work hard to make a buck.
Zero accountability

Cons

No leadership
No growth
Resistant to change
Wasteful spending (very)

Advice to Management

Can those who have been there for decades and get some new talent. No wonder retail gets hacked so much...

Former Employee, more than 5 years

Good experience; however, big wigs potentially moving company into a bad direction.

Oct 5, 2018 - ASM- Assistant Store Manager

Recommend CEO Approval Business Outlook

Pros

A lot of great talent. Fun products. Great customers. Shrinking margins but still some of the best in the industry. No risk of bankruptcy any time soon.

Cons

Pressure from the bosses on Mt Olympus. Trying to stay competitive in a changing retail landscape. Work life balance is better than some retail; however, it is still retail and it will get worse before it gets better. A lot of store leases being renegotiated in 2018 and 2019 and I'm sure a lot of tenured hard working people will lose their jobs. Casualty of a retail company with little growth.

Advice to Management

Either allow an activist buyer buyout the company and restructure or go private. Consider getting rid of unnecessary staff in district, regional, and corporate rather than stores. You will need to close older stores and reopen next generation stores. They have a better shopping experience. Don't accept lease agreements where you save a couple hundred thousand on rent but lose millions in sales as a result.

2.0

Current Employee, more than 5 years

New leadership is our only hope to succeed

Jul 27, 2019 - Marketing Director in Union, NJ

Recommend CEO Approval Business Outlook

Pros

Recent changes in Board of Directors and leadership demonstrates commitment to change. More changes in c-suite needed to solidify success Decent vacation and health benefits Can bring your dog to work

Cons

Misaligned leadership fuels siloed departments that are often non-receptive to cross-collaboration Very few growth opportunities No bonuses No summer Fridays New open office space causing more harm than good

Continue reading

3.0

Current Employee, more than 1 year

Change and Challenges

Apr 14, 2021 - Supply Chain Analyst in Union, NJ

Recommend CEO Approval Business Outlook

Pros

Dynamic environment with lots of change
Great dedicated people
New leadership making the right changes and aware of employee effort

Cons

Pay very average, lots if different responsibilities, some jobs have No work life balance

Figure 4: Examples of Glassdoor Reviews (continued)

2.0 ★★★★★

Former Employee, less than 1 year

They may be headed in the right direction?

Mar 9, 2021 - Operations Manager in Northglenn, CO

Recommend CEO Approval Business Outlook

Pros

Decent discount and monthly deals with select vendors to purchase products at cost.

Cons

Not sure what direction the company is going. The new CEO is making sweeping changes to put the company back on track. The problem is they have and are willing to let quality people go to save a few dollars. No loyalty and will probably low ball you on salary.

3.0 ★★★★★ ✓

Former Employee, more than 1 year

Significant changes under way to improve culture.

Jun 18, 2020 - Director, Finance Management in Union, NJ

✓ Recommend ✓ CEO Approval ✓ Business Outlook

Pros

Great team members who are hard working.

Cons

Not enough movement for leaders across the Finance functions. Some leaders in the same position for 10-20 years. No long term approach to problem solving. Always in crisis management mode.

Advice to Management

Encourage lateral moves for team members to improve overall training and provide expanded exposure to other areas within Finance. Provide individual development plans for departments and individual contributors.

4.0 ★★★★★ ✓

Current Employee, more than 10 years

Important, good, but painful changes happening

Jan 29, 2021 - Store Manager in Orlando, FL

✓ Recommend ✓ CEO Approval ✓ Business Outlook

Pros

Company moving in right direction with massive changes, good district managers who care about you, a lot of opportunities to share opinions.

Cons

A lot of micromanaging from above

Advice to Management

Understand stores have unique opportunities and stores top priorities may not match what corporate finds to be most important.

Table 1: Hedge Fund Activism and Corporate Culture by Year and Industry

This table reports summary statistics on hedge fund activism by year and industry. Panel A represents activism event year, the number of activism event, the average value of the sum of five culture scores, and the average value of each cultural score (i.e., *Quality*, *Respect*, *Innovation*, *Integrity*, and *Teamwork*) for target firms. Panel B reports the number of events and the average of each cultural score based on Fama-French 12 industries for target firms.

Panel A : Hedge Fund Activism and Corporate Culture by Year

Year	# of Events	Overall_Culture	Quality	Respect	Innovation	Integrity	Teamwork
2004	36	5.43	1.22	1.13	1.49	0.78	0.81
2005	65	5.51	1.33	1.03	1.64	0.65	0.86
2006	77	5.75	1.29	1.04	1.81	0.62	0.99
2007	103	5.54	1.27	1.15	1.70	0.59	0.83
2008	82	5.37	1.20	1.03	1.63	0.63	0.87
2009	44	5.57	1.20	1.19	1.61	0.63	0.94
2010	55	5.89	1.61	1.01	1.91	0.48	0.89
2011	57	5.76	1.38	1.09	1.98	0.55	0.76
2012	70	6.15	1.57	1.07	2.01	0.58	0.92
2013	53	6.05	1.52	1.17	2.05	0.57	0.75
2014	49	7.33	1.76	1.31	2.67	0.57	1.01
Total	691	5.85	1.40	1.11	1.86	0.61	0.88

Panel B : Hedge Fund Activism and Corporate Culture by Industry

	# of Events	Overall_Culture	Quality	Respect	Innovation	Integrity	Teamwork
Consumer NonDurables	33	5.44	1.04	0.95	2.20	0.55	0.70
Consumer Durables	20	4.74	1.06	0.82	1.57	0.59	0.70
Manufacturing	64	4.89	1.35	0.79	1.64	0.53	0.59
Energy	31	3.61	0.87	0.58	1.13	0.41	0.63
Chemicals and Allied Products	15	4.26	1.01	0.76	1.41	0.54	0.54
High Tech	174	7.16	1.91	1.22	2.41	0.54	1.08
Telephone and Television Transmission	20	5.90	1.74	0.86	1.82	0.65	0.84
Utilities	14	3.09	0.74	0.54	0.72	0.56	0.52
Wholesale, Retail, and Some Services	86	5.88	1.35	1.19	2.14	0.57	0.63
Healthcare, Medical Equipment, and Drugs	87	6.07	1.17	1.24	1.56	0.76	1.34
Finance	55	4.97	0.99	1.23	1.35	0.69	0.71
Other	92	5.85	1.32	1.29	1.65	0.70	0.89
Total	691	5.16	1.21	0.96	1.63	0.59	0.76

Table 2: Summary Statistics

This table presents summary statistics of firm characteristics for target firms and non-target firms as of the year prior to hedge fund activist intervention year. The matched sample is formed by matching each target firm to one non-target firm based on the same target year and the same industry (2-digit SIC) with the closest propensity score estimated using log firm size, return on asset (ROA), R&D ratio, leverage ratio, Tobins' Q, log firm age, the five cultural values, all measured at $t-1$, and the change in target firms' ROA between $t-3$ and $t-1$. The variable values are measured at $t-1$. For each variable, I report mean, standard deviation, and median, along with the t-statistics for the mean difference between target firms and non-target firms. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	Targets				Non-Targets				Difference	
	N	Mean	S.D	Median	N	Mean	S.D	Median	Mean diff	t-stat
Ln(Assets)	691	6.458	1.784	6.355	691	6.569	1.857	6.447	-0.111	-1.14
ROA	691	0.079	0.167	0.098	691	0.087	0.165	0.106	-0.008	-0.90
Book Leverage	691	0.217	0.219	0.179	691	0.221	0.206	0.190	-0.003	-0.28
R&D/Sales	687	0.137	0.513	0.000	691	0.139	0.548	0.000	-0.002	-0.08
Tangibility	687	0.234	0.235	0.141	689	0.237	0.233	0.137	-0.003	-0.23
Dividend/Assets	691	0.006	0.016	0.000	691	0.009	0.019	0.000	-0.003***	-3.20
Ln(MV)	691	6.229	1.720	6.087	691	6.371	1.791	6.298	-0.142	-1.50
Ln(Firmage)	691	2.732	0.701	2.708	691	2.788	0.674	2.773	-0.055	-1.50
Q	691	1.652	0.885	1.369	691	1.650	0.861	1.401	0.002	0.04
Δ ROA	691	-0.012	0.132	-0.008	691	-0.002	0.128	0.001	-0.010	-1.38
Ln(Analysts)	680	1.708	0.885	1.792	643	1.673	0.881	1.792	0.035	0.71
E index	291	3.041	1.307	3.000	266	3.090	1.191	3.000	-0.049	-0.46
Amihud	680	0.096	0.279	0.006	642	0.115	0.309	0.006	-0.019	-1.16
Overall_Culture (%)	691	5.793	2.506	5.441	691	5.566	2.462	5.059	0.227*	1.70
Integrity (%)	691	0.582	0.456	0.481	691	0.562	0.474	0.465	0.020	0.79
Teamwork (%)	691	0.855	0.652	0.691	691	0.801	0.640	0.618	0.054	1.55
Innovation (%)	691	1.830	1.086	1.590	691	1.762	1.048	1.519	0.068	1.19
Respect (%)	691	1.103	0.904	0.855	691	1.033	0.813	0.790	0.070	1.52
Quality (%)	691	1.423	0.855	1.268	691	1.408	0.837	1.228	0.015	0.33
Overall Rating	91	2.962	0.621	2.967	91	3.067	0.812	3.000	-0.105	-0.98
Culture & Values	91	2.813	0.642	2.850	91	2.986	0.810	3.000	-0.173	-1.60
Compensation & Benefit	91	2.871	0.688	2.889	91	2.962	0.907	3.000	-0.091	-0.77
Senior management	46	2.698	0.696	2.667	42	2.815	0.756	2.734	-0.117	-0.75
Length of Cons Reviews	91	0.575	0.101	0.575	91	0.570	0.115	0.569	0.005	0.30
avg_r_pros_sent_pos	91	0.008	0.005	0.008	91	0.008	0.005	0.008	-0.000	-0.29
avg_r_cons_sent_neg	91	0.004	0.002	0.004	91	0.004	0.003	0.004	-0.000	-0.51

Table 3: Hedge Fund Activism and Corporate Culture

This table reports the results of difference-in-differences regressions. The panel data includes the observations from three years before and after the year of an activism event or pseudo-event year ($t-3$, $t+3$). I run the following difference-in-differences (DID) regression model:

$$Culture_{i,t} = \beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

where the dependent variable $Culture_{i,t}$ is the sum of five corporate cultural value scores (i.e., *Quality*, *Respect*, *Innovation*, *Integrity*, and *Teamwork*), and each cultural value scores. $Treat_i$ is equal to one if a firm i is targeted by hedge fund activists and zero otherwise. $Post_{i,t}$ is an indicator equal to one if the observations are within ($t+1$, $t+3$) after the year of activism event (for targeted firms) or a pseudo-event year (for matched firms) and zero otherwise. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork
Treat X Post	0.329***	0.077***	0.078**	0.107***	0.045**	0.021
	(3.69)	(2.63)	(2.27)	(2.76)	(2.07)	(0.80)
Post	-0.159**	-0.042	-0.017	-0.076**	-0.015	-0.009
	(-2.11)	(-1.60)	(-0.61)	(-2.34)	(-0.78)	(-0.42)
Leverage	-0.599**	-0.275***	-0.215**	-0.146	0.019	0.018
	(-2.10)	(-3.27)	(-2.27)	(-1.36)	(0.21)	(0.20)
Ln(Assets)	-0.085	-0.028	-0.005	-0.016	0.007	-0.044
	(-0.91)	(-0.93)	(-0.15)	(-0.41)	(0.36)	(-1.48)
ROA	0.067	0.165*	-0.065	-0.009	-0.067	0.043
	(0.23)	(1.77)	(-0.65)	(-0.07)	(-0.60)	(0.42)
Q	-0.029	0.009	-0.003	-0.028	-0.005	-0.002
	(-0.73)	(0.67)	(-0.20)	(-1.59)	(-0.40)	(-0.11)
Dividend/Assets	0.365	-0.189	0.703	-0.123	0.799	-0.825
	(0.17)	(-0.27)	(0.97)	(-0.15)	(1.52)	(-1.38)
Firm FE	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y
Observations	8219	8219	8219	8219	8219	8219
Adjusted R-squared	0.655	0.627	0.533	0.644	0.382	0.540

Table 4: Dynamics of Corporate Culture around Hedge Fund Activism

This table reports the dynamics of corporate culture around hedge fund activism. I explore year-by-year dynamics of corporate culture for target firms compared to that of matched firms by running the following regression:

$$Culture_{i,t} = \sum_{k=-3}^{+3} \lambda_k d[t+k]_{i,t} + \sum_{k=-3}^{+3} \beta_k \{d[t+k]_{i,t} \times Treat_i\} + \mathbf{X}_{it-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

where the dependent variable $Culture_{i,t}$ is the sum of five corporate cultural value scores (i.e., *Quality*, *Respect*, *Innovation*, *Integrity*, and *Teamwork*), and each cultural value scores. $d[t+k]$ is a dummy variable equal to one if the firm observation is k years from the activism event year or (pseudo-event year). The coefficients, β_{t-3} , ... β_{t+3}, are the slopes on the interactions of yearly dummies spanning from three years before and after the activism event year (or pseudo-event year). $Treat_i$ is equal to one if a firm i is targeted by hedge fund activists and zero otherwise. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork
evt_time=-3 X Treat	-0.031	0.072	-0.057	0.014	-0.038	-0.022
	(-0.25)	(1.61)	(-1.14)	(0.26)	(-1.46)	(-0.58)
evt_time=-2 X Treat	-0.032	0.034	-0.064	0.056	-0.034	-0.024
	(-0.27)	(0.84)	(-1.43)	(1.08)	(-1.43)	(-0.65)
evt_time=-1 X Treat	0.048	0.056	-0.021	0.032	0.001	-0.019
	(0.46)	(1.60)	(-0.49)	(0.66)	(0.03)	(-0.59)
evt_time=1 X Treat	0.233**	0.095**	0.018	0.100**	0.021	-0.001
	(2.12)	(2.50)	(0.40)	(2.05)	(1.00)	(-0.02)
evt_time=2 X Treat	0.527***	0.176***	0.104**	0.149***	0.047*	0.050
	(4.17)	(3.98)	(2.24)	(2.67)	(2.07)	(1.26)
evt_time=3 X Treat	0.239*	0.069	0.021	0.159**	0.025	-0.035
	(1.70)	(1.52)	(0.40)	(2.49)	(0.99)	(-0.95)
Controls & Event_dummy	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y
Observations	8219	8219	8219	8219	8219	8219
Adjusted R-squared	0.655	0.627	0.533	0.644	0.382	0.540

Table 5: Hedge Fund Activism, CEO Turnover, and Corporate Culture

This table shows results from testing whether the effect of hedge fund activism on corporate culture differs depending on CEO turnover. I combine the matched sample used in Table 3 with Execucomp. I run the following regression:

$$Culture_{i,t} = I(CEO\_Turnover_i)\{\beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t}\} + I(No\_CEO\_Turnover_i)\{\beta_3 Treat_i \times Post_{i,t} + \beta_4 Post_{i,t}\} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

$I(CEO\_Turnover)$ and $I(No\_CEO\_Turnover)$ are dummy variables which are equal to one if a firm is targeted by activists and experiences at least one or no CEO turnover within the three years subsequent to the intervention and their respective matched firms. $Treat_i$ is equal to one if a firm i is targeted by hedge fund activists and zero otherwise. $Post_{i,t}$ is an indicator equal to one if the observations are within $(t+1,\ t+3)$ after the year of activism event (for targeted firms) or a pseudo-event year (for matched firms) and zero otherwise. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	CEO_Turnover_Within_3yrs						No_CEO_Turnover_Within_3yrs					
	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork	(7) Overall_Culture	(8) Quality	(9) Respect	(10) Innovation	(11) Integrity	(12) Teamwork
Treat X Post	0.715***	0.122**	0.226***	0.253***	0.077**	0.037	0.180	0.126**	-0.020	0.103	0.006	-0.035
	(3.97)	(2.00)	(3.36)	(3.23)	(2.03)	(0.83)	(1.22)	(2.26)	(-0.42)	(1.36)	(0.20)	(-0.94)
Post	-0.283	-0.035	-0.103	-0.118	-0.011	-0.017	-0.099	-0.062	0.024	-0.052	-0.022	0.013
Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1491	1491	1491	1491	1491	1491	2500	2500	2500	2500	2500	2500
Adjusted R-squared	0.697	0.614	0.601	0.699	0.300	0.510	0.700	0.670	0.584	0.702	0.420	0.568

Table 6: Inside vs Outside CEO Turnover

This table analyzes whether there is a differential impact on corporate culture between inside CEO turnover and outside CEO turnover after hedge fund activism. This table mainly focuses on the subsample of target firms experienced at least one CEO turnover within three years subsequent to hedge fund activism and their matched firms. Among this subsample, I further split the sample into two subgroups based on target firms with inside CEO turnover and ones with outside CEO turnover. Then I run the following regression.

$$Culture_{i,t} = I(Outside\_CEO\_Turnover_i)\{\beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t}\} + I(Inside\_CEO\_Turnover_i)\{\beta_3 Treat_i \times Post_{i,t} + \beta_4 Post_{i,t}\} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

$I(Outside\_CEO\_Turnover_i)$ and $I(Inside\_CEO\_Turnover_i)$ are dummy variables which are equal to one if a firm is targeted by activists and an incumbent CEO is replaced by a firm outsider or a firm insider within the three years subsequent to the intervention and their respective matched firms. Following Parrino (1997), I define a firm outsider (insider) if a person joined the firm for less (more) than two years. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	Outside_CEO_Turnover						Inside_CEO_turnover					
	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork	(7) Overall_Culture	(8) Quality	(9) Respect	(10) Innovation	(11) Integrity	(12) Teamwork
Treat X Post	1.082***	0.203**	0.389***	0.361***	0.127**	0.002	0.297	0.028	0.022	0.186	-0.036	0.098
	(4.22)	(2.26)	(4.06)	(3.19)	(2.28)	(0.02)	(1.14)	(0.38)	(0.23)	(1.55)	(-0.67)	(1.43)
Post	-0.508**	-0.100	-0.161	-0.217*	-0.055	0.024	0.156	0.046	0.012	-0.031	0.113	0.016
	(-2.05)	(-1.08)	(-1.65)	(-1.71)	(-0.92)	(0.37)	(0.38)	(0.35)	(0.12)	(-0.17)	(1.36)	(0.18)
Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	867	867	867	867	867	867	536	536	536	536	536	536
Adjusted R-squared	0.674	0.605	0.616	0.656	0.298	0.483	0.763	0.702	0.598	0.793	0.186	0.557

Table 7: Do Activist-Appointed Directors also Matter for Corporate Culture?

This table reports the results from analyzing whether activist-appointed directors also affect corporate culture. In Panel A, I run the following regression:

$$Culture_{i,t} = I(Activist\_Directors_i)\{\beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t}\} + I(No\_Activists\_Directors_i)\{\beta_3 Treat_i \times Post_{i,t} + \beta_4 Post_{i,t}\} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

$I(Activist\_Directors)$ and $I(No\_Activist\_Directors)$ are dummy variables which are equal to one if a firm is targeted by activists and experiences at least one or no appointment of board members proposed by activists within the three years subsequent to the intervention and their respective matched firms. Control variables include leverage ratio, ROA, Tobins'Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects.

In Panel B, I focus on the subsample of target firms experiencing activist directors' appointments within three years subsequent to hedge fund activism and their matched firms. Among this subsample, I further split the sample into two subgroups based on target firms with outside CEO turnover and ones without outside CEO turnover after hedge fund activism. Then I run the following regression:

$$\begin{aligned} Culture_{i,t} = {} & I(Activist\_Directors\_With\_Outside\_CEO\_Turnover_i)\{\beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t}\} \\ & + I(Activist\_Directors\_WithOut\_Outside\_CEO\_Turnover_i)\{\beta_3 Treat_i \times Post_{i,t} + \beta_4 Post_{i,t}\} \\ & + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it} \end{aligned}$$

$I(Activist\_Directors\_With\_Outside\_CEO\_Turnover_i)$ and $I(Activist\_Directors\_WithOut\_Outside\_CEO\_Turnover_i)$ are dummy variables which are equal to one if a firm is targeted by activists and experiences at least one appointment of board members proposed by activists within the three years subsequent to the intervention combined with outside CEO turnover or without outside CEO turnover and their respective matched firms. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

Panel A : Hedge Fund Activism, Activist-Appointed Directors, and Corporate Culture

	Activist directors appointment in the Board						No Activist director appointment in the Board					
	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork	(7) Overall_Culture	(8) Quality	(9) Respect	(10) Innovation	(11) Integrity	(12) Teamwork
Treat X Post	0.459***	0.116**	0.135**	0.144**	0.082**	-0.018	0.241**	0.054	0.037	0.080	0.026	0.043
	(3.11)	(2.33)	(2.40)	(2.36)	(2.00)	(-0.47)	(2.15)	(1.43)	(0.84)	(1.61)	(1.04)	(1.24)
Post	-0.324**	-0.063	-0.118**	-0.069	-0.062	-0.013	-0.178*	-0.042	-0.009	-0.106**	-0.012	-0.009
	(-2.17)	(-1.22)	(-1.97)	(-1.12)	(-1.37)	(-0.33)	(-1.81)	(-1.09)	(-0.24)	(-2.49)	(-0.52)	(-0.30)
Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2953	2953	2953	2953	2953	2953	5203	5203	5203	5203	5203	5203
Adjusted R-squared	0.670	0.620	0.558	0.640	0.407	0.511	0.644	0.617	0.512	0.640	0.358	0.541

Table 7: Do Activist-Appointed Directors also Matter for Corporate Culture? (Continued)

Panel B : Hedge Fund Activism, Activist-Appointed Directors, CEO turnover and Corporate Culture

	Activist directors appointment With outside CEO turnover						Activist directors appointment WithOUT outside CEO turnover					
	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork	(7) Overall_Culture	(8) Quality	(9) Respect	(10) Innovation	(11) Integrity	(12) Teamwork
Treat X Post	1.143***	0.212*	0.478***	0.282*	0.164**	0.007	0.301	0.060	-0.052	0.233*	0.018	0.041
	(3.34)	(1.80)	(3.88)	(1.78)	(2.44)	(0.09)	(1.03)	(0.55)	(-0.62)	(1.93)	(0.40)	(0.60)
Post	-0.713**	-0.133	-0.258**	-0.050	-0.155	-0.117	0.088	0.083	0.013	-0.007	0.012	-0.012
	(-2.26)	(-0.94)	(-2.00)	(-0.26)	(-1.55)	(-1.22)	(0.30)	(0.72)	(0.13)	(-0.06)	(0.25)	(-0.17)
Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	464	464	464	464	464	464	884	884	884	884	884	884
Adjusted R-squared	0.688	0.620	0.728	0.651	0.253	0.523	0.699	0.609	0.536	0.703	0.370	0.534

Table 8: How Do Employees View their firms' Corporate Culture After Activism?

This table presents the results using Glassdoor ratings to investigate whether employees in target firms perceive their firms more favorably then those in control firms after hedge fund activism. To be included in analysis, I keep only firms whose total number of reviews are at least 30 reviews during the sample period. The sample period is between 2008 and 2017. The dependent variables in Columns 1-4 are one-to-five star rating by an employee on the company's Culture & Values, Overall, Senior management, and Compensation respectively. The dependent variable in Column 4 is Length_Cons, which is the total number of words in Cons review section, scaled by the total number of words in both Pros and Cons sections. The dependent variable in Column 6 (7) is Pros(Cons)_sent_pos(neg), which is the total frequency of words with positive (negative) sentiment in the Pros (Cons) section, scaled by the total number of words in the Pros (Cons) section. In Columns 8 (9), outside (inside) corresponds to target firms experienced outside (inside) CEO turnovers subsequent to hedge fund activism and their matched firms. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, firm age, number of employees, and number of reviews. All specifications include industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	Whole Sample							Outsiders	Insiders
	(1) Culture & Values	(2) Overall Rating	(3) Senior mgt	(4) Comp Benefit	(5) Length Cons	(6) Pros_Sent pos	(7) Cons_Sent neg	(8) Culture & Values	(9) Culture & Values
Treat X Post	0.202***	0.149**	0.189*	0.175**	-0.029***	0.074*	-0.012	0.362*	0.011
	(2.62)	(2.16)	(1.79)	(2.29)	(-2.72)	(1.72)	(-0.45)	(1.75)	(0.07)
Post	-0.039	-0.033	-0.188*	0.032	0.007	-0.006	-0.007	0.199	0.063
	(-0.42)	(-0.39)	(-1.84)	(0.40)	(0.67)	(-0.14)	(-0.28)	(0.66)	(0.47)
Treat	-0.155**	-0.112	-0.171	-0.087	0.015	-0.045	0.029	-0.248	0.048
	(-2.28)	(-1.55)	(-1.60)	(-1.25)	(1.45)	(-1.20)	(1.20)	(-0.94)	(0.28)
Leverage	-0.626***	-0.581***	-0.667***	-0.611***	0.065***	-0.270***	0.125**	-1.141*	0.751
	(-4.03)	(-3.60)	(-3.56)	(-4.06)	(3.29)	(-3.10)	(2.39)	(-1.84)	(1.25)
Ln(Assets)	0.124***	0.132***	0.149***	0.173***	-0.010**	0.065***	-0.013	0.451**	0.092
	(3.44)	(3.81)	(3.48)	(4.70)	(-2.51)	(3.78)	(-1.38)	(2.42)	(0.77)
ROA	-0.462	-0.162	-0.290	-0.443*	0.071**	-0.163	0.053	1.408	1.268
	(-1.58)	(-0.49)	(-0.83)	(-1.92)	(2.07)	(-0.81)	(0.47)	(0.99)	(1.08)
Q	0.218***	0.185***	0.207***	0.159***	-0.020***	0.045*	-0.033***	0.311*	0.045
	(5.15)	(4.13)	(4.55)	(4.92)	(-4.16)	(1.94)	(-2.83)	(1.99)	(0.31)
Dividend/Assets	1.421	1.791	2.330	0.759	-0.585**	1.552*	-0.761*	-7.675	-7.144
	(0.72)	(1.00)	(1.32)	(0.49)	(-2.57)	(1.95)	(-1.73)	(-1.29)	(-0.92)
Ln(Emp)	-0.024	-0.028	-0.039	-0.071	0.004	-0.048***	0.005	-0.309	-0.134
	(-0.56)	(-0.75)	(-0.85)	(-1.39)	(0.94)	(-2.97)	(0.45)	(-1.42)	(-0.87)
Ln(Reviews)	-0.025	-0.023	-0.083**	-0.027	0.003	0.007	-0.002	-0.036	0.171
	(-0.72)	(-0.72)	(-2.36)	(-0.86)	(0.67)	(0.38)	(-0.18)	(-0.34)	(1.69)
Industry # Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1062	1063	719	1062	1063	1063	1063	149	132
Adjusted R-squared	0.164	0.133	0.126	0.271	0.074	0.073	0.019	0.280	0.288

Table 9: Who are New CEOs?

This table examines the characteristics of new outside CEOs in target firms compared to those in matched firms subsequent to activism (Panel A) and the characteristics of previous workplaces in which those outside CEOs have worked (Panel B). In Panel A, the dependent variables are following. Ln_ntwsize is the natural logarithm of network size that CEOs have. Ln_ceoage is the natural logarithm of ceo age. Same_industry is a dummy variable equal to one if a new outside CEO has worked previously for BoardEX-Compustat universe of firms in the same industry based on one digit SIC as the focal firm. Female is a dummy variable equal to one if a new outside CEO is female. CEO_past is a dummy variable equal to one if a new outside CEO worked as a CEO in her previous firms. Finance_expertise is a dummy variable if new outside CEOs have finance background (defined in Appendix A). In Panel B, the dependent variables are *Overall_Culture* and each cultural value scores of new CEO's old firm. *Asset_sales* is a dummy variable equal to one if a new outside CEO experienced asset sales in the last year in her old firm and zero otherwise. Treat is a dummy variable equal to one (zero) if new outside CEOs are appointed in target firms (matched firms) after the year of intervention (or the pseudo-event year). Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. Standard errors are clustered at the firm level. Industry and year fixed effects are included in all columns in Panel A. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

Panel A : New Outside CEO Characteristics

	(1) Ln_ceoage	(2) Ceo_past	(3) Same_Industry	(4) Ln_ntwsize	(5) Female	(6) Finance_expertise
Treat	0.073**	0.271*	0.336**	0.432	0.049	-0.205
	(2.00)	(1.79)	(2.01)	(1.57)	(1.24)	(-1.41)
Industry FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Observations	92	92	92	83	92	92
Adjusted R-squared	-0.026	0.037	0.063	0.251	0.554	0.063

Panel B : Previous Workplaces

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork	(7) Asset_sales
Treat	1.056	0.314*	0.478***	-0.255	0.255***	0.262**	0.183**
	(1.62)	(1.93)	(2.74)	(-0.53)	(2.88)	(2.51)	(2.02)
Controls	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y
Observations	54	54	54	54	54	54	69
Adjusted R-squared	0.160	0.297	0.225	-0.156	0.211	0.004	-0.090

Table 10: Do Corporate Culture Matter for Firm Value?

This table documents the target and non-target firms' performance change around the year of outside and inside CEO turnover after hedge fund activism. Performance variables are following. Sales growth is the change of annual sales. Profit margin is net income divided by sales. ROA is operating income before depreciation divided by book value of assets. I compute the mean change of each performance variable during the 3-year period after outside and inside CEO turnovers, respectively, for target firms and matched firms. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

		Hedge fund Targets	Matched firms	**Treated-control difference**
Δ Sales Growth	Outside_CEO_Turnover	0.099	-0.114	0.213***
	Inside_CEO_Turnover	0.027	-0.015	0.042
	Outside-inside difference	0.071*	-0.100	0.171**
Δ Profit margin	Outside_CEO_Turnover	0.136	0.003	0.134**
	Inside_CEO_Turnover	0.003	0.025	-0.022
	Outside-inside difference	0.133*	-0.022	0.156*
Δ ROA	Outside_CEO_Turnover	0.035	0.019	0.016
	Inside_CEO_Turnover	-0.001	-0.002	0.001
	Outside-inside difference	0.036**	0.020	0.015

Table 11: Corporate Culture After Confrontational Hedge Fund Activism

This table presents the results using the sample of target firms facing confrontational hedge fund activism and their matched firms. I consider a hedge fund activism to be confrontational if the activist's approach includes either actual or threatened proxy fights, lawsuits, takeover, removing directors/officers, or denouncing the management. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	Confrontational Activism					
	(1)	(2)	(3)	(4)	(5)	(6)
	Overall_Culture	Quality	Respect	Innovation	Integrity	Teamwork
Treat X Post	0.533***	0.136**	0.125*	0.118*	0.159***	-0.005
	(3.04)	(2.22)	(1.96)	(1.69)	(3.74)	(-0.09)
Post	-0.435**	-0.132*	-0.088	-0.078	-0.112**	-0.025
	(-2.35)	(-1.94)	(-1.40)	(-0.98)	(-2.31)	(-0.40)
Controls	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y
Observations	1995	1995	1995	1995	1995	1995
Adjusted R-squared	0.640	0.622	0.543	0.621	0.313	0.537

Table A1: Hedge Fund Activism and Corporate Culture : Alternative Specifications

This table reports the results of the same difference-in-differences regression specification used in Table 3. In Panel A, the panel data includes firm and year fixed effects). In Panel B, the panel data use firm and year clustering. I run the following difference-in-differences (DID) regression model:

$$Culture_{i,t} = \beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

Panel A : Firm and Year Fixed Effect

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork
Treat X Post	0.337***	0.077***	0.080**	0.111***	0.041*	0.029
	(3.70)	(2.62)	(2.26)	(2.83)	(1.94)	(1.12)
Post	-0.192***	-0.047*	-0.014	-0.089***	-0.018	-0.025
	(-2.68)	(-1.88)	(-0.52)	(-2.92)	(-0.95)	(-1.34)
Controls	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Observations	8287	8287	8287	8287	8287	8287
Adjusted R-squared	0.655	0.630	0.528	0.646	0.387	0.554

Panel B : Firm and Year Clustering

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork
Treat X Post	0.329***	0.077**	0.078*	0.107***	0.045**	0.021
	(3.76)	(2.80)	(1.80)	(3.26)	(2.81)	(0.81)
Post	-0.159*	-0.042	-0.017	-0.076**	-0.015	-0.009
	(-1.79)	(-1.72)	(-0.61)	(-2.15)	(-0.76)	(-0.44)
Controls	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y
Observations	8219	8219	8219	8219	8219	8219
Adjusted R-squared	0.655	0.627	0.533	0.644	0.382	0.540

Table A2: Hedge Fund Activism and Corporate Culture : Survival Sample Only

This table reports the results of the same difference-in-differences regression specification used in Table 3. The panel data includes the target firms that do not disappear in the Compustat sample within three years after the intervention and their matched firms. The observations from three years before and after the year of an activism event or pseudo-event year ($t-3$, $t+3$). I run the following difference-in-differences (DID) regression model:

$$Culture_{i,t} = \beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

where the dependent variable $Culture_{i,t}$ is the sum of five corporate cultural value scores (i.e., *Quality*, *Respect*, *Innovation*, *Integrity*, and *Teamwork*), and each cultural value scores. $Treat_i$ is equal to one if a firm i is targeted by hedge fund activists and zero otherwise. $Post_{i,t}$ is an indicator equal to one if the observations are within ($t+1$, $t+3$) after the year of activism event (for targeted firms) or a pseudo-event year (for matched firms) and zero otherwise. Control variables include leverage ratio, ROA, Tobins'Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork
Treat X Post	0.341***	0.089***	0.079**	0.114***	0.038*	0.021
	(3.72)	(2.95)	(2.22)	(2.84)	(1.76)	(0.76)
Post	-0.157**	-0.046*	-0.009	-0.083**	-0.012	-0.007
	(-2.01)	(-1.71)	(-0.30)	(-2.47)	(-0.58)	(-0.31)
Controls	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y
Observations	7328	7328	7328	7328	7328	7328
Adjusted R-squared	0.653	0.623	0.532	0.643	0.388	0.544

Table A3: Hedge Fund Activism and Corporate Culture : Different Time Window

This table reports the results of the same difference-in-differences regression specification used in Table 3. In Panel A, the panel data includes the observations from two years before and after the year of an activism event or pseudo-event year ($t-2$, $t+2$). In Panel B, the panel data includes the observations from five years before and after the year of an activism event or pseudo-event year ($t-5$, $t+5$). I run the following difference-in-differences (DID) regression model:

$$Culture_{i,t} = \beta_1 Treat_i \times Post_{i,t} + \beta_2 Post_{i,t} + \mathbf{X}_{i,t-1}\gamma' + \alpha_i + \delta_{jt} + \epsilon_{it}$$

Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, and firm age. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

Panel A : Hedge Fund Activism, and Corporate Culture : (t-2, t+2)

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork
Treat X Post	0.379***	0.111***	0.086**	0.096**	0.043*	0.043
	(4.08)	(3.54)	(2.42)	(2.45)	(1.74)	(1.44)
Post	-0.137	-0.051*	-0.017	-0.060*	-0.011	0.002
	(-1.63)	(-1.74)	(-0.57)	(-1.66)	(-0.48)	(0.10)
Controls	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y
Observations	6222	6222	6222	6222	6222	6222
Adjusted R-squared	0.666	0.638	0.547	0.655	0.380	0.543

Panel B : Hedge Fund Activism and Corporate Culture : (t-5, t+5)

	(1) Overall_Culture	(2) Quality	(3) Respect	(4) Innovation	(5) Integrity	(6) Teamwork
Treat X Post	0.272***	0.040	0.069**	0.103***	0.034*	0.025
	(3.08)	(1.39)	(1.98)	(2.60)	(1.76)	(0.98)
Post	-0.129*	-0.043*	-0.016	-0.057*	-0.008	-0.004
	(-1.88)	(-1.90)	(-0.62)	(-1.93)	(-0.49)	(-0.21)
Controls	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Industry # Year FE	Y	Y	Y	Y	Y	Y
Observations	11414	11414	11414	11414	11414	11414
Adjusted R-squared	0.640	0.607	0.524	0.624	0.361	0.524

Table A4: How Do Employees View their Corporate Culture After Activism? : Alternative Minimum Number of Reviews

This table reports the results of the same difference-in-differences regression specification used in Table 3, based on the propensity scored matched sample combined with Glassdoor rating data. In Panel A, the panel data includes the observations from firms whose total number of Glassdoor reviews per firm are more than 25 during the sample period. In Panel B, the panel data includes the observations from firms whose Glassdoor reviews per firm are more than 55 during the sample period. Control variables include leverage ratio, ROA, Tobins' Q, the natural logarithm of asset, firm age, number of employees, and reviews. All specifications include firm and industry-by-year fixed effects. Standard errors are clustered at the firm level. ***, ** and * indicate significance at the 1%, 5%, and 10% respectively.

Panel A : Minimum of 25 Reviews per Firm

	(1) Culture & Values	(2) Overall Rating	(3) Senior mgt	(4) Comp Benefit	(5) Length Cons	(6) Pros_Sent pos	(7) Cons_Sent neg
Treat X Post	0.206**	0.163**	0.180*	0.179**	-0.031***	0.060	-0.006
	(2.45)	(2.22)	(1.69)	(2.24)	(-2.90)	(1.41)	(-0.20)
Post	-0.099	-0.080	-0.211**	-0.021	0.016	-0.019	0.007
	(-1.08)	(-0.94)	(-2.12)	(-0.27)	(1.41)	(-0.41)	(0.24)
Treat	-0.168**	-0.131*	-0.170	-0.094	0.017*	-0.065*	0.023
	(-2.37)	(-1.74)	(-1.58)	(-1.31)	(1.70)	(-1.72)	(0.92)
Industry # Year FE	Y	Y	Y	Y	Y	Y	Y
Observations	1133	1135	767	1133	1135	1135	1135
Adjusted R-squared	0.142	0.119	0.125	0.233	0.085	0.056	0.014

Panel B : Minimum of 55 Reviews per Firm

	(1) Culture & Values	(2) Overall Rating	(3) Senior mgt	(4) Comp Benefit	(5) Length Cons	(6) Pros_Sent pos	(7) Cons_Sent neg
Treat X Post	0.196**	0.143*	0.232**	0.184**	-0.023**	0.069	-0.031
	(2.48)	(1.95)	(2.08)	(2.41)	(-2.07)	(1.48)	(-1.19)
Post	-0.024	-0.011	-0.186*	0.072	0.005	-0.007	0.013
	(-0.26)	(-0.13)	(-1.78)	(0.89)	(0.43)	(-0.17)	(0.50)
Treat	-0.131*	-0.074	-0.167	-0.052	0.009	-0.032	0.035
	(-1.84)	(-0.97)	(-1.48)	(-0.72)	(0.83)	(-0.84)	(1.47)
Industry # Year FE	Y	Y	Y	Y	Y	Y	Y
Observations	964	964	647	964	964	964	964
Adjusted R-squared	0.169	0.153	0.128	0.297	0.081	0.060	0.056

Appendix A2. Variable description

Variable	Definition (Compustat items in parentheses)
Quality	The weighted-frequency of quality-related words in the Q&A section of an earning conference call scaled by the total number of words in the Q&A section averaged over a three-year window.
Respect	The weighted-frequency of respect-related words in the Q&A section of an earning conference call scaled by the total number of words in the Q&A section averaged over a three-year window.
Innovation	The weighted-frequency of innovation-related words in the Q&A section of an earning conference call scaled by the total number of words in the Q&A section averaged over a three-year window.
Integrity	The weighted-frequency of integrity-related words in the Q&A section of an earning conference call scaled by the total number of words in the Q&A section averaged over a three-year window.
Teamwork	The weighted-frequency of integrity-related words in the Q&A section of an earning conference call scaled by the total number of words in the Q&A section averaged over a three-year window.
Overall_Culture	The sum of *Quality*, *Respect*, *Innovation*, *Integrity*, and *Teamwork*.
Overall Rating	The overall one-to-five star rating by an employee on the company from the Glassdoor database, measured yearly using the average of the ratings for a firm in a given year.
Culture & Values	The one-to-five star rating by an employee on culture and values from the Glassdoor database, measured yearly using the average of the ratings for a firm in a given year.
Senior mgt	The one-to-five star rating by an employee on senior management from the Glassdoor database, measured yearly using the average of the ratings for a firm in a given year.
Length_Cons	The total number of words in the Cons section scaled by the total number of words in Pros and Cons sections in the Glassdoor database, averaged yearly for a firm.

Appendix A2. continued

Treat	Dummy variable equal to one if a firm is a target of hedge fund activists and zero otherwise.
Post	Dummy variable equal to one if the observations are within $(t+1, t+3)$ after the year of activism event (for targeted firms) or a pseudo-event year (for matched firms) and zero otherwise.
Outside_CEO_Turnover	Dummy variable equal to one if a firm is targeted by activists and an incumbent CEO is replaced by outsider defined as a person who had joined the firm less than two years ago and zero otherwise (See Parrino (1997)).
Inside_CEO_Turnover	Dummy variable equal to one if a firm is targeted by activists and an incumbent CEO is replaced by insider defined as a person who had joined the firm more than two years ago and zero otherwise (See Parrino (1997)).
Activist directors	Dummy variable equal to one if a firm is targeted by activists and independent directors are appointed by a dissident group and zero otherwise.
Leverage	Long-term debt (DLTT) + debt in current liabilities (DLC) divided by total asset (AT).
Ln(Asset)	The natural logarithm of Asset in $ billions (AT).
Q	Market value of common equity (CSHO*PRCC_F) + total asset (AT) – Common equity (CEQ) divided by total asset (AT).
ROA	Operating income before depreciation (OIBDP) divided by lagged asset (AT).
Ln(Firmage)	Natural logarithm of difference between observation year and year first appeared in Compustat.
Ln(# of employees)	Natural logarithm of the number of employees (EMP).
Ln(Reviews)	Natural logarithm of the number of reviews in the Glassdoor database for a firm in a given year.
Ln(ntwsize)	Natural logarithm of CEO network size in BoardEX.

Appendix A2. continued

Ln(ceoage)	Natural logarithm of CEO age.
Same_Industry	Dummy variable equal to one if a CEO has previously worked in the same industry as the focal firm based on one-digit SIC level and zero otherwise.
Female	Dummy variable equal to one if a CEO is female and zero otherwise.
CEO_past	Dummy variable equal to one if a CEO has previous CEO experience and zero otherwise.
Finance_expertise	Dummy variable equal to one if a CEO has 1) work experience in financial industry (SIC codes 6000-6999, investment firm, PEF, bank, insurance, or Speciality & Other Finance), 2) a CPA or a CFA, or 3) accounting or finance management experience (e.g., CFO, Treasurer, and Controller)
Asset_sale	An indicator taking a value of one if a completed acquisition is in the form of transaction being either acquisition of assets or acquisition of certain assets; where transaction values are from $1 million, both acquirers and targets are US public firms, the name of assets is not the same as the name of their ultimate parent (the seller), and transactions are not classified as a joint venture, LBO, asset swap, block repurchase, privatization, reverse takeover, repurchase, bankrupt, liquidation, recapitalization, or restructuring and zero otherwise