



Value of outside blockholder activism: Evidence from the switchers[☆]

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ABSTRACT

This paper measures the value of shareholder activism focusing on outside blockholders who switch their investment purpose from passive to active but are not likely to engage in control-related activities. Unlike the usual 5% ownership disclosure, a switch does not necessarily involve additional share purchase, and thus provides a cleaner test in effectively ruling out alternative theories such as those related to stock picking skills, private information, or herding. We apply the test to outside blockholders in the Korean market, which experienced a concentrated number of switchers in the first half of 2005 when the government adopted a new disclosure rule. We find that target price reaction is significantly positive around the time of the switch disclosure and this effect is more pronounced when the switcher declares to use a wider scope of activist measures. Following the switch, we also find evidence of increases in dividend payouts for firms targeted by switchers with a wider scope of activism, and those with high free cash flows.

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1. Introduction

The mechanism through which outside investors perform active monitoring and its impact on firm value has been one of the central building blocks of corporate governance. Among the extant literature, traditional studies have paid a lot of attention to the roles of blockholders as active monitors. Theoretically, blockholders have both the power and the incentive to reduce various forms of agency costs, since they own a significant fraction of the target firms. For example, blockholders can effectively engage in control-related events, including takeovers, as well as subsequent restructuring activities. Consistent with this argument, researchers generally have found positive stock market reactions for large block trades or the formation of new blocks through toehold acquisitions.³ This type of monitoring can be considered “high-cost”, since it would be quite costly both to purchase the initial toehold and, subsequently, initiate control-related activities.

However, this “high-cost” *blockholder activism* has a few drawbacks from both the practical and the theoretical perspective. First, in many countries outside the U.S. and U.K., hostile takeovers are far less likely, mainly due to the predominance of

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³ Barclay and Holderness (1991, 1992), and Bethel et al. (1998) examine large block trades while Holderness and Sheehan (1985), Mikkelsen and Ruback (1985) and Choi (1991) analyze acquisitions of more than 5% ownership, often referred to as ‘toehold’ acquisition and typically identified through Schedule 13D filings. See Holderness (2003) for a comprehensive survey on blockholders.

entrenched family control through pyramidal ownership, dual-class equity, or cross-shareholdings. In these settings, block ownership does not necessarily translate into increased probability of takeovers. More importantly, the empirical strategy often adopted under this approach cannot clearly rule out alternative explanations. For example, as [Holderness and Sheehan \(1985\)](#) note, a stock price jump following initial block holding disclosure may simply reflect either superior stock picking abilities or access to private information, rather than active monitoring. This ambiguity arises because two distinct facts, specifically the intention to be active in monitoring and additional share purchases, are being disclosed simultaneously.

A more recent trend in active monitoring focuses on the role of institutional investors. Due to the increased size of pension funds and the widespread adoption of passive portfolio management, it has become increasingly more difficult to simply sell the stock in the market, which has led to the rise of institutional activism.⁴ In this form of monitoring, large institutions such as CalPERS typically hold a relatively small fraction of shares and engage in non-control-related activities, such as submitting corporate governance-related shareholder proposals. We can categorize this type of monitoring as “low-cost”, both in terms of the low ownership stake and low additional costs to launch these non-control-related activities.

Such “low-cost” *institutional activism*, however, provides mixed results in terms of its valuation effects. A noteworthy example is a series of studies on CalPERS.⁵ Such mixed results may be explained partly by the less binding nature of low-cost forms of activism such as shareholder proposals, and partly by low level of interest alignment due to low ownership stakes. In sum, both approaches seem to provide only a limited amount of empirical support for the value of active monitoring.

In this paper, we investigate a new segment of investors, which may allow us to overcome such shortcomings of both the “high-cost” and the “low-cost” forms of activism. Our focus is on investors that hold a non-trivial block of ownership in target firms, but are more likely to engage in non-control-related activist measures that are more readily available.⁶ Specifically, we evaluate the effect of outside blockholders who *switch* their investment purpose from passive to active, hereafter referred to as ‘switchers’. Outside blockholders are investors that already hold a block of shares greater than 5%, but do not have control over the firm. Since switch announcements do not necessarily involve additional share purchases, they are relatively free from potential biases due to stock picking skills, private information, or herding.

We apply the test to outside blockholders in Korea, which fits well with the segment of investors we described above. First, there are plenty of outside blockholders in Korean firms, which allows us to focus on investors that are free from the interest misalignment that often plagues low-cost institutional activism. In particular, the presence of a non-trivial number of foreign blockholders allows us to investigate their monitoring role. Second, Korea is widely known for the prevalence of entrenched families who maintain control through pyramidal ownership or cross-shareholdings. This type of corporate control makes it extremely difficult to implement hostile takeovers and hence lead outside blockholders to engage mostly in non-control-related activism. By focusing on Korean firms, we in effect test whether outside blockholder activism adds value, even in a situation where control-related activities are not expected.

Third, Korea recently went through a regulatory change in its 5% disclosure rule that generated a substantial number of switchers in a relatively short period of time. For example, the definition of active blockholders became more detailed and comprehensive, and violating the reporting rules became a criminal offense.⁷ The government also provided a grace period of 5 days immediately following the regulation change—hereafter referred to as the “mandatory redisclosure period (MRP)” —during which all blockholders, including insiders, were required to file their investment purpose in accordance with the new regulation. This feature provides an interesting prediction that switches made during the mandatory redisclosure period are more likely to reflect a simple recategorization of the current purpose, whereas switches made subsequent to this period would reflect a genuine change in investment purpose from passive to active.

Moreover, controlling parties in Korea enjoy a high level of private benefits, particularly the expropriation of minority shareholders or *tunneling*.⁸ Theoretically, this suggests that the value of outside blockholder activism could either be high, since there is ample room for improvement, or low, since legal protection of investor rights, especially the enforcement level, is still not adequate enough. Investigating the value of activism in this high private benefit setting would be interesting in its own right. Related to this, researchers have argued that the presence of foreign institutional investors could influence local firms to improve the quality of their corporate governance.⁹ Our study provides additional insights to various types of minority investors—both domestic and foreign—by investigating the target price reaction at the time foreign outside blockholders switch their investment

⁴ See [Carleton et al. \(1998\)](#) for the evolution of institutional activism.

⁵ [Nesbitt \(1994\)](#), [Huson \(1998\)](#), [Wu \(2004\)](#), and [Barber \(2006\)](#) report positive effect of activism by CalPERS, while [Smith \(1996\)](#), [Crutchley et al. \(1998\)](#), [English et al. \(2004\)](#), and [Nelson \(2006\)](#) cast doubt on the value of activism by CalPERS. See [Gillan and Starks \(2007\)](#) for an extensive survey on this topic.

⁶ To the extent that hedge funds also hold a non-trivial block of ownership in target firms, but engage mostly in non-control-related activism, our paper can be considered an extension of recent literature on hedge fund activism. See [Brav et al. \(2007\)](#) and [Klein and Zur \(2009\)](#) for analyses on hedge fund activism. But since these studies also focus on market reactions to the initial disclosure of 5% ownership through 13D filings, they cannot clearly rule out alternative explanations based on stock picking skills or access to private information.

⁷ The disclosure documents under the old and the new rules are highly standardized. They both list a number of areas a blockholder might exert influence. If a blockholder checks more than one, it is categorized as active. The new rule lists 10 areas, whereas the old rule lists only 5. Violating the reporting rules, making false statements, or omitting material information may lead to a fine of up to KRW 5 mil (approximately US\$ 5000), or up to one year in prison.

⁸ For example, [Nenova \(2003\)](#) demonstrates that the control block premium in Korea is among the highest around the world. [Bae et al. \(2002\)](#) show that controlling shareholders of Korean business groups ‘tunnel’ through mergers of member firms at non-market prices. [Baek et al. \(2006\)](#) find similar results in private security offerings.

⁹ For example, [Gillan and Starks \(2003\)](#) note that foreign institutions may exert significant influence due to their large presence in the markets, particularly as they may hold more shares than domestic institutions. [Khanna and Palepu \(1999\)](#) examine Indian firms in early 1990s and find that foreign institutional investors serve a valuable monitoring function as emerging markets integrate with the global economy.

purpose. This study is also related to the literature concerning the convergence of corporate governance systems. In this literature, one of the main forces behind convergence is the advent of shareholder activism by foreign institutional investors (Nestor, 2003).

Finally, the disclosure rule regarding more than 5% ownership is quite similar between the U.S. and Korea. In fact, Korean regulation is closely modeled after U.S. rule. Thus, we can safely assert that any result we find in the Korean market is not driven by the specifics of the Korean rule.¹⁰

Using a sample of 102 switcher-target pairs in the Korean market between 2005 and 2006, we first examine market reactions following switch decisions to assess the effect of outside blockholder activism. We find that the share prices of target firms indeed increase around the time of the switch disclosure. The cumulative abnormal return, over an 11-day event window from day -5 to day $+5$, is significantly positive at 3.73%. The results also indicate that such share price increase is greater when the switcher is an outside blockholder that declares to employ a wider scope of activist measures.

To further test whether genuine changes in investment purpose leads to a stronger market reaction than simple recategorizations, we compare the market reactions during the mandatory redisclosure period with those during the subsequent period, and find that the returns are larger in the later period. Finally, we find that certain sub-groups of switched firms that are highly likely to benefit from activism (those targeted by switchers with a wider scope of activism and those with high free cash flows) tend to exhibit significant increases in dividend payout ratios following the switch.

This paper is organized as follows. Section 2 briefly summarizes the related literature on blockholders and institutional activism. Section 3 outlines our hypotheses, while Section 4 explains the data and the sample. Section 5 provides the empirical results and Section 6 concludes.

2. Literature

Earlier studies on blockholders tried to explore the economic rationale behind blockholdings, which actually goes against the principle of diversification. This stream of research recognized two sources of potential benefits; those obtained through increased monitoring that are shared with other minority shareholders, and those that accrue only to the controlling party. Barclay and Holderness (1991, 1992) and Bethel et al. (1998) document that firm value typically increases following a large block trade. Holderness and Sheehan (1985), Mikkelsen and Ruback (1985), and Choi (1991) analyze acquisitions of more than 5% ownership or ‘toehold’ acquisition and find similar results. More recently, Brav et al. (2007) and Klein and Zur (2009) extend this analysis to hedge funds activism. However, as Holderness and Sheehan (1985) specifically point out, there are “two hypotheses that are consistent with the evidence. First, these investors improve the management of target firms; second, they are systematically able to identify under-priced stocks” (p.555). Since our study focuses on switchers that already hold more than 5% ownership, we can effectively rule out the second hypothesis.

Some studies focus on the actual monitoring activities implemented by outside blockholders and their effect on subsequent corporate decisions. These papers demonstrate that the presence of outside blockholders is positively correlated with post-contest asset restructuring (Denis and Serrano, 1996), the probability of top executive turnover (Denis et al., 1997a), and takeover premium (Moeller, 2005), but negatively correlated with the level of corporate diversification (Denis et al., 1997b). They also show that outside blockholders vote more actively on antitakeover amendments (Brickley et al., 1988) and their presence influences voting outcomes on shareholder-sponsored proposals to change corporate governance structures (Gordon and Pound, 1993).

Private benefits provide another potential motivation behind block ownership. Barclay and Holderness (1989) find that premiums paid in block trades are significantly larger than the post-announcement exchange price, the difference of which is typically considered a measure of private benefits. Dyck and Zingales (2004) extend this analysis to the international setting. Barclay et al. (2001) compare block trade premiums with the private placement discounts, and attribute this difference to block-traders being more active in monitoring than private placement purchasers.

The next strand of blockholder literature focuses on the potential conflicts of interests between blockholders and other investors in the firm, particularly in cases where the control rights of the largest shareholder exceed its cash flow ownership, providing them the power and the incentive to tunnel corporate resources out of the firm at the expense of other shareholders. Claessens et al. (2002) find that in Asia, where family controlled corporate pyramids are pervasive, firm value increases with the cash flow ownership of the largest shareholder but falls when the control rights of the largest shareholder exceed its cash flow ownership. Woidtke (2002) finds that firm value is negatively related to activist public pension fund ownership, a finding consistent with the view that their administrators’ actions may be motivated more by political or social influences than by firm performance. Cremers et al. (2007) analyze the conflicts of interest between equity blockholders and creditors, and find that the presence of large institutional blockholders is associated with higher bond yields if the firm is exposed to takeovers. In our study, there are two distinct types of blockholders; “non-controlling outside” blockholders who are the focus of our analyses, and “controlling inside” blockholders who are typically part of the management. In this sense, our study also extends this strand of the literature.

Another recent trend in the literature is to analyze the various consequences of activist institutional investors such as CalPERS, who typically hold less than 5% equity ownership. For example, Nesbitt (1994), Smith (1996), Crutchley et al. (1998), and Barber (2006) investigate shareholder activism by CalPERS and find a material share price increase around the day of engagement. Del Guercio and Hawkins (1999) study the impact of shareholder proposals by five pension funds, and find that they subsequently influence certain governance events. Wu (2004) studies the CalPERS’ focus list and find that it improves the governance of target

¹⁰ Appendix A provides detailed information on the disclosure requirements of more than 5% ownership in the U.S. and Korea.

firms by affecting their reputation. Opler and Sokobin (1995) investigate the focus list announced by the Council of Institutional Investors (CII), and find that it also had a material share price impact. Becht et al. (2006) investigate the private engagement by the Hermes U.K Focus Fund and find similar results. Gillan and Starks (2000) study the shareholder proposals submitted by institutional investors, and find that the share price reactions vary according to the issue and the sponsor's identity.

This approach, however, often yields mixed results regarding the value of activism, presumably due to the “low-cost” nature in terms of both the degree of alignment of interests due to low ownership and the type of activist measures, which are typically non-control-related and non-binding. For example, Wahal (1996) studies nine pension funds and does not find any evidence that institutional shareholder activism creates value. English et al. (2004) study the shareholder activism of CalPERS and show that its impact survives only over a short period of time. Song and Szweczyk (2003) investigate the focus list announced by the Council of Institutional Investors (CII), but do not find that it had a material share price impact. Karpoff et al. (1996) study the shareholder proposals submitted by individual investors and find similar results.

Our approach is somewhat similar to this, in the sense that the areas of active monitoring under the new disclosure rule specifically include corporate policies such as “dividend policy” and “sale of significant part of assets or business”, which may be regarded as a form of management response (Del Guercio and Hawkins, 1999). On the other hand, the new disclosure rule also lists “mergers, spin-offs, and carve-outs” as potential areas for active monitoring, which is more applicable to the control-related issues examined in the traditional blockholder literature. In fact, the “activism” we study in this paper includes all the activities in the list of ten areas an activist blockholder is obligated to disclose, and therefore covers a wide spectrum of activities, technically speaking. However, given that there are almost no successful hostile takeovers in Korea to date, we doubt that the valuation effect we obtain captures the possibility of a hostile takeover, or of other control-related activities. We also employ a much larger number of investors rather than focusing on a single investor or few investors, which is expected to provide more reliable evidence regarding the general effect of average activist funds.

3. Hypotheses

The following are our principal research questions. Does outside blockholder activism add value, especially in situations in which subsequent control-related activities are less expected due to the existence of a controlling shareholder in the target? If so, what determines the cross-sectional variation of this added value? Finally, do target firms subsequently change their corporate policies following the switch?

To answer the first question, we test whether the target firm's price reaction is positive following the switch. By doing so, we effectively rule out the possibility of a share price jump due to stock picking skills, private information, or herding.

H1a. Target price reaction is positive around the time of the switch disclosure.

One related possibility is that switchers could be simply recategorizing themselves as active investors under the new regulation although they have been active all along, especially during the mandatory redisclosure period. This suggests that prior to the new disclosure policy, certain active blockholders could have been pooled together with passive blockholders, and because investors could not distinguish between them, they could have assigned to both types of blockholders the same expected value incorporating all the blockholders in the pool. When the new disclosure rule induced these certain active blockholders to separate themselves from the passive blockholders, investors could have readjusted the value they previously assigned to each group of blockholders. That is, a positive adjustment for the switched targets and a negative adjustment for the non-switched targets. Thus, according to this explanation, a positive price reaction can occur without a genuine change in investment purpose.¹¹ The magnitude of the price reaction under this separation effect could be smaller than those under genuine switches, though, since separation captures not the full value of active monitoring, but a partial value (value under active blockholders minus expected value under a pool of passive and activist blockholders).

We believe that the effect of recategorization would be more applicable for a short period of time referred to as the mandatory redisclosure period (MRP), during which any blockholder with an active investment purpose had to correctly redisclose its intent, regardless of its original disclosure under the old rule. This suggests that a switch made in subsequent periods is more likely to be a genuine switch from passive to active. Taken together, above arguments generate the following hypotheses.

H1b. Target price reaction is stronger during the subsequent period than during the mandatory redisclosure period.

H1c. During the mandatory redisclosure period, the price reaction is negative for the non-switched firms.

The next set of hypotheses addresses our second question; the factors that determine the cross-sectional variations in the value of outside blockholder activism. First, we conjecture that an investment purpose switch by foreign outside blockholders might have a greater impact on share price than a switch made by domestic outside blockholders. Foreign outside blockholders could be more experienced than domestic blockholders in terms of shareholder activism and far less likely to have various commercial ties with target firms that might adversely affect the credibility of their activism.

H2a. Foreign switchers have a greater impact on share price than domestic switchers.

¹¹ We thank an anonymous referee for pointing this out.

We also hypothesize that the switchers with a wider scope of activism would have a greater impact on share price than those with a narrower scope. The wider the scope of activism, the greater the leverage the switcher has over the target firm managers.

H2b. The wider the scope of activism, the greater the impact of a switch on share price.

We further conjecture that the extent of the share price reaction would be influenced by the following three factors: (i) the extent of the firm's initial valuation, (ii) the degree of the manager's vulnerability to outside influence, and (iii) the room for improvement in corporate policies. If an activist blockholder aims at a large capital gain from its activism, it should target a firm that initially has a relatively lower valuation as compared with its industry peers, the managers of which can be readily influenced by the blockholder, and the corporate policies of which have ample room for improvement.

H2c. The lower the valuation as compared with industry peers, the greater the impact of a switch on share price.

H2d. The more vulnerable the manager to outside influence, the greater the impact of a switch on share price.

H2e. The greater the room for improvement in corporate policies, the greater the impact of a switch on share price.

The third set of hypotheses addresses our final question; whether the switch influenced the target firms to change their corporate policies. Considering that our sample period ends fairly recently and therefore cannot investigate many years subsequent to the switch, we limit ourselves to a corporate policy that can be changed immediately after the switch: the dividend policy.

H3a. Dividend payout ratio increases after the switch.¹²

To sharpen our test, we also examine the change in dividend payout ratio in the subsamples that are more likely to be affected by changes in investment purpose; foreign switchers, switchers with a wide scope of activism, firms with large cash holdings, and firms with high free cash flows.

H3b. Increase in dividend payout ratio after the switch is greater for foreign switchers.

H3c. Increase in dividend payout ratio after the switch is greater for switchers with a wide scope of activism.

H3d. Increase in dividend payout ratio after the switch is greater in firms with large cash holdings.

H3e. Increase in dividend payout ratio after the switch is greater in firms with high free cash flows.

4. Data

4.1. Switcher sample construction

We construct our switcher sample by manually collecting information contained in filings submitted to Korean securities authorities. Any investor who directly, or indirectly, acquires beneficial ownership of 5% or more of a public company listed in the Korea Exchange (KRX) must file a report to the Korean Financial Supervisory Service (FSS) within 5 days of crossing the ownership threshold.¹³ As is the case in the U.S., the contents of the report differ between active and passive blockholders. An active blockholder must provide detailed information regarding its investment purpose, any existing contract on its shareholdings, and the funding source of its investment, whereas passive blockholders do not need to. Additionally, if a blockholder wishes to change its investment purpose from passive to active, it must make a separate filing to FSS.

Immediately after the filings, the information is disclosed to the public via the Data Analysis and Retrieval Transfer (DART) system, which is an electronic disclosure system administered by FSS that allows companies or investors to submit disclosures online, similar to the EDGAR system operated by the U.S. SEC. To identify the switchers, we make use of this DART system and the Korean Integrated News Database System (KINDS), a news article search engine administered by the Korea Press Foundation. KINDS covers all existing press media.

For the period between March 29, 2005 (the day the new 5% disclosure rule went into effect) and December 31, 2005, we went through each and every block holding disclosure report in the DART system filed by blockholders. A total of 5128 filings were studied. To doublecheck the accuracy of the sample, we cross-examined DART and KINDS from May to December, 2005, and were able to identify almost the same switcher-target pairs from both sources.¹⁴ Thus, for 2006, we took a less costly approach and identified switchers based solely on news article searches through KINDS.¹⁵

¹² Theoretically, dividends can either be proxies for good governance or substitutes for governance. But, La Porta et al. (2000) show that dividends are larger in countries with good investor protection. Moreover, the dividend amount was quite low among Korean firms before the 1997 financial crisis. Based on these premises, we set our prior as such.

¹³ For qualified institutional investors, the deadline is extended to 10 days.

¹⁴ Using the comprehensive DART system, we identified 54 switcher-target pairs. Using the KINDS search, we found 53 switcher-target pairs.

¹⁵ When searching news articles, we used phrases such as "change in investment purpose," "disclosure of investment purpose change," and "passive investor active investor."

Table 1

Sample summary statistics.

	All [N = 686]	Not switched [N = 585]	Switched [N = 101]	t-stat	Switched early [N = 47]	Switched later [N = 54]	t-stat
Tobin's <i>q</i>	1.00	1.01	0.98	−0.368	0.91	1.05	1.809
Cumulative stock returns (past 3 years)	0.10	0.09	0.10	0.041	0.36	−0.13	−1.802
Voting rights of the controlling shareholder	0.37	0.38	0.33	−2.892	0.37	0.30	−2.553
Cash flow rights of the controlling shareholder	0.24	0.25	0.22	−1.961	0.23	0.21	−0.931
Business group dummy	0.81	0.81	0.79	−0.469	0.83	0.76	−0.866
Size = ln [market cap (KW mil)]	10.42	10.36	10.78	2.379	10.69	10.85	0.421
Foreign ownership	0.09	0.08	0.13	3.040	0.12	0.14	0.523
Dividend yield (average, past 3 years)	0.02	0.02	0.02	−0.659	0.02	0.02	−0.628
Cash flow (average, past 3 years)	0.04	0.03	0.07	2.452	0.08	0.06	−0.946
Leverage	0.44	0.44	0.46	0.517	0.44	0.48	0.866
Cash holdings	0.07	0.07	0.07	−0.464	0.08	0.06	−1.451

The sample includes all Korean listed firms that did not have any active outside blockholders at the time of the switch. Switched firms are defined as those firms that have been targeted by outside blockholders with more than 5% ownership who have changed their investment purpose from passive to active during the sample period, March 29, 2005 to December 31, 2006. The first column presents the average statistics for the full sample. The next three columns provide a comparison between the switched firms and non-switched firms while the last three columns compare firms targeted during the mandatory redisclosure period from March 29 to April 2, 2005 (*Switched Early*) against those targeted subsequent to this period (*Switched Later*). Accounting variables are measured as of the end of fiscal year 2004. Tobin's *q* is market value of common equity plus book value of preferred shares plus total liabilities over total assets. Voting rights of the controlling shareholder includes holdings of the related parties' (family members, affiliated companies, other executives) as well, while cash flow rights of the controlling shareholder only includes the direct holdings of the controlling shareholder. Dividend yield is cash dividend over market capitalization. Cash flow is operating income plus depreciation and amortization scaled by total assets, and cash holdings is cash and cash equivalents scaled by total assets. Leverage is total liabilities over total assets.

To identify the switchers, we resort to the following five criteria. First, a separate filing must be made to FSS disclosing the change in its investment purpose from passive to active. Second, immediate prior filing exists and this filing shows that the blockholder was a passive blockholder with at least 5% ownership. Third, targeted firms should not have any other outside blockholders that were already active at the time of the switch. This is to avoid any potential confounding effect that could arise from the existence of other active blockholders. Fourth, we drop filings that are mere corrections of errors in the previous filings. Finally, we drop filings made by insiders; i.e. inside blockholders who are simultaneously board members or executives of the target or their related parties. To increase the number of switcher-target pairs, we did not restrict our sample to institutional blockholders.

During the combined sample period of March 29, 2005–December 31, 2006, we identified a total of 102 switcher-target pairs from 35 distinct switchers (10 individual and 25 institutional outside blockholders) involving 101 unique target firms.^{16,17} As expected, most of the outside blockholders switched their investment purpose during the first half of 2005.¹⁸ Since then (July 2005 to December 2006), the number of switchers dropped down significantly, averaging only one firm per month. From each filing, we collect detailed information regarding blockholder characteristics. Specifically, we collect the blockholder's name, country of residence, scope of activism, and share ownership on the day of the switch disclosure.

4.2. Other data sources

For accounting variables and year-end market variables, we use data from *TS2000*, a database compiled by the Korea Listed Companies Association (KLCA). For dividend and stock-split adjusted daily returns, we utilize data from the Korea Securities Research Institute (KSRI).

5. Results

5.1. Summary statistics

5.1.1. Switched vs. non-switched

Table 1 provides the summary statistics of various firm -switched firms. To render the comparison more appropriate, we exclude from both groups all firms that already had other active outside blockholders.¹⁹ The non-switched firms are all non-financial firms that had at least one passive outside blockholder with 5% ownership or more as of the end of fiscal year 2004²⁰ who remained passive—and thus did not switch—over the whole sample period (585 unique firms). The switched firms are those that were targeted by the switchers during March 29, 2005 and December 31, 2006 (101 unique firms). The fraction of the switched firms is 15% in the sample.

¹⁶ One firm, Sam Ah Pharmaceuticals, was targeted twice. First switch was made by the Baupost Group on April 1, 2005. The second switch was made by Deccan Value Advisors on July 19 2006. Since Baupost reduced their position below 5% before the second switch and there was no further disclosure, we kept the second switch in the switcher sample. Excluding the second switch does not affect the main results.

¹⁷ We also identified 3 financial targets, which we excluded from the sample for conventional reasons.

¹⁸ 91 out of 102 switcher-target pairs (89%) were found during the period of March 29–June 30, 2005. Part of this is due to the clustering during the mandatory redisclosure period.

¹⁹ We thank an anonymous referee for pointing this out.

²⁰ It is between fiscal month end of March 2004 and February 2005, to be exact.

Table 2

Distribution of changes in ownership around the switch.

		Mean	t-stat	25th	Median	75th
<i>Panel A: All switcher-target pairs [N = 102]</i>						
	Before switch	12.6%	17.065	7.2%	11.2%	15.4%
	At switch	12.9%	16.292	7.1%	11.1%	15.7%
	6 months after switch	9.1%	11.754	4.6%	7.0%	11.1%
	Change at switch (% point)	0.4%p	1.274	0.0%p	0.0%p	0.4%p
	Change at switch (%)	3.3%	1.379	0.0%	0.0%	4.1%
	Change after 6 months (% point)	−3.9%p	−4.684	−5.8%p	−2.1%p	0.0%p
	Change after 6 months (%)	−20.8%	−2.377	−50.0%	−17.3%	0.0%
<i>Panel B: Domestic switchers [N = 40] vs. Foreign switchers [N = 62]</i>						
Domestic	Before switch	13.6%	14.746	8.7%	13.0%	16.9%
	6 months after switch	10.1%	6.602	4.0%	8.6%	14.2%
	Change after 6 months (% point)	−3.7%p	−2.227	−9.0%p	−1.4%p	0.0%p
	Change after 6 months (%)	−13.3%	−0.619	−74.2%	−15.7%	0.0%
Foreign	Before switch	11.9%	11.301	6.8%	9.1%	13.6%
	6 months after switch	8.4%	10.571	4.9%	6.8%	9.3%
	Change after 6 months (% point)	−4.0%p	−4.694	−5.7%p	−2.4%p	0.0%p
	Change after 6 months (%)	−25.6%	−6.458	−48.0%	−19.3%	0.0%
<i>Panel C: Early switchers [N = 47] vs. Later Switchers switchers [N = 55]</i>						
Early	Before switch	13.3%	16.020%	8.6%	12.5%	15.8%
	6 months after switch	9.8%	9.925	5.2%	8.9%	13.1%
	Change after 6 months (% point)	−3.4%p	−3.856	−5.5%p	0.0%p	0.0%p
	Change after 6 months (%)	−24.1%	−4.249	−50.1%	0.0%	0.0%
Later	Before switch	12.0%	10.231	6.2%	9.3%	14.6%
	6 months after switch	8.4%	7.287	4.5%	5.4%	8.8%
	Change after 6 months (% point)	−4.2%p	−3.170	−6.1%p	−3.3%p	−0.1%p
	Change after 6 months (%)	−18.0%	−1.155	−50.0%	−39.0%	−1.6%

Switchers are outside blockholders who have changed their investment purpose from passive to active during the sample period. Panel A presents the results for all switchers, panel B presents separate results for domestic and foreign switchers, and panel C presents separate results for early and late switchers. Early switchers are those who switched during the mandatory redisclosure period, March 29 to April 2, 2005, and late switchers are those who switched subsequent to this period. The first three rows in each panel present the distribution of ownership reported in the most recent filing prior to the switch, the ownership reported at the switch disclosure, and the ownership reported in the most recent filing prior to 6 months after the switch. The next two rows present the distribution of changes in ownership for each switcher-target pair (measured in both % points and %) at the time of the switch since the previous filing (for example, median values correspond to median changes rather than changes in medians). The last two rows present the distribution of changes in ownership for each switcher-target pair between the switch and 6 months after the switch.

The differences in firm characteristics between the switched and the non-switched sample could potentially provide insights regarding the factors that motivate blockholders to switch their investment purpose from passive to active. However, *ex ante*, it is not clear as to whether the switch reflects a genuine change in investment purpose or a simple recategorization of existing purpose. If it is the latter, the differences in firm characteristics may simply reflect the preferences of switchers and non-switchers, independent of their intentions to become more active. To further explore this issue, we break down the switched firms into those that were targeted during the mandatory redisclosure period (that are more likely to reflect recategorization) and those targeted subsequent to this period (that are more likely to reflect genuine changes in investment purpose).²¹ All variables are measured as of the end of fiscal year 2004.

We compare two variables that intend to capture the extent of the target's initial valuation (Tobin's *q* and cumulative stock returns over the past three years); four variables that may capture the extent of manager's vulnerability to outside influences (voting and cash flow rights of the controlling shareholder, business group dummy, size, and foreign ownership), and four variables that proxy for the room for improvement in corporate policies (average dividend yield over the past three years, average cash flow over the past three years, leverage, and cash holdings).

Three points are worth noting. First, the switched firms have both lower voting rights and lower cash flow rights by the controlling shareholder than do the non-switched firms. On average, the controlling shareholder's voting rights are 33% in the switched firms, and 38% in the non-switched firms. This difference is statistically significant at 1% level (*t*-statistic of 2.89). This makes sense because if there is an inside blockholder with a controlling equity stake in the firm, it would not be easy for an outside blockholder with a smaller equity stake to influence the management. The high level of insider's control rights, even for switched firms, provides additional support that the type of "activism" we investigate resembles less costly measures typically employed by institutional activists such as CalPERS, rather than the control-related activities analyzed in the U.S. blockholder literature.²²

²¹ The government set 5 calendar days from March 29 to April 2, 2005 as the mandatory redisclosure period.

²² One institutional background worth noting is a voting cap of 3% in the election of statutory auditors (enacted in 1999) and audit committee members (enacted in 2000 and 2001), which provides an advantage to minority shareholders and thus facilitated certain activist funds in Korea such as Lazard Korean Corporate Governance Fund (KCGF) to be launched in mid-2006. See Lee and Park (in press) for the impact of KCGF in the Korean market.

Table 3

Cumulative abnormal returns (CARs) following the switch.

Trading days relative to event date	All [N = 102]		Stock sale/Purchase at switch disclosure					
			Sellers [N = 21]		Non-sell/non-buyers [N = 41]		Buyers [N = 40]	
	Mean	t-stat	Mean	t-stat	Mean	t-stat	Mean	t-stat
–5	0.36%	0.854	0.51%	0.640	0.22%	0.273	0.43%	0.770
–4	1.25%	2.122	2.32%	1.616	1.55%	1.535	0.38%	0.482
–3	0.40%	0.638	0.50%	0.299	0.61%	0.620	0.13%	0.144
–2	0.38%	0.555	–0.34%	–0.186	0.62%	0.574	0.51%	0.523
–1	0.52%	0.762	–0.76%	–0.478	1.12%	1.054	0.57%	0.530
0	1.14%	1.444	1.58%	0.875	1.24%	1.216	0.80%	0.549
+1	2.94%	3.290	4.60%	1.693	2.93%	2.351	2.07%	1.645
+2	2.92%	3.195	3.24%	1.426	2.63%	1.638	3.05%	2.571
+3	3.72%	3.333	4.07%	1.464	4.25%	2.115	2.98%	2.187
+4	3.63%	3.394	4.42%	1.992	4.18%	2.125	2.66%	1.820
+5	3.73%	3.359	4.50%	1.839	4.12%	2.150	2.93%	1.800
+6	3.43%	2.981	4.25%	1.714	3.57%	1.809	2.85%	1.656
+7	3.26%	2.687	4.11%	1.536	2.98%	1.320	3.10%	1.994
+8	3.17%	2.499	4.53%	1.730	2.94%	1.206	2.69%	1.706
+9	3.12%	2.479	3.32%	1.291	3.49%	1.423	2.64%	1.718
+10	2.34%	1.799	2.46%	0.927	2.44%	0.970	2.17%	1.341
3 day CAR [–1,+1]	2.56%	3.412	4.94%	2.053	2.31%	1.987	1.56%	1.966

Averages of the CARs of the switcher-target pairs from day –5 to day +10 are reported. Abnormal returns are estimated from market model using past 250 trading days from day –255 to –6 of the switch disclosure. All returns, except for the last row represent CARs since day –5. The last row reports 3 day CAR from day –1 to day +1. The first two columns present results for all switchers. The rest of the columns report results for three different sub-groups of switchers based on whether they increased or decreased ownership in the target at the time of the switch; specifically, (1) *sellers*, (2) *non-sellers-non-buyers*, and (3) *buyers*. *t*-statistics are based on cross-sectional standard errors during the event period. The sample period is from March 29, 2005 to December 31, 2006.

Turning to the cash flow rights of the controlling shareholders, we note that the averages are also slightly lower in the switched firms. This indicates that there could be more alignment of interests in non-switched firms, and thus less need for blockholders to switch in these companies.

Second, the switched firms have higher foreign ownership than the non-switched firms. On average, foreign ownership is 13% in the switched firms, and 8% in the non-switched firms. This difference is statistically significant at 1% level (*t*-statistic of 3.04). This is mainly being driven by foreign switchers targeting firms with high levels of foreign ownership.²³ Third, the switched firms generate more cash flow than the non-switched firms. On average, cash flow is 7% of total assets in the switched firms, and 3% in the non-switched firms.

We also compare the distribution of industries across the two groups in Appendix B, on the basis of the 4-digit Korean Standard Industry Classifications. The results indicate that the industry compositions of the two groups are quite similar. This suggests that switching occurred across various industries, rather than being concentrated in a few industries.

Within the switched group, firms targeted after the mandatory redisclosure period exhibit a higher Tobin's *q*, lower past stock returns, and smaller voting rights of the controlling shareholder. This suggests that later switchers—who are more likely to have switched their genuine investment purpose than to have simply recategorized their existing intentions—are targeting firms with poor stock performance in recent years, as well as firms in which there is a higher probability of influencing the management.

5.1.2. Ownership change around the switch

Although our switchers already held more than 5% ownership prior to the switch, this does not guarantee that there will be no change in fractional ownership at the time of the switch. Table 2 addresses this issue by presenting the changes in the switchers' ownership of target firms prior to, during, and after the switch disclosure. Panel A reports the results for all switcher-target pairs, panel B shows a comparison between the domestic and the foreign switchers, whereas panel C reports a comparison between MRP switchers and later switchers. In panel A, the first three rows present the ownership reported in the most recent filing prior to the switch, the ownership reported at the switch filing, and the ownership reported in the most recent filing prior to 6 months after the switch. The next two rows present the distribution of changes in ownership for each switcher-target pair (measured in both % points and %) at the time of the switch since the previous filing. The final two rows present the distribution of changes in ownership for each switcher-target pair between the switch and 6 months after the switch. In panels B and C, we omit both ownership and changes in ownership at the switch filing for the sake of brevity.

The results from panel A indicate that switchers' ownership in target firms does not vary much over time. At the time of the switch, the switchers' average ownership is 12.9%. In the immediate prior filing, its ownership is 12.6%. This suggests that our switcher sample is indeed relatively free from potential biases due to stock picking skills, private information, or herding. The ownership change between the switch and 6 months after is also relatively small. The average drop is only 3.9% points, and outside

²³ The mean foreign ownership of switched firms targeted by foreign switchers is 18%, while the corresponding number for those targeted by domestic switchers is only 6.6%.

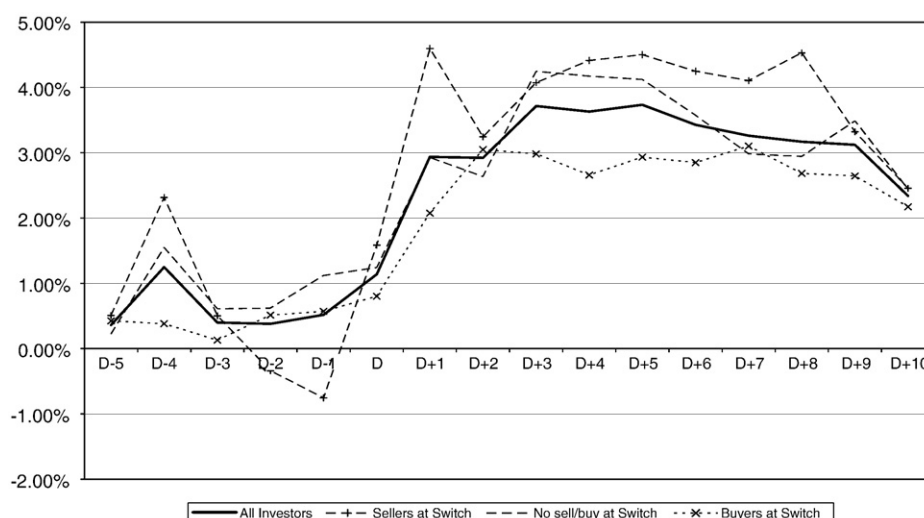


Fig. 1. Cumulative abnormal returns (CARs) following the switch. The averages of CARs of the switcher-target pairs surrounding the switching event from day -5 through day $+10$ are reported. Abnormal returns are estimated from market model using past 250 trading days from day -255 to -6 of the switch disclosure. All returns represent CARs since day -5 . The figure presents the results for all switchers as well as for three sub-groups of switchers based on whether they increased or decreased ownership in the target at the time of the switch; specifically, (1) sellers, (2) non-sellers-non-buyers, and (3) buyers. The sample period is from March 29, 2005 to December 31, 2006.

blockholders still hold on to 9.1% of the target stock 6 months after the switch.²⁴ In panel B, we can also verify that the distributions of changes in ownership are broadly similar between the domestic and the foreign switchers.²⁵

In panel C of Table 2, we report the changes in ownership separately for early switchers and late switchers. The results demonstrate that the median decrease in ownership is larger for late switchers. However, the 25th percentiles are quite similar across the two groups, suggesting that the likelihood of a large sell (for example more than 50% of the holdings) is actually similar. Moreover, the mean decrease in ownership is larger for MRP switchers, suggesting that the likelihood of an extreme sell takes place more frequently among MRP switchers.

5.2. Does activism from the switchers have value?

5.2.1. Full sample period

In Table 3 and Fig. 1, we report the averages of the cumulative abnormal returns (CARs) of the switcher-target pairs surrounding the switching event from day -5 through day $+10$. Abnormal returns are estimated from a market model using the past 250 trading days from day -255 to -6 of the switch disclosure. All returns represent the CARs since day -5 , except for the last row, where 3 day CARs from day -1 to $+1$ are reported.²⁶ The event day is the day of the switch filing, which also corresponds to the day the filing is disclosed to the public via the DART system. The t -statistics are based on cross-sectional standard errors during the event period.²⁷ The results from the first two columns show that the stock price of the target exhibits a material jump subsequent to the disclosure. From $D+1$ to $D+9$, the cumulative abnormal returns are positive and statistically significant, ranging between 2.92% and 3.73%.²⁸

In the rest of the columns, we separately report the results for three different sub-groups of switchers, based on whether they increased or decreased ownership in the target at the time of the switch; specifically, (1) *sellers*, (2) *non-sellers-non-buyers*, and (3) *buyers*. The results are largely similar to the full sample, although the statistical significance is slightly smaller in longer periods, presumably due to smaller sample size. The final row in Table 3 provides the averages of cumulative abnormal returns over a three-day event window from day -1 to day $+1$. We basically obtain the same results as those observed when CARs are measured since day -5 . Based on these findings, we confirm H1a (value creation hypothesis), effectively ruling out other potential explanations such as stock picking skills, private information, or herding.

²⁴ Only 6.86% of the sample experience complete sale by the investor within 6 months. Average sale is 20.8% of the ownership at the time of the switch disclosure.

²⁵ The changes in ownership after 6 months were not statistically different between the two groups.

²⁶ The Korea Stock Exchange (KSE) and the KOSDAQ market merged in January 2005 and formed a combined stock exchange named Korea Exchange (KRX). We use a "Combined Index" that includes both KSE and KOSDAQ stocks.

²⁷ Specifically, t -stat is based on the cross-sectional standard error of average cumulative abnormal return (ACAR) during the event period. We obtain similar results when we use portfolio approach following Brown and Warner (1985) to calculate the t -stats.

²⁸ We repeated the analysis using market-adjusted CARs and found similar results.

Table 4

Cumulative abnormal returns (CARs): early switchers vs. later switchers vs. non-switchers.

Trading days relative to event date	Switched early [N = 47]			Switched later [N = 55]			Non switched [N = 559]		
	Mean	t-stat		Mean	t-stat		Mean	t-stat	
		Cross-section	Portfolio		Cross-section	Portfolio		Cross-section	Portfolio
–5	0.53%	0.877	0.794	0.22%	0.364	0.290	–0.53%	–3.302	–0.834
–4	1.45%	2.149	1.537	1.08%	1.155	1.024	–1.60%	–6.920	–1.766
–3	0.90%	1.429	0.775	–0.03%	–0.025	–0.020	–1.90%	–6.647	–1.718
–2	0.36%	0.552	0.270	0.40%	0.346	0.267	–1.75%	–5.168	–1.369
–1	0.98%	1.265	0.656	0.12%	0.115	0.074	–1.50%	–4.173	–1.046
0	1.35%	1.539	0.826	0.96%	0.760	0.528	–1.73%	–4.551	–1.105
+1	1.42%	1.438	0.805	4.23%	3.004	2.152	–1.42%	–3.467	–0.837
+2	1.56%	1.557	0.826	4.09%	2.809	1.945	–1.31%	–2.861	–0.726
+3	2.02%	1.790	1.008	5.17%	2.844	2.317	–1.10%	–2.225	–0.574
+4	2.19%	1.942	1.038	4.86%	2.814	2.068	–0.96%	–1.761	–0.475
+5	2.11%	1.719	0.954	5.12%	2.903	2.078	–0.51%	–0.875	–0.240
+6	1.76%	1.399	0.762	4.86%	2.650	1.886	–0.56%	–0.967	–0.254
+7	1.95%	1.394	0.811	4.38%	2.298	1.635	–0.53%	–0.870	–0.230
+8	1.72%	1.215	0.689	4.41%	2.188	1.585	–0.19%	–0.297	–0.080
+9	1.05%	0.736	0.405	4.90%	2.477	1.702	–0.33%	–0.505	–0.134
+10	–0.56%	–0.394	–0.212	4.82%	2.373	1.621	–0.68%	–1.066	–0.266
3 day CAR [–1, +1]	1.06%	1.212	0.918	3.83%	3.333	2.979	0.34%	1.130	0.303

Averages of the CARs for three groups of firms are reported. The first group consists of targets that were switched during the mandatory redisclosure period, March 29 to April 2, 2005 (*switched early*). The second group includes targets that were switched subsequent to the mandatory redisclosure period (*switched later*). The final group is the *non-switched* group, where we set March 29, 2005 as the event day zero. Abnormal returns are estimated from market model using past 250 trading days from day –255 to day –6. All returns, except for the last row, represent CARs since day –5. The last row reports 3 day CAR from day –1 to day +1. For each group, we test the statistical significance based on two different procedures. First, we report the *t*-stats based on the cross-sectional standard errors from the event period. The second *t*-stat is based on the time-series standard deviations of portfolio returns during the estimation period (Brown and Warner, 1985). The sample period is from March 29, 2005 to December 31, 2006.

5.2.2. Early switchers vs. later switchers vs. non-switchers

Given that switch events during the mandatory redisclosure period (March 29–April 2, 2005) are more likely to reflect a recategorization of current purpose rather than a genuine change in investment purpose, we split the full sample into two groups in Table 4. The first group consists of targets that were switched during the mandatory redisclosure period (*switched early*). The second group includes targets that were switched subsequent to the mandatory redisclosure period (*switched later*). On the basis of this classification, switchers are roughly split into two halves. We also separately report the results for the *non-switched* group, where we set March 29, 2005 as event day zero. Again, abnormal returns are estimated from a market model using the past 250 trading days from day –255 to day –6, and all returns, except for the last row, represent CARs since day –5. For each group, we assess the statistical significance on the basis of two different procedures. First, we report the *t*-stats based on the cross-sectional standard errors from the event period. To address the clustering of events in calendar time during the mandatory redisclosure period, we provide a second *t*-stat, which is based on the time-series standard deviations of portfolio returns during the estimation period (Brown and Warner, 1985).²⁹

The results largely support our conjectures. First, for switchers, the target price reaction is stronger during the subsequent period than during the mandatory redisclosure period. The results for early switchers from the first three columns in Table 4 show that although the point estimates are positive, they are generally not statistically significant, particularly under the Brown and Warner (1985) *t*-stats, which takes into account cross-sectional correlations when events are clustered in calendar time.³⁰ On the other hand, the results from the next three columns show that the stock market reaction is larger and more significant for firms that were switched later, indicating that firms that are more likely to reflect a genuine change in investment purpose incur stronger reactions (H1b).

Table 4 also reports the market reactions for the non-switched firms during the mandatory redisclosure period. Our results show that the point estimates are all negative and are statistically significant at least up to D+3 based on cross-sectional standard errors (H1c). However, when we calculate *t*-statistics based on portfolio approach which takes clustering into account, they are no longer statistically significant.

On the basis of these empirical findings, we conclude that the stock market reaction to a switch may be picking up two different signals, depending upon the timing of the switch. For switches during the mandatory redisclosure period, the stock market appears to be reacting to a better information environment—that is, a change from a state in which the investment purpose is unclear into a state in which the investment purpose is clear in either direction (active or passive). For switches made during the later period,

²⁹ Specifically, *t*-stat is based on the times-series standard deviation of average abnormal returns (AAR) during the estimation period.

³⁰ Weaker market reactions for these firms might be a result of earlier public announcements prior to the actual filing date. To assess this possibility, we manually searched news articles for the MRP switchers starting from one month before the MRP (i.e. March 1, 2005). Out of 47 MRP switchers, 36 of them had a corresponding article in the news search engine. Out of 36 news articles, 16 of them were made on the same day as the filing date, 14 of them were made 1 to 5 days after the filing date, and only 6 of them were made 1 day before the filing date. Based on these findings, it seems less likely that earlier announcements are driving the returns prior to day 0.

however, the stock market appears to be reacting to a genuine change in investment purpose, from passive to active. Whichever the signal, the market reacts in a direction that appreciates the value of active monitoring by outside blockholders.

5.3. What determines the value of activism from the switchers?

5.3.1. Specification

In Table 5, we attempt to identify the factors that affect the cumulative abnormal returns in a multivariate setting. Using the sample of 102 switcher-target pairs, we run OLS where the dependent variable is the cumulative abnormal return around the switch event. In panel A, the returns are over a three-day event window from day -1 to day $+1$, and in panel B the returns are over an 11-day window from day -5 to day $+5$. As determinants of CAR, we include two blockholder characteristics (foreign residence and scope of activism), seven firm characteristics (firm value, board independence, dividend, cash holdings, voting rights of the controlling shareholder, cash flow rights of the controlling shareholder, and business group dummy), three trade-related factors (ownership increase at switch, ownership drop after 6 months after switch, and abnormal trading volume at switch), and one period dummy (mandatory redislosure period). As some switchers make a switch in multiple targets, we use robust standard errors clustered at the blockholder-level. This would control for any within-blockholder cross-sectional correlation that may bias the standard error downward.

It could well be the case that the effects of these variables might differ between the early and later switchers. To capture this effect, we report the results separately for early switchers and later switchers in columns (3) through (6) of Table 5.

As mentioned earlier, we hypothesize that foreign switchers and switchers with a wider scope of activism would respectively have a larger impact on share price than domestic switchers and switchers with a narrower scope (H2a and H2b). The foreign switcher dummy takes a value of 1 if the switcher's residence is outside of Korea, and 0 otherwise.

The scope of activism is measured by how many areas of management in which the blockholder is willing to exert activism. As noted earlier, the 5% disclosure rule in Korea lists ten areas of management activities that a blockholder might have intention to influence. The reporting blockholder is required to check all areas in which it intends to be active. The ten areas include the following: (i) appointment and dismissal of directors and auditors or the suspension of their duties, (ii) changes in the articles of incorporation concerning the board of directors or other organizational structures, (iii) changes in paid-in equity capital, (iv) influence over dividend policy, (v) mergers, spin-offs, and carve-outs, (vi) stock swaps and stock transfers, (vii) transfer of the whole or a significant part of business to or from another party, (viii) disposition or transfer of the whole or a significant part of company assets, (ix) renting out or contracting out management of the whole or a significant part of business, entering profit-sharing agreements with another party, or entering any other similar contracts, including changes in or termination of such contracts, (x) dissolution of the company as a going concern. It turns out that all of our sample switcher-target pairs fall either within a group that checked affirmative on eight or more items, or in a group that checked affirmative on four items or less. This provides us with a natural cut-off point by which to distinguish the switchers with a wide scope of activism (≥ 8 areas) from those with a narrow scope (≤ 4 areas).³¹ The wide scope of activism dummy takes a value of 1 if the areas of management checked are eight or more, and 0 otherwise.³²

Besides the two blockholder-specific variables, we include a number of firm-specific variables that may affect the level of price increase around the switch. More specifically, we include a variable that intends to capture the extent of the target's initial valuation (low Tobin's q dummy: 1 if Tobin's q is below the industry median), three variables that may capture the room for improvement in corporate policies (high cash holding dummy: 1 if above switcher median, no dividend dummy, and low outside director ratio dummy: 1 if below 50%), and three variables intended to capture the degree of manager's vulnerability to outside influence (control rights of the controlling shareholder, cash flow rights of the controlling shareholder, and business group dummy). These three sets of variables are related, respectively, to H2c, H2d, and H2e.

We also include three trade-related factors. The buying pressure dummy takes a value of 1 if ownership increased at the time of switch, and 0 otherwise. Although there is very little increase in ownership at the time of the switch, we test for any impact that may come from share purchase. We also include the sell-out dummy, which takes a value of 1 if ownership dropped after 6 months, and 0 otherwise to test for any impact from share divestment after the switch. To control for overall trading activity, we include the standardized trading volume averaged from day -1 to $+1$. The standardized volume for stock i on day j is obtained by dividing the volume of stock i on day j by the average of all volumes of stock i during the 60 trading days prior to the $[-30, +30]$ window, that is $[-90, -31]$. Finally, we include a dummy variable indicating the period after the mandatory redislosure period to determine whether there is a stronger market reaction during this subsequent period, which is directly related to H1b.

5.3.2. Results

Regressions (1) and (2) in Table 5 report the results for the full switcher sample. Regressions (3) and (4) report the results for early switchers, whereas regressions (5), (6), and (7) report the results for later switchers. As there are only five domestic switchers in the later period, in regression (7), we report the results where we limit the sample exclusively to foreign switchers.

³¹ Out of the narrow scope group, 67% of them chose (i) alone, which is the appointment/dismissal of directors and auditors. Out of the wide scope group, 93% of them chose all 10 areas.

³² Under the old rule, blockholders—including inside blockholders—had to respond to the following five questions: (i) currently engaged in management, (ii) have a plan to change current management, (iii) have a plan to appoint directors or auditors, (iv) have a plan to change corporate charter, (v) have a plan to change equity stake.

For the full sample results reported in columns (1) and (2) of panel A, six variables appear to explain the cross-sectional variations in announcement returns. First, the foreign switcher dummy is statistically significant with the expected sign. This demonstrates that cumulative abnormal returns are greater for foreign switchers by 5.2 to 5.6% points, depending on regression specifications. This is consistent with the argument that foreign institutional blockholders investing in the Korean market are more

Table 5

Cross sectional variation in cumulative abnormal returns: multivariate analysis.

	All switched		Switched early		Switched later		
	[N = 102]		[N = 47]		All [N = 55]		Foreign only [N = 50]
	(1)	(2)	(3)	(4)	(5)	(6)	
Panel A: Cumulative abnormal returns over a 3-day window from day -1 to +1							
Foreign switcher	0.052*** (4.805)	0.056** (2.581)	0.040 (1.131)	0.030* (1.754)	0.053 (1.252)	0.073* (2.018)	
Wide scope of activism (= 1 if areas of management ≥ 8)	0.058*** (5.805)	0.043*** (3.211)	0.043 (1.371)	0.013 (0.661)	0.063*** (7.123)	0.049*** (4.166)	0.034*** (5.742)
Low Tobin's q (= 1 if below industry median)		-0.003 (-0.145)		0.019 (1.149)		-0.026* (-2.018)	-0.030* (-2.039)
Low outside director ratio (= 1 if below 50%)		0.027** (2.220)		0.021 (1.699)		0.007 (0.604)	0.010 (1.304)
No dividend		-0.013 (-0.839)		0.034 (1.279)		-0.038 (-1.230)	-0.005 (-0.560)
High cash holdings (= 1 if above switcher median)		0.003 (0.259)		0.047** (2.563)		-0.034*** (-3.340)	-0.022*** (-4.160)
No dividend*High cash holdings		0.050* (1.816)		-0.057 (-1.659)		0.129*** (4.200)	0.105*** (6.075)
Voting rights of the controlling shareholder		-0.136* (-1.966)		-0.031 (-0.343)		-0.097 (-1.462)	-0.088 (-1.486)
Cash flow rights of the controlling shareholder		0.150 (1.469)		-0.100 (-1.045)		0.217 (1.709)	0.211 (1.461)
Business group (= 1 if member of a business group)		0.014 (1.091)		-0.009 (-0.347)		0.005 (0.316)	0.015 (0.810)
Buying pressure (= 1 if ownership increased at switch)		-0.009 (-0.615)		-0.008 (-0.592)		-0.009 (-0.369)	-0.021 (-0.879)
Sell out (= 1 if ownership decreased after 6 months)		0.000 (0.021)		0.012 (0.832)		-0.019 (-0.735)	-0.008 (-0.324)
Standardized trading volume (average of days -1 to +1)		0.010*** (3.119)		0.035*** (6.904)		0.010*** (3.923)	0.011*** (3.616)
After mandatory redisclosure period		-0.012 (-0.475)					
Constant	-0.045*** (-3.605)	-0.074** (-2.218)	-0.031 (-1.076)	-0.046 (-1.225)	-0.048 (-1.135)	-0.074 (-1.590)	-0.018 (-0.946)
R ²	0.138	0.266	0.063	0.571	0.131	0.392	0.383
Panel B: Cumulative abnormal returns over an 11-day window from day -5 to day +5							
Foreign switcher	0.023 (0.915)	0.023 (0.657)	0.020 (0.568)	0.031 (0.707)	-0.084 (-0.859)	-0.079 (-0.776)	
Wide scope of activism (= 1 if areas of management ≥ 8)	0.065** (2.600)	0.029 (1.040)	0.041 (1.078)	-0.001 (-0.016)	0.070** (2.683)	0.062 (1.738)	0.058* (1.962)
Low Tobin's q (= 1 if below industry median)		-0.004 (-0.209)		-0.004 (-0.138)		0.026 (0.751)	0.041 (1.393)
Low outside director ratio (= 1 if below 50%)		0.041 (1.296)		0.056 (0.881)		-0.007 (-0.132)	0.014 (0.310)
No dividend		-0.010 (-0.453)		0.020 (0.455)		-0.001 (-0.017)	0.028 (0.712)
High cash holdings (= 1 if above switcher median)		-0.001 (-0.029)		0.003 (0.083)		0.039 (0.926)	0.065 (1.688)
No dividend*High cash holdings		0.025 (0.773)		-0.020 (-0.275)		0.049 (0.985)	0.019 (0.747)
Voting rights of the controlling shareholder		-0.165 (-1.499)		-0.155 (-0.681)		-0.228* (-2.131)	-0.279* (-2.060)
Cash flow rights of the controlling shareholder		0.252** (2.140)		0.198 (0.877)		0.424* (1.791)	0.397 (1.742)
Business group (= 1 if member of a business group)		-0.003 (-0.105)		-0.012 (-0.283)		0.021 (0.531)	0.034 (0.799)
Buying pressure (= 1 if ownership increased at switch)		-0.005 (-0.294)		-0.011 (-0.479)		0.015 (0.910)	0.009 (0.668)
Sell out (= 1 if ownership decreased after 6 months)		0.038** (2.411)		0.035 (1.176)		0.047 (1.753)	0.041 (1.818)

Table 5 (continued)

	All switched		Switched early		Switched later		Foreign only [N = 50]
	[N = 102]		[N = 47]		All [N = 55]		
	(1)	(2)	(3)	(4)	(5)	(6)	
<i>Panel B: Cumulative abnormal returns over an 11-day window from day −5 to day +5</i>							
Standardized trading volume (average of days −5 to +5)		0.011** (2.092)		0.033** (2.602)		0.007 (0.972)	−0.003 (−0.317)
After mandatory redisclosure period		−0.009 (−0.265)					
Constant	−0.021 (−0.737)	−0.085 (−1.646)	−0.014 (−0.382)	−0.083 (−1.030)	0.084 (0.857)	−0.056 (−0.731)	−0.131* (−1.971)
R ²	0.061	0.250	0.027	0.318	0.128	0.304	0.217

OLS regressions where the dependent variable is the cumulative abnormal return around the switch disclosure. Panel A reports the results for abnormal returns over a 3-day window from day –1 to day +1 while panel B reports the results over an 11-day window from day –5 to day +5. Abnormal returns are estimated from market model using past 250 trading days from day –255 to day –6. Wide scope of activism equals 1 if the management areas that blockholder declares to be active are eight or more, and 0 otherwise. Cash holdings are cash and cash equivalents scaled by total assets. Voting rights of the controlling shareholder includes holdings of the related parties' (family members, affiliated companies, other executives) as well, while cash flow rights of the controlling shareholder only includes the direct holdings of the controlling shareholder. Standardized volume on day *j* is scaled by average volumes during [–90, –31]. *t*-statistics using heteroscedasticity robust standard errors clustered at the blockholder-level are reported in parenthesis. ***, **, * correspond respectively to statistical significance at 1, 5, and 10%. The sample period is from March 29, 2005 to December 31, 2006.

experienced than domestic outside blockholders when it comes to shareholder activism, and they are also significantly less likely to have commercial ties with the target firms, which increases the credibility of their activism. Thus, we confirm H2a.

Second, the results also demonstrate that if the switcher increases the area of activism from four or less to eight or more, the cumulative abnormal return increases by 4.3 to 5.8% points, depending on the regression specifications. This is in line with the argument that the switcher's leverage over the target firm managers is greater if the switcher can evoke activism in a wider scope of management areas, thereby confirming H2b.

Among all other variables, four variables survive to be significant or marginally significant³³ One is the ratio of outside directors (1 if below 50%). The results show that if the target firm's outside director ratio is less than 50%, thereby providing more room to improve board governance, the share price jump is higher by 2.7% points at the time of the switch than in cases in which the ratio is already 50% or higher. Another is the interaction between high cash holdings (1 if above switcher median) and no dividend dummy, which is marginally significant in regression (2). The results show that if the target firm's cash holding is high, but does not pay out any dividend, the share price jump is higher by 5% points at the time of the switch, as compared to cases in which the target firm either has small cash holdings or pays out dividends. The voting rights of the controlling shareholder exhibit a significantly negative coefficient. This indicates that, for a given level of cash flow rights, increases in control rights which enable controlling shareholders to be less vulnerable to outside influence reduce market reactions. These three results confirm H2e (room for improvement hypothesis) and H2d (vulnerability to outside influence hypothesis). The results in Table 5, however, do not confirm H2c (extent of relative valuation hypothesis).

We also find that standardized trading volume is positive and significant. This result, however, should be interpreted with care, as it does not automatically imply that positive returns are being driven by positive volume. First, our key variables closely linked to activism (foreign switcher dummy and wide scope dummy) continue to be significantly positive after controlling for the abnormal trading volume. Second, it could well be the case that both returns and volume are being driven by the switch announcement.

It is also worth noting that the buying pressure dummy is insignificant. It confirms that the share purchase at the time of the switch had no impact on the price around the switch. This is consistent with our univariate finding in Table 3, where we report the results for three different sub-groups of switchers based on whether they increased or decreased ownership in the target at the time of the switch. The sell out dummy is also insignificant, confirming that the share divestment during six subsequent months after the switch had no impact on the share price around the time of the switch.

The results from columns (3) through (6) of panel A yield some interesting contrasts between the early switchers and later switchers. For early switchers, the identity of the switcher and other corporate governance-related variables do not seem to exhibit much explanatory power while the effect of standardized trading volume is highly correlated with the abnormal returns. To the contrary, for the later switchers, the identity of the switcher matters as in the full sample result, and we are able to pick up the effects of a few more governance-related variables. For example, abnormal returns tend to be higher in firms that have high cash holdings, but pay no dividends. Moreover, the effects of standardized trading volumes are greatly reduced for later switchers.

These results appear to be consistent with our earlier univariate results on cumulative abnormal returns. The nature of information that investors extract from the switch event could be quite different between MRP and subsequent periods.

³³ Since we are using a conditional sample of switcher-target pairs which greatly reduces the within-sample variation of right-hand-side variables, it is not surprising that many of them are insignificant.

Table 6

Changes in dividend payout ratios: non-switched firms vs. switched firms.

	Non switched	Switched				
		All	Foreign switcher	Wide scope of activism	High cash holdings	High free cash flow
Fiscal year end before switch	18.6%	19.4%	22.6%	15.1%	24.6%	19.0%
Fiscal year end after switch	19.0%	23.1%	23.2%	20.9%	26.1%	26.2%
Average change (paired comparison before/after)	0.5%p	3.6%p	0.6%p	5.8%p	1.6%p	7.3%p
t-stat	0.462	1.721	0.242	2.237	0.529	2.045
N	585	100	61	67	49	44

Averages of dividend payout ratios for non-switched firms and switched firms as well as various sub-groups of switched firms before and after the switch event are reported. Payout ratio is the cash dividend over net income, where negative values and values greater than one are set equal to one. The first row presents average payout ratios as of fiscal year-end just before the switch and the second row presents the corresponding numbers after the switch. The third row presents the averages of changes in payout ratios for each firm, and the fourth row presents the *t*-stats that test the significance of the changes in payout ratios based on paired comparison before and after the switch. Wide scope of activism refers to those firms with switchers who checked more than eight items on the areas of corporate policy provided under the new disclosure rule. High cash holdings refer to those firms with higher than median cash holdings of all switched firms. High free cash flow refers to those firms with greater than industry median free cash flow.

The results for day -5 to day $+5$ reported in panel B of Table 5 are broadly consistent with the $[-1, +1]$ results reported in panel A, in the sense that the identity of the switcher is more important while the effect of trading volume is less pronounced for the later switchers. In fact, the coefficient for standardized trading volume is no longer significant for later switchers in Panel B. However, the fact that the switchers have a foreign background seems to lose its explanatory power over a longer event window. This is largely attributable to the fact that there are only five domestic switchers in the sample during the post-MRP period, which does not provide sufficient degrees of freedom to capture the effect of the switcher's country of origin.

5.4. Do targets change dividend policy after the switch?

Our basic argument is that the positive market reaction following the switch reflects investors' expectations about future improvements in the target's corporate governance. To determine whether this expectation is realized *ex post*, we test whether the average changes in payout policy following the switch differ significantly from zero for the switched firms.

There are two reasons we focus on dividends. First, since our sample period is quite short, we need to select a variable that could be affected by the switchers' influence on management in a relatively short period of time. Second, La Porta et al. (2000) demonstrate that dividends indeed proxy for good corporate governance. In fact, Korea Corporate Governance Services, a branch of the Korea Stock Exchange, lists the payout ratio as one of the key criteria in evaluating the quality of firm level governance every year.

Table 6 presents the results of this analysis. This table presents the averages of dividend payout ratios for non-switched firms and switched firms, as well as various sub-groups of switched firms prior to and after the switch event. Payout ratio is the cash dividend over net income, where negative values and values greater than one are set equal to one. The first row presents the average payout ratios as of the end of the fiscal year immediately prior to the switch, and the second row presents the corresponding numbers immediately after the switch. For non-switched firms, the fiscal year-end just before the switch corresponds to the fiscal month end up to March, 2005.³⁴ The third row presents the averages of changes in payout ratios for each firm, and the fourth row presents the *t*-stats that evaluate the significance of the changes in payout ratios based on paired comparisons prior to and after the switch. A wide scope of activism refers to those firms with switchers who checked more than eight items on the areas of corporate policy provided under the new disclosure rule. High cash holdings refer to those firms with higher than median cash holdings of all switched firms. High free cash flow refers to those firms with greater than industry median free cash flow.

The results from Table 6 indicate that, although the increases in payout ratios are only marginally significant for switched firms as a whole, those with wider scope of activism and those with high free cash flows exhibit significant increases in payout ratios (H3c and H3e). This suggests that the magnitude of market reactions appears to be correlated with changes in future dividend policy, at least to a certain degree.

6. Conclusions

This paper is motivated by the shortcomings of two existing approaches in examining the monitoring role of outside investors and its effectiveness on firm value. One approach focuses on blockholders that engage in control-related activities (*high-cost blockholder activism*), which are hard to find in countries where the predominance of entrenched family control through pyramidal ownership, dual-class equity, or cross-shareholdings effectively blocks any attempt for a hostile takeover. More importantly, the empirical strategy often adopted under this approach to capture the value of activism cannot clearly rule out

³⁴ 95% of non-switched firms' changes in payout ratios are measured from December 2004 to December 2005.

alternative explanations. That is, the stock price jump at the time of the initial block holding disclosure might simply reflect either superior stock picking abilities or access to private information, rather than an increased level of active monitoring. The other approach that focuses on *low-cost institutional shareholder activism* does not seem to provide concrete evidence in terms of its valuation effect. Mixed results in a series of studies on CalPERS may be explained partly by the institutions' reliance on a low-cost form of activism, such as shareholder proposals, and partly by their low ownership stake in target firms, which implies low interest alignment.

To overcome such shortcomings, we examine a new segment of investors. That is, we focus on investors who hold a non-trivial block of ownership in target firms, but are more likely to engage in more readily available non-control-related activism measures. We also restrict our blockholders to outside blockholders that *switch* their investment purpose from passive to active, which we call the 'switchers'. As switch announcements do not necessarily involve additional share purchases, they are relatively free from potential biases due to stock picking skills, private information, or herding.

Using the sample of switchers in the Korean market, we find that the share prices of target firms do increase around the time of the switch disclosure. The average cumulative abnormal return, over an 11-day event window from day -5 to day $+5$, is 3.73%. We also find evidence that this share price jump is greater when the switcher is an outside blockholder that declares to use a wider scope of activist measures. Market reaction during the mandatory redisclosure period (MRP) is weaker than it is during the subsequent period, indicating that a switch made during the MRP is more likely to reflect a recategorization of current purpose, whereas those made post-MRP are more likely to reflect a genuine change in investment purpose. We also show that certain sub-groups of switched firms that are more likely to benefit from activism (those targeted by switchers with a wider scope of activism and those with high free cash flow) tend to exhibit significant increases in dividend payout ratios.

There are two areas in which the analyses provided in this paper could be extended, if a longer sample period were available. First, the target firms' *ex post* accounting performance could be investigated. If there is a higher *ex post* profitability, this will be complementary evidence for the assertion that shareholder activism creates value. Second, we can examine the *ex post* changes in target firms' corporate policies other than the dividend policy, and test whether the switch from passive to active actually leads to improvements in these policies. Corporate policies may include governance policies, such as board composition, executive compensation, management turnover, related-party transactions, diversification, and financial policies, such as cash holdings and the possession of idle assets. It would be interesting to implement these extensions in the future, when we can access a longer sample period.

Appendix A. The disclosure rules regarding 5% ownership in the U.S. and Korea

Following table compares the disclosure rules regarding 5% ownership in the U.S. and in Korea. It is based on SEC (1998), Block and Hoff (1998), and FSS (2005).

	US		Korea	
	Schedule 13D	Schedule 13G	Long-form	Short-form
Related law	Section 13(d) of the Securities and Exchange Act of 1934	Section 13(g) of the Securities and Exchange Act of 1934	Article Section 200-2 of the Securities and Exchange Act	Article Section 200-2 of the Securities and Exchange Act
Person required to file	Any person acquiring beneficial ownership of more than 5% of a class of voting securities.	<i>Qualified institutional investors:</i> Institutional investor that qualifies to submit Schedule 13D, but has acquired securities in the ordinary course of his business and not with the purpose nor with the effect of changing or influencing the control of the issuer, nor in connection with or as a participant in any transaction having such purpose or effect. <i>Passive investors:</i> Any person acquiring more than 5% but less than 20% of an equity security and has not acquired the securities with any purpose, or with the effect of, changing or influencing the control of the issuer, or in connection with or as a participant in any transaction having that purpose or effect	Any person holding, together with its related parties, 5% or more of the total outstanding equity securities.	Any person that qualifies to submit the long-form, but has no intention of exercising influence over the management.
Initial filing deadlines	Within 10 days after the acquisition.	<i>Qualified institutional investors:</i> Within 45 days after calendar year in which the person holds more than 5% as of the year end, or within 10 days after the end of the first	Within 5 days after the acquisition.	<i>Qualified institutional investors:</i> Within the 10th day of the following month. <i>All other investors:</i> Within 5 days after the acquisition.

(continued on next page)

Appendix A (continued)

	US		Korea	
	Schedule 13D	Schedule 13G	Long-form	Short-form
Amendment filing deadlines	File promptly to reflect any material change including a change in investment purpose. An acquisition or disposition of beneficial ownership of securities equal to 1% or more of the class is deemed to be a material change.	month in which the person's beneficial ownership exceeds 10% of the class of equity securities computed as of the end of the month. <i>Passive Investors</i> : Within 10 days after the acquisition. <i>Qualified institutional investors</i> : Within 45 days after the end of the calendar year to report any change in the information, within 10 days after the end of the first month in which the person's beneficial ownership exceeds 10% of the class computed as of the end of the month, and thereafter within 10 days of the end of any month in which the person's beneficial ownership increases or decreases more than 5% computed as of the end of the month. <i>Passive investors</i> : Within 45 days after the end of the calendar year to report any change in the information. In addition, an amendment must be filed promptly upon the person's beneficial ownership exceeding 10% of the class and thereafter promptly upon the person's beneficial ownership increasing or decreasing more than 5%.	Within 5 days after a change of equity securities holdings by 1% or more	Within 5 days after a change of equity securities holdings by 1% or more, and within 5 days after a change in the previously declared investment purpose.
Filing an initial Schedule 13D following previous filing on Schedule 13G.	<i>Qualified institutional investors</i> : Within 10 days after the person determines that it no longer holds the securities (i) in the ordinary course of business or (ii) without the purpose or effect of changing or influencing control of the issuer or ceases to be an eligible institution. <i>Passive Investors</i> : Within 10 days of: (i) acquiring or holding the securities with the purpose or effect of changing or influencing control of the issuer or in a transaction having that effect, or (ii) the person's beneficial ownership equals or exceeds 20% of the class of equity securities.	The filing person may re-file on Schedule 13G once the disqualification has ended.	Within 5 days after the person determines that it has the intention of exercising influence over the management.	The filing person may re-file using the short-form once within 5 days after the person determines that it has no intention of exercising influence over the management
Cooling-Off Period upon acquiring 5% or more of the class.	From the time the person has acquired or holds the securities with a purpose or effect of changing or influencing control of the issuer, or in connection with or as a participant in any transaction having that purpose or effect until the expiration of the tenth day from the date of the filing of the Schedule 13D	N/A	Five days after the long-form is filed	N/A
Cooling-off Period upon a change in investment purpose.	<i>Qualified institutional investors</i> : From the time the person no longer holds the securities without the purpose or effect of changing or influencing control of the issuer until the expiration of the tenth day after the date the Schedule 13D is filed. <i>Passive investors</i> : Same as Qualified Institutional Investors.	N/A	Five days after the long-form is filed	N/A
Cooling-off Period upon acquiring 20% or more of the class.	<i>Passive investors</i> : From the time the person's beneficial ownership equals or exceeds 20% of the class until the expiration of the tenth day after the date the Schedule 13D is filed.	N/A	N/A	N/A

Appendix B. Industry classification of the sample firms

This table presents the distribution of the sample firms by 4-digit Korean SIC. The sample includes all Korean listed firms that did not have any active outside blockholder at the time of the switch. Switched firms are those that have been targeted by outside blockholders with more than 5% ownership who have changed their investment purpose from passive to active during the sample period, March 29, 2005 to December 31, 2006.

KSIC 4-digit	Industry	All firms		Non switched		Switched	
		Number	%	Number	%	Number	%
101	Agriculture	1	0.1%	1	0.2%	0	0.0%
205	Fisheries	1	0.1%	1	0.2%	0	0.0%
415	Food manufacturing	32	4.7%	25	4.3%	7	6.9%
416	Tobacco manufacturing	1	0.1%	0	0.0%	1	1.0%
417	Textiles	12	1.7%	11	1.9%	1	1.0%
418	Clothing	14	2.0%	12	2.1%	2	2.0%
419	Leather/Bags/Footwear	3	0.4%	2	0.3%	1	1.0%
420	Wooden products	2	0.3%	1	0.2%	1	1.0%
421	Pulp/Papers	13	1.9%	12	2.1%	1	1.0%
422	Publishing/Printing	9	1.3%	7	1.2%	2	2.0%
423	Refined petroleum products	2	0.3%	2	0.3%	0	0.0%
424	Chemicals	73	10.6%	56	9.6%	17	16.8%
425	Rubber/Plastic	15	2.2%	14	2.4%	1	1.0%
426	Non metallic mineral products	14	2.0%	14	2.4%	0	0.0%
427	Basic metals	41	6.0%	33	5.6%	8	7.9%
428	Fabricated metal products	19	2.8%	16	2.7%	3	3.0%
429	Machinery/Equipment	50	7.3%	45	7.7%	5	5.0%
430	Computers/Office machinery	9	1.3%	7	1.2%	2	2.0%
431	Other electric equipment	24	3.5%	19	3.2%	5	5.0%
432	Audio/Video/Comm. equipment	103	15.0%	87	14.9%	16	15.8%
433	Precision/Optical/Watch	17	2.5%	14	2.4%	3	3.0%
434	Automobiles	32	4.7%	29	5.0%	3	3.0%
435	Other transportation equipment	9	1.3%	7	1.2%	2	2.0%
436	Furniture	5	0.7%	4	0.7%	1	1.0%
540	Electricity//Gas	8	1.2%	8	1.4%	0	0.0%
645	General construction	24	3.5%	22	3.8%	2	2.0%
646	Special construction	3	0.4%	3	0.5%	0	0.0%
750	Auto Sales/Fuel retail	1	0.1%	0	0.0%	1	1.0%
751	Wholesale	33	4.8%	28	4.8%	5	5.0%
752	General retail	6	0.9%	6	1.0%	0	0.0%
855	Lodging/Restaurants	1	0.1%	1	0.2%	0	0.0%
960	Land transportation/Pipelines	3	0.4%	2	0.3%	1	1.0%
961	Water transportation	4	0.6%	3	0.5%	1	1.0%
962	Air transportation	2	0.3%	2	0.3%	0	0.0%
963	Travel/Warehouse	2	0.3%	2	0.3%	0	0.0%
1064	Communication services	8	1.2%	5	0.9%	3	3.0%
1270	Real estate	1	0.1%	1	0.2%	0	0.0%
1372	Information processing	58	8.5%	54	9.2%	4	4.0%
1374	Science/Technology services	13	1.9%	12	2.1%	1	1.0%
1375	Business support services	5	0.7%	5	0.9%	0	0.0%
1787	Screen/Broadcast/Performance	12	1.7%	11	1.9%	1	1.0%
1890	Sewage/Disposal/Sanitation	1	0.1%	1	0.2%	0	0.0%
Total		686	100.0%	585	100.0%	101	100.0%

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