Investor activism strategies of private equity firms: evidence from continental Europe

Irina Berezinets and Yulia Ilina
Department of Finance and Accounting, Graduate School of Management, St. Petersburg University, St. Petersburg, Russian Federation

Received 8 June 2019
Revised 22 December 2019
8 October 2020
16 May 2021
10 September 2021
Accepted 2 October 2021

Abstract

Purpose – This paper aims to deal with the issue of shareholder activism of private equity investors in public companies. The study identifies characteristics of target firms and investors related to the likelihood of private equity activism. The research also examines whether shareholder activism strategy of private equity investors is associated with the better performance in future and value creation of target firms.

Design/methodology/approach – The paper applies econometric modeling to hand-collected data on private equity investments in listed companies, in the form of private investment in public equity and open-market share purchases, from eight Continental Europe's countries for the period 2005–2014.

Findings – The findings indicate that the probability of shareholder activism is higher if the target firm's industry corresponds to the private equity investor's industry specialization, if the private equity firm is older, if the target is larger and the average ownership share purchased by the investor is higher. Conversely, the probability of shareholder activism is lower where a private equity firm invests in the target for the first time. A target firm with an activist investor has poorer operational performance results one year following the investment compared to a target firm with a passive private equity investor.

Research limitations/implications – Results from the analysis of transactions in Continental Europe countries with French and German legal origin may be not generalizable to other markets with the different legal tradition and institutional environment.

Originality/value – This research provides new empirical evidence on private equity activism in listed companies of Continental Europe. By distinguishing between active and passive investments, testing rarely considered characteristics to provide valuable insights and analyzing the effect of activism on the target firm's performance, the study contributes variously to the still-limited body of literature on private equity activism in public companies with a governance structure based on concentrated ownership. The findings emphasize the relationship between shareholder activism and both target and investor's characteristics from perspective of mitigating agency problem and value creation in target firms. By simultaneously investigating investments in public companies from several European markets, the study complements empirical evidence mostly obtained from studies of a single national market.

Keywords Private equity, Shareholder activism, PIPE, Corporate governance, Firm performance

Paper type Research paper

1. Introduction

Private equity (PE) plays an important role in the world economy, with assets under management amounting to $4.1tn and 3,524 funds in place at the market as of January 2020 (Private equity trend report 2020, 2020), up from $2.5tn in 2015 (Liu and Yang, 2015) and

The authors are grateful to Liudmila Alekseeva for her research assistance. The authors also thank Editor Harald Kinateder and anonymous referees for their helpful comments and suggestions. The authors acknowledge the financial support from St.Petersburg University (grant No.16.23.1455.2017).

1086-7376
DOI 10.1108/SEF-06-2019-0225

only $1.0tn in 2008 (Phalippou *et al.*, 2018). PE investments in European companies amounted on average €88bn annually through the period 2000–2020, starting from €35bn in 2000 with a peak in 2019 (€104bn) and a 12% decrease in 2020 (Investing in Europe: Private equity activity 2020, 2021). PE investors play a vital role in sustainable development, driving progress in sustainable business practice affecting top-level decision-making in companies (Private equity responsible investment survey 2019, 2019).

Traditionally, PE funds have been associated with venture capital financing, mezzanine capital, growth capital with buying a minority interest and, most prominently, leveraged buyouts as the core of PE business (Stowell, 2010). The last accounts for the largest share of PE investments in the USA and Europe (Wilson *et al.*, 2012). Nevertheless, PE firms also benefit from investments in listed companies, accessing sectors otherwise restricted for buyouts by such firms' partnership agreements because of their high risk. Among other benefits is higher liquidity of publicly traded firms compared to private entities, thus allowing easier exit from the deal (Gerhard, 2008).

PE firms invest in listed companies in different ways. Acquiring a controlling ownership stake in a public company allows obtaining full control over the target firm and subsequently delisting the company from the stock market. Alternatively, a PE firm may opt to get a non-controlling ownership share in a listed company by purchasing existing equities on the market, participating in a secondary offering or buying shares through private investment in public equity (PIPE) (Särve, 2013). PIPE gains popularity in a global context. Between 1995 and 2015, companies raised $396bn globally through PIPE transactions, a third of which was attracted by US firms (Andriosopoulos and Panetsidou, 2021). In a period from 2001 to 2015, there were 11,296 private placements of common stock by US listed firms that raised $243.9bn through PIPE transactions (Lim *et al.*, 2021). Out of 36,543 PIPE issues in a global setting in 1995–2015, as reported in Andriosopoulos and Panetsidou (2021), 18,849 issues occurred in the USA, 8,925 in Americas – excluding the USA, 5,879 deals were conducted in Asia-Pacific region, while Europe had 2,890 transactions with an average annual deal value of $35bn. Recent years demonstrated rapid growth in the number and volume of deals with the USA remaining the most active market. While there were 1,027 PIPE transactions with a total volume of $48.3bn in the USA in 2019, the number of transactions raised to 1,635 with a total dollar value of $101.5bn in 2020 (Market trends 2020/21: PIPEs, 2020).

Because a PIPE deal is often considered as financing of the last resort for many small public companies (Sjostrom, 2007), it can be highly negotiable. The PE firm can attach special conditions to this type of transactions, such as appointment of a director on the board or other governance rights (Särve, 2013). PE investments are an especially important and growing source of funds for companies in environments with limited access to funding (Latini *et al.*, 2014). Nevertheless, such investments remain vital also for many public companies, being fast and relatively inexpensive way to receive funding compared to a public equity offering.

Institutional investors, including PE firms, participate in managing their portfolio companies with a varying degree of activism. Shareholder activism is a widely discussed area of studies based primarily on agency theory (Goranova *et al.*, 2017). It is used by institutional investors as an instrument to mitigate agency problem (Clarkson *et al.*, 2016; Gillan and Starks, 2000, 2007; Goranova and Ryan, 2014; Guimaraes *et al.*, 2019; Latini *et al.*, 2014; Petry, 2015; Rauch *et al.*, 2012; Uche *et al.*, 2016). Agency costs and the severity of agency problem could be decreased through shareholders intervention in companies' governance. The presence of activist investors in portfolio companies enforces disciplinary pressure on the management of public firms to make shareholder value a priority (Brav *et al.*, 2008a). It is associated with positive wealth effects in target companies (Clifford, 2008).

According to a relatively recent line of corporate governance studies, PE firms are considered among the institutions with the highest capabilities and incentives to become activist shareholders, who can provide a governance model for better company performance (Ligterink *et al.*, 2017) and use a novel approach to management monitoring that significantly differs from the tactics of other institutional investors (Ivashina and Kovner, 2011; Kaplan and Stromberg, 2009; Ligterink *et al.*, 2017; Scellato and Ughetto, 2013; Weir *et al.*, 2007). Together with hedge funds, PE firms have been considered "the newest big thing in corporate governance" since approximately 2000 (Macey, 2008). In their efforts to better monitor and supervise management, PE activists provide resources, stronger strategic guidelines and advising, and make changes in the composition of the board of directors and the top management.

While there is an extensive body of literature on institutional investors activism (Aslan and Kumar, 2016; Bebchuk *et al.*, 2015; Becht *et al.*, 2017; Brav *et al.*, 2018c; Clifford, 2008; Cziraki *et al.*, 2010; David *et al.*, 2007; Filatotchev and Dotsenko, 2015; Gillan and Starks, 2000, 2007; Gordon and Pound, 1993; Smith, 1996; Uche *et al.*, 2016), fewer studies are devoted to activism of PE firms. The studies on the effect of PE investments on portfolio companies' performance mostly tried to focus on the effect of the buyout deals (Achleitner *et al.*, 2013; Bergström *et al.*, 2007; Boucly *et al.*, 2009; Castellaneta and Gottschalg, 2016; Ligterink, 2017; Phalippou *et al.*, 2018; Scellato and Ughetto, 2013, etc.). Fewer studies investigate the effects of PE investments in public companies (Acharya *et al.*, 2012; Achleitner *et al.*, 2008a, 2008b; Aldatmaz and Brown, 2020; Chen *et al.*, 2014; Mietzner and Schweizer, 2008; Stotz *et al.*, 2010) and mostly analyze single national markets (Acharya *et al.*, 2012; Achleitner *et al.*, 2008a; Chen *et al.*, 2014).

Although the empirical evidence is heterogeneous in terms of the effect of public equity activism on corporate governance, the common conclusion is that PE firms are likely to increase the performance of target companies via decreasing agency costs, financial engineering and introducing changes to the target firm's strategy and operations (Aldatmaz and Brown, 2020; Battistin *et al.*, 2017; Halpern *et al.*, 1999; Humphery-Jenner *et al.*, 2017; Mietzner and Schweizer, 2008; Opler and Titman, 1993; Rauch *et al.*, 2012). PE funds outperform public markets investors (Gompers *et al.*, 2016) because of a greater success in improving target firms' performance and more favorable resource profile, than previous owners of the target firms have (Battistin *et al.*, 2017). This paper aims to shed more insights in the relationship between the PE investor's and target firm's characteristics and the PE activism in listed firms. The research focuses both on antecedents of PE activism in public firms and wealth-creation effects of the activism strategy for target companies, the issue that is not well studied in the contexts outside the USA.

The paper aims to contribute to the still-limited body of literature on PE investments in listed companies building on the existing research on shareholder activism and PE activist strategies in other types of deals. It is the first to investigate how the competencies accumulated by PE firms in the industry of the target company could be related to the activism strategy of PE investors.

Economies are different in their institutional environment, as well as geographic characteristics, that raise interest in analysis of particular geographic subgroups, separately considering PE investments in the USA, Europe or single European countries (Stotz *et al.*, 2010). Evidently, the use of shareholder activism is affected by regulation, the rights and liabilities of investors in relation to portfolio companies (McNulty and Nordberg, 2016). Many studies on PE investments in public firms investigated transactions in countries of the Anglo-Saxon model with common law legal systems, highly developed capital markets and dispersed ownership (Acharya *et al.*, 2012; Chen *et al.*, 2014). This study is based on a sample

of 209 PE investments in the common equity of listed firms in eight Continental Europe's countries with the civil law tradition for the period from 2005 to 2014. Continental European companies are characterized by peculiar governance structure based on concentrated ownership (Geranio and Zanotti, 2012) that could affect the specifics and effects of investor activism in this institutional context.

The research contributes to the related literature in the context of European markets with concentrated ownership and weak shareholder protection. The findings demonstrate that the probability of shareholder activism is higher if the target firm's industry corresponds to the PE investor's industry specialization, if the PE firm is older, if the target firm is larger and the average ownership share purchased by the investor is higher. The probability of shareholder activism is lower where a PE firm invests in the target firm for the first time. The findings also report that a target firm with an activist PE investor has poorer operational performance results one year after the investment compared to a target firm with a passive PE investor. The remainder of the paper is organized as follows. Section 2 provides theoretical background and hypotheses development. Section 3 describes the methodology and data set. Empirical results are reported and discussed in the Section 4. Section 5 presents concluding remarks.

2. Literature review and hypotheses development

2.1 Antecedents of private equity shareholder activism

Shareholder activism is aimed at changing particular company practices (Rehbein *et al.*, 2004) and from this perspective could be defined as "a proactive action aimed at changing the behavior of the firm or the principles of management" (Black, 1998) or "any action that, based on its rights, a shareholder can take in order to influence the management of a company" (Hernandez-López, 2003). It takes multiple forms, and not all of them are equally effective in changing corporate activities (Rehbein *et al.*, 2004). Existing empirical evidence summarized by Kaplan and Stromberg (2009) demonstrates that the typical ways of value creation in target firms include management monitoring, financial and operational reengineering and engaging in corporate governance. The existence of investor activism demonstrates that there is a lack of confidence in corporate governance mechanisms that aim to protect all shareholders, such as corporate boards (Cocks and Ingley, 2010).

The first research question addressed in the study is related to the antecedents that can influence the use of shareholder activism strategy. How features of the target firm and the PE investor are related to the activist strategies of PE firm? As activist investors, PE firms intervene in corporate governance of the target firm addressing the issue of disciplining management, making the coordination between management and shareholders easier (Ligterink *et al.*, 2017).

Based on the assumption driven by the agency theory approach, that shareholder activism is intended to mitigate agency problem and enhance monitoring and advise of target companies to improve corporate governance and performance (Goranova *et al.*, 2017), it is relevant to assume that the opportunity for investors to undertake the activist strategy is related to the specifics of corporate governance structure in a portfolio company.

The ownership concentration is an internal corporate governance mechanism that is able to enhance monitoring. It could be considered among the antecedent leading to the use of shareholder activism strategies by institutional investors (Judge *et al.*, 2010). European companies with a civil law tradition are characterized by concentrated ownership (Faccio and Lang, 2002; La Porta *et al.*, 1997, 1999, 2000). The number of shares available on the stock exchange for Continental European companies is low and only meet the requirements of exchanges, as well as the average size of public firms is smaller than that in the USA or

UK (Geranio and Zanotti, 2012). Renneboog *et al.* (2007) report that the average voting share of the largest shareholder in the USA and the UK is 23.5%, whereas Achleitner *et al.* (2013) show that the dominating shareholder in Continental Europe owns, on average, 43.5% of voting rights. Large shareholders are motivated to monitor managers' decision-making to mitigate opportunistic behavior and moral hazard (Shleifer and Vishny, 1986, 1997), and from this perspective, concentrated ownership has potential alignment effects (Shleifer and Vishny, 1997). The interests of small and large owners could be aligned because of long-term commitments that substantial shareholders have at the firm being interested in a wealth creation in the long run (Arthur *et al.*, 2019). But the largest owners may expropriate minority shareholders to maximize their own wealth at the expense of other owners (Shleifer and Vishny, 1997) and extract private benefits of control (Gugler and Yurtoglu, 2003). This argument is consistent with the entrenchment effect of concentrated ownership (Arthur *et al.*, 2019; Fama and Jensen, 1983). The conflicts in public firms with concentrated ownership arise mainly between large and minority shareholders, that is known as phenomenon of "horizontal" agency problem (Rossi *et al.*, 2018; Villalonga *et al.*, 2015). In both cases, the presence of a controlling shareholder or a group of controlling shareholders, interested in their own monitoring, holding important positions in management and the board of directors of the target firm, make it more difficult for the investor to exercise activism effectively. As Ben Arfa *et al.* (2017) reported for hedge funds activism in French listed companies, it is negatively related to the concentration of voting rights in a target company. Therefore, it could be assumed that PE firms will likely use activism in target firms with more dispersed ownership:

H1. The probability of PE shareholder activism is negatively related to the ownership concentration in the target firm.

According to Sjöström (2008), activism is "the use of ownership position to actively influence company policy and practice." Presumably, the activists' degree of influence on the target firms' corporate governance and performance depends on the ownership stake they obtain. From a critical review of 73 empirical papers on shareholder activism, Denes *et al.* (2017) found that activists with insignificant ownership in the target company have little or no effect on company value, but substantial investment by activists impacts positively on the investee performance and value. Relatedly, activist strategies depend on the activists' level of investment (Black, 1998). With significant ownership share, investors have more incentives and abilities for better monitoring (Shleifer and Vishny, 1986). With the increasing level of share ownership, financial institutions become active monitors, as their willingness to keep an eye on firm's activities is higher than that of other investors (Afza and Nazir, 2015). Possessing a large ownership stake, the shareholder has an opportunity to become more informed because of the rights this investor gains. Informed shareholder monitoring has a higher potential to reduce agency costs (Brav *et al.*, 2008a), that is especially important for public firms. According to Clark and Hebb (2004), institutional investors largely use their share ownership position to influence directly management decision on a broad range of issues. Achleitner *et al.* (2008b) studied the differences between the activism strategies of hedge funds and PE funds and found that PE funds acquire larger stakes in target companies and hold them for longer periods compared to hedge funds. Based on the view of Shleifer and Vishny (1986), PE investors acquiring block shares in a firm are considered to have high incentives for monitoring and active participation in corporate governance and can be expected to apply activist strategies. The arguments above suggest that the degree of shareholder activism depends on the ownership stake that PE firm obtains in the target company:

H2. The probability of shareholder activism is positively related to the PE ownership stake obtained in the target firm.

PE firms use their knowledge and experience to implement changes in their target firms' operations and strategy (Acharya *et al.*, 2012; Kaplan and Stromberg, 2009). It could be assumed that the PE firms more experienced in their industries have more competences and abilities in both professional management of the portfolio companies and corporate governance. Resources including intellectual capital allocated help efficiently govern the target firm. It is reasonable to conclude that if PE firm plans to pursue shareholder activism in public companies, its experience can play a significant role in improving corporate performance. Therefore, the following hypothesis is stated:

H3. The probability of shareholder activism is positively related to the age of PE investor.

Rigamonti *et al.* (2016) study the industry specialization role in PE exit strategies for US and European LBO transactions. They argue that skills and expertise in a particular industry help PE firms to establish networks and find potential acquirers in that industry, whereas unspecialized PE firms might lack such expertise, networks and reputation. Specialization is an important determinant of the competitive and informative advantage of the PE firm; it helps to shape value-creation plans for the portfolio company (Rigamonti *et al.*, 2016).

Investors get better knowledge of competitive environment of targets from the industry of their specialization, including decreased information asymmetry, and could select superior performers, provide monitoring and advice more effectively (Cressy *et al.*, 2007). The firm that has already made several investments in companies from particular industry accumulates knowledge that helps to increase future benefits from its value-added activities in active investees from this industry (Gedjadze *et al.*, 2017). Where a target company has lower operational performance results, PE acquirers usually appoint directors with experience in the target firm's industry (Chen *et al.*, 2014). PE firms therefore can be expected to demonstrate activism when they invest in firms in the industries of their specialization:

H4. It is higher probability that private equity firms use shareholder activism in target companies from the industry of investor's specialization.

2.2 Private equity activism and target companies' performance

Not only the antecedents of shareholder activism, but also the effects that activists make on portfolio companies matter while considering the issue of active ownership (McNulty and Nordberg, 2016). Academic studies demonstrate that activists in general target companies experiencing problems with governance and performance (Benton and You, 2018), and investor activism increases when firms' operating and financial performance is poor (Goranova *et al.*, 2017). It is consistent with the agency theory approach – activists are motivated to target companies with poor performance as shareholders are interested in closer monitoring and better motivating managers to increase the company value (Denes *et al.*, 2017; Guimaraes *et al.*, 2019). According to a number of studies, target firms are performing poorly prior to PE firms' investment (unlike the target firms of hedge funds), with regard to return on sales, sales growth, growth in operating income and market-based ratios (Denes *et al.*, 2017). For the Australian market, Clarkson *et al.* (2016) found that targets of PE investors have less effectual corporate governance in terms of board structure with directors performing worse monitoring, ownership structure and the managerial power of

entrenched executives, compared to target companies in conventional corporate acquisitions transactions.

There is no consensus among researchers on the effectiveness of shareholder activism in improving the performance of companies delivering poor results (Denes *et al.*, 2017). The second research question of this study – do target firms with an activist PE investor outperform target firms with passive PE investor in terms of market and operational performance? Or do activists propose just a "repair model" rather than long-term solutions for public firms (Private equity and shareholder activism, 2008, p. 96)?

This issue is related to the previously discussed role of shareholder activism in mitigating agency problem and enhancing company value. If investor applies activist strategy in the portfolio company, it could be assumed that the instruments of corporate governance changes and improvements in management and operations lead to better performance of the investee. Many studies agree on positive effects of PE investments on targets performance, because investors benefit their portfolio companies with a variety of value-added activities, both direct benefits as network access, and indirectly through creation of certification effects to third parties – customers, financial intermediaries, etc. (Block *et al.*, 2019). Firm performance is higher when investor is active and monitors company's operations and enforces managers to take optimal decisions in stakeholders interests, while performance is lower when institutions are passive investors, only put money in the company and do not participate in company's governance (Afza and Nazir, 2015).

Acharya *et al.* (2012) and Stotz *et al.* (2010) demonstrated that for PIPE and open market purchases, the target firm's stock performance improved during the PE holding period. Chen *et al.* (2014) reported higher abnormal announcement returns and better post-acquisition operating performance when targets were acquired by PE investors. Achleitner *et al.* (2008a) and Mietzner and Schweizer (2008) found a positive abnormal return around the announcement date of the PE investment in public firm. This effect could be attributed to the wealth generated by the monitoring role of PE shareholders and the greater ability of PE firms to improve the target firm's corporate governance, given their longer investment horizon and higher governance involvement. However, as Stotz *et al.* (2010) acknowledged, the wealth effects could be attributed to other reasons rather than closer monitoring and other actions from the side of PE investors, such as capital market imperfections. Rauch *et al.* (2012) observed that the target firm's stock performance was higher for active PE investments than for passive ones. Therefore, it is reasonable to expect that PE activism is positively related to the target firm's stock market performance:

H5. The target company's stock performance improves after the private equity investor uses shareholder activism strategy.

The empirical evidence varies on PE active investor's impact on the target's operational and accounting performance. Battistin *et al.* (2017) found a positive impact of PE investments on the target firm's sales and profitability in the case of minority interest investments, but did not provide an evidence of a significant change in sales and EBITDA (earnings before interest, taxes, depreciation and amortization) if a PE investor acquired a majority stake (50% and more) in a target company. Clifford (2008) reported that companies targeted by blockholder activists experienced improvements in operational efficiency as a result of activist investments compared to firms targeted by passive investors. It is because of removal of assets that are not efficient. Badunenko *et al.* (2010) found that the presence of a PE firm among shareholders leads the target firm's return on assets (ROA) to decrease in the first year after the transaction, but to increase in the long term. Mietzner and Schweizer (2008) consider it puzzling that, while PE firms' targets demonstrate positive long-term

performance, their short-term operational results appear to fall. It could be explained by the fact that in contrast to other institutional investors, PE firms are perceived to impose low short-term pressure on their target firms' accounting indicators, thus tending to increase capital investments, rather than significantly divest assets (Brunzell *et al.*, 2015). Badunenko *et al.* (2010) also found that if a PE investor held its ownership in the target firm for less than one year, the investee performed worse than a company without PE shareholders. This can occur when the target company increases its investments, resulting in larger depreciation charges or research and development expenses, and a corresponding decrease in ROA. The growth in total assets following the investments additionally decreases ROA. Based on the previous literature findings and assumptions presented above, the final hypothesis is stated as follows:

H6. The target company's short-term operational performance results decrease after the PE investor uses shareholder activism strategy.

3. Methodology

3.1 Models and variables description

To address the first research question, *H1–H4* were tested using a probit regression:

$$\mathrm{P}\{Active_i = 1|X, Y, Z\} = \Phi(\beta_0 + \beta_1 X_i + \beta_2 Y_i + \beta_3 Z_i), i = 1 \ldots \mathrm{n} \quad (1)$$

where the dependent variable $Active_i$ is a binary variable which equals 1 if the PE investor demonstrates shareholder activism and equals 0 otherwise; X_i is a vector of variables representing the characteristics of the transaction and the PE investor performing the transaction (of dimension $(\mathrm{m} \times 1)$); Y_i is a vector of variables representing characteristics of the target company (of dimension $(\mathrm{k} \times 1)$); Z_i is a vector of variables representing the target firm's ownership concentration (of dimension $(\mathrm{p} \times 1)$). In equation (1), Φ denotes the cumulative distribution function of the standard normal distribution, β_0 is an unknown parameter and β_1, β_2, β_3 are vectors of unknown parameters of dimensions $(1\times\mathrm{m})$, $(1\times\mathrm{k})$ and $(1\times\mathrm{p})$, respectively.

The second research question was examined, testing *H5* and *H6* with the following linear multivariate regression model:

$$Performance_i = \beta_0 + \beta_1 Active_i + \beta_2 V_i + \beta_3 Crisis_i + u_i \quad (2)$$

where the dependent variable $Performance_i$ is measured as Tobin's q and ROA at the end of the next full fiscal year after the transaction, V_i is a vector of variables representing the target company's characteristics of dimension $(\mathrm{q} \times 1)$ and u_i is a random variable. In equation (2), β_0, β_1, β_3 are unknown scalars and β_2 is a vector of unknown coefficients of dimension $(1\times\mathrm{q})$.

Table 1 presents the variables description.

For the purpose of this research, a dummy variable $Active_i$ distinguishing between an activism strategy and a passive investment approach of the PE firm was proposed. Directors or top managers replacement and/or an acquisition of a controlling block of shares are recognized as instruments of influence on the target firm's decisions to increase a value of the firm and are a typical practice of PE governance intervention (Acharya *et al.*, 2012; Chen *et al.*, 2014; Stotz *et al.*, 2010). It helps to use shareholder activism strategy and influence the decision-making in the investee.

Variables	Description
Active	Binary variable equal to 1 if the private equity firm uses activism strategy and equal to 0 otherwise
Characteristics of the private equity firm and the transaction	
Age PE	Natural logarithm of the company's age, calculated as the difference between the incorporation year and the observation year
Ownership share purchased	Percentage of the target firm's common shares purchased by the private equity firm through the transaction
PE ownership before transaction	Percentage of the target firm's common shares owned by the private equity firm at the end of the quarter preceding the transaction
Simultaneous investors	Number of private equity firms announced as investors in the same target firm on the same date
First entry	Binary variable equal to 1 if the private equity firm had no ownership share before the transaction, and equal to 0 otherwise
Industry match	Binary variable equal to 1 if the target firm's industry corresponds to the industries of specialization of the private equity firm, and equal to 0 otherwise
Contr_50	Binary variable equal to 1 if the private equity firm acquires a controlling ownership stake in the target company
PE-affiliated directors appointed	Binary variable equal to 1 if a director affiliated to the private equity firm was appointed to the target firm's board of directors within six months of the date of the transaction, and equal to 0 otherwise
PE-affiliated CEO appointed	Binary variable equal to 1 if a CEO affiliated to the private equity firm was appointed within six months of the date of the transaction, and equal to 0 otherwise
PE-affiliated CFO appointed	Binary variable equal to 1 if a CFO affiliated to the private equity firm was appointed within six months of the date of the transaction, and equal to 0 otherwise
Target firm's characteristics	
Size	Natural logarithm of the total assets, as at the end of the fiscal year
Tobin's q	Market value/book value of assets, as at the end of the fiscal year
ROA	EBIT/average total assets, for the fiscal year
Leverage	Net debt (short-term debt + long-term debt − cash)/total assets, as at the end of the fiscal year
Largest ownership share	Percentage of the target firm's common shares owned by the largest shareholder, as at the end of the quarter preceding the transaction
Second-largest ownership share	Percentage of the target firm's common shares owned by the second largest shareholder, as at the end of the quarter preceding the transaction
Crisis	Binary variable equal to 1 if the transaction was completed in 2008, 2009 or 2010, and equal to 0 otherwise
France	Binary variable equal to 1 if the country of the transaction is France, and equal to 0 otherwise

Table 1. Description of variables

The PE firm's investment is defined as "active" if investor acquires a controlling ownership stake (50% plus one voting share) in the target company or takes at least one of the following steps after the transaction: replaces CEO and/or CFO in the target company or appoints one or more of its affiliated directors to the portfolio company's board (Rauch *et al.*, 2012). Some studies consider lower ownership stake as an evidence of activist strategy (Afza and Nazir, 2015). It seems relevant to use higher portion of shares possessed by investor as an antecedent of the activist strategy in Continental European companies with a highly concentrated ownership. Although holding a controlling stake is not necessary to launch an activist campaign in a target company (Katelouzou, 2013), acquisition of the large ownership share could decrease opportunism of other owners (Fama and Jensen, 1983) and is

considered *per se* as an evidence of the active position of investor. Having obtained full control in a target company, PE firms may initiate substantial operational and strategic changes.

Board representation is one of the most important public demands by activists, although it may serve as a mean to achieve other goals advanced by activist investors (Black, 2019). An institutional investor that has its nominee on board of directors is considered as active investor because it monitors firm's activity and prevents managers from exploitation of external shareholders (Afza and Nazir, 2015). Activist strategy should be aimed at improving the control/monitoring mechanisms, and the board of directors is among the first mostly important (Cocks and Ingley, 2010).

PE investors impact the composition of the board by changing the role of existing board members and nominating new directors (Battistin *et al.*, 2017). The activism intends to evaluate whether boards of directors actions pursue corporate interests or serve third parties in conflict with the efficiency of the company (Alvaro *et al.*, 2019). Gertner and Kaplan (1996) show that PE investors obtain more board seats and call board meetings more frequently than other institutional investors. Chen *et al.* (2014) found that PE acquirers tend to appoint their representatives to the board of directors, and these directors actively participate in governance-related board committees concerning compensation, nominating executives and other issues. Striving for closer monitoring by changing board composition, PE investors nominate their members on the board, who provide private information on company's operations. With this information, the activist PE could impact the target company to pursue policy that increases its value (Stotz *et al.*, 2010).

CEO replacement happens less frequently than appointment of the affiliated board members by an active investor. Bargeron *et al.* (2017) report that, in 68% of PE deals with acquisitions, target firm CEOs are retained by the acquirer because of potential benefits of the CEO retention for shareholder returns. Offering a "valuable CEO hypothesis" (Bargeron *et al.*, 2017, p. 1), the authors demonstrate that the premium paid to the target company owners by PE acquirers is 10%–18% higher than the pre-acquisition value of the target company because the PE investors expect that the retained target CEO will be better able to increase the post-acquisition firm value. However, Acharya *et al.* (2012) found that, from the date of a PE buyout, the investors replaced one-third of CEOs within 100 days and two-thirds within four years.

In France, one of the most active European countries in terms of activist campaigns initiated by investors, the primary focus of investors activism in recent years was the replacement of CEO or board chairman, as well as getting board representation (O'Donnell, 2019). Shareholder activism in Switzerland is focused primarily on board representation and executive compensation, and activists use board representation as a tactic more than anywhere else in Europe considering it as a driver of strategic agenda (Black, 2019).

According to Brav *et al.* (2018b), after the activist targets a firm, the proxy voting on the election of new directors takes place with an average (median) time lag of 189 (128) days. Therefore, these measures are considered to be related to this particular deal if made by the PE investor within six months from the transaction date. Additionally, as the company could be targeted by the same investor more than once, with a time difference of several months between the deals, the six-month period is considered appropriate to capture the effect of a particular investment.

Vector X_i of Model (1) includes several variables characterizing each PE deal's and PE investor's attributes: PE firm's age at the time of the transaction; ownership share purchased in the transaction; a binary variable characterizing whether the PE firm invested in the target firm for the first time; and the number of investors simultaneously purchasing

equity in the target firm. A variable not studied in the previous research on this topic, characterizing the industry specialization of a PE investor (*Industry match*), is added to the model.

Variables included in vector Y_i of Model (1) characterize the target company. Its operational performance is measured by ROA (Achleitner *et al.*, 2008a; Badunenko *et al.*, 2010; Caselli *et al.*, 2013). The relationship between the severity of agency problem in the target company and the choice of activism is also tested using other target firm's characteristics and financial performance indicators: target firm's size as a proxy for the level of information asymmetry (Frankel and Li, 2004); target firm's age as a proxy for corporate governance quality (Adams and Mehran, 2012); and leverage, calculated as net debt divided by the book value of equity, to characterize agency costs (Mietzner and Schweizer, 2008).

Vector Z_i in Model (1) includes target firm's ownership concentration characteristics assumed to be related to the investor's choice of activist or passive investment approach. Following the approach of Achleitner *et al.* (2008a), variables measuring the percentage of outstanding firm's shares owned by the largest and second-largest shareholder are included in the regression.

The dependent variable in Model (2) representing the target firm's future performance is measured as Tobin's q and ROA one complete fiscal year after the PE investment. Tobin's q is considered a proxy measure for the company's growth opportunities and the stock market-anticipated performance (Lang *et al.*, 1989), and ROA is a widely accepted measure of operational performance (Achleitner *et al.*, 2008a; Badunenko *et al.*, 2010).

While Lang *et al.* (1989) associate a higher Tobin's q with bigger growth prospects for the company, Clarke and Shastri (2000) note that larger growth opportunities also imply more asymmetric information, as fast growth firms carry higher risks that the expected future profits will not be earned. Because of information asymmetry, Tobin's q could be lower. Active PE investments can decrease information asymmetry and increase the target company's expected market value, as measured by Tobin's q. Based on studies of Adams and Mehran (2012), Cronqvist and Nilsson (2003) and Petry (2015), company size, ROA and leverage are included in a baseline model for Tobin's q.

The baseline model for ROA as dependent variable (Model 2) includes lagged ROA, company size and leverage as most commonly used control variables (Achleitner *et al.*, 2008a, Badunenko *et al.*, 2010; Brophy, 2004)

3.2 Sample selection

The sample includes PE investments in the form of PIPE and open market equity purchase for the period from 2005 to 2014. In these transactions, the PE firm normally buys a minority ownership stake and the target firm does not go private in the result of the transaction as do firms in buyout deals. Because the investee remains a public company, the information about the target firm before and after the transaction is available. The geographic area includes eight countries from Continental Europe. These countries could differ along particular dimensions but are characterized by high level of financial development, similar ownership patterns, corporate governance structures and practices. Sample countries of French civil law (France, Italy, Belgium, The Netherlands, Spain) and German civil law (Germany, Switzerland and Austria), according to La Porta *et al.* (1997, 2000) classification, are distinguished by poor investor protection and concentrated ownership. UK, a country with a common law, and Nordic countries, representatives of Scandinavian civil law tradition (La Porta *et al.*, 1997), are characterized by financial market legislation and overall business environments significantly different from those in other European countries

(Doing Business, 2014). Financial markets of Central and Eastern European (CEE) countries, post-socialist economies, although being a part of Continental Europe, have undergone through transition only since 1990s. Although those are growing emerging markets, there are severe corporate governance problems in companies in CEE countries and a shortage of firms that are worth to invest in Middleton *et al.* (2007). These markets are not developed enough, because of the short history of market economy, and they did not accumulate enough experience in PE investments that in these countries do not play a significant role. These countries represent transition economies, where institutional voids exist: undeveloped capital market and unpredictable regulation (Peng *et al.*, 2008; Li and Qian, 2013). These countries are poorer and have inferior opportunities for external funding (La Porta *et al.*, 1997). Because in this paper, we are focused on the investments in publicly traded firms, transactions in these economies were not included in the sample.

Time period from 2005 to 2014 is of special interest as the 2000s witnessed changes to activists' strategies, which became more focused on value improvements (Denes *et al.*, 2017). Details of all announced PIPE and open market equity purchases by PE firms in Europe were obtained from the Thomson One database. In the study period, 827 such transactions were announced in Europe. The number of deals in the eight selected countries of French legal origin and German legal origin in the study period was 508. These deals involved 342 target companies.

For each of the 508 transactions, the data necessary for the analysis were collected from several sources. The disclosure thresholds for equity acquisitions in a company differ across the selected countries, from 2% to 5% of purchased ownership share (see Appendix). Transaction details, including the investor's name and purchased ownership stake, were obtained from the Thomson One and Zephyr databases. The target firms' operational and financial performance details were extracted from Bloomberg and Datastream. The characteristics of PE investors and the structure of the target firms' ownership and corporate governance were collected from the Thomson Eikon database. Finally, data missing from these databases were collected from the PE firms' and target companies' official websites.

A number of announced transactions on the initial list were excluded from the sample: transactions not completed after the announcement; purchases of an ownership share below the minimum threshold that requires reporting to the regulatory authorities, meaning no details of the transaction necessary for the study were disclosed; target companies delisted before the end of the next full financial year after the transaction, therefore no information about the target company's performance in that year is available; and transactions with no information about significant details of the deal required for this study (the target's ownership structure, financials or governance system) available in the databases or on the Web.

The final sample consists of 209 observations; 115 are transactions characterized by the activist approach of the PE investor and 94 by passive investment approach. The transactions in the sample involved 127 target companies. Information about the final sample is summarized in Table 2.

Table 2 demonstrates that most of the deals in the analyzed period occurred in France and Germany, that together with Switzerland, are the most attractive European markets for PE activism after the UK (J.P. Morgan, 2014). This is because of their clear regulatory environment and developed business practices. Interestingly, the largest number of transactions in the sample occurred in 2007–2009; among them, 2008 and 2009 fall on the period of the global financial crisis that can be attributed to the lower availability of bank financing and the need to search for alternative sources of funding. It can also be seen from

	No. of transactions	% of transactions	No. of active transactions	% of active transactions
Country				
France	97	46.4	52	53.6
Germany	48	23.0	26	54.2
Spain	20	9.6	12	60.0
Switzerland	15	7.2	9	60.0
The Netherlands	10	4.8	6	60.0
Italy	8	3.8	5	62.5
Belgium	6	2.9	2	33.3
Austria	5	2.4	3	60.0
Total	209		115	
Year				
2005	19		9	47.4
2006	14		4	28.6
2007	26		11	42.3
2008	36		26	72.2
2009	30		19	63.3
2010	19		7	36.8
2011	16		10	62.5
2012	13		8	61.5
2013	19		10	52.6
2014	17		11	64.7
Total	209		115	
Industry				
Medicine and pharmaceuticals	44		33	75.0
Computer hardware and software production	28		6	21.4
Machinery production	21		15	71.4
Retail	19		14	73.7
Biotechnology	18		4	22.2
Consulting	15		8	53.3
Other heavy industry	15		9	60.0
Real estate	15		12	80.0
Communications	14		10	71.4
Financial services	14		3	21.4
Green energy	6		1	16.7
Total	209		115	

Table 2. Sample description: distribution of transactions

the sample distribution by industry that PE firms mostly invested in technology and pharmaceutical companies. The industries with the smallest portion of active transactions were hardware and software production, green energy production and biotechnology, while medicine and pharmaceutical firms attract the most of active investors.

3.3 Descriptive statistics

Table 3 presents the descriptive statistics of variables. When PE firms invest in public companies, they buy, on average, 11.70% of the target firm's common shares. In Continental Europe, taking control of a company at the public market is not common (Rossi and Volpin, 2004). Traditionally more than 50% of Capital is possessed by the current controlling shareholder (Geranio and Zanotti, 2012). In nearly 62% of the transactions in the sample, PE firms invested in the target firm for the first time; in the other 38%, they already held shares

Variable	Sample Mean	Sample Std. dev.	Min	Max
Target firms' characteristics				
Total assets (€1,000)	3`,756.09	10,265.49	3.06	46,611.00
Age target	2.85	0.84	0.00	5.52
Tobin's q	1.93	1.34	0.82	10.38
ROA	−0.08	0.27	−1.09	0.24
Leverage	1.13	4.06	−1.45	19.21
Largest ownership share (%)	28.41	18.70	6.01	79.00
Second largest ownership share (%)	10.55	6.45	0.84	29.68
Characteristics of private equity firm and transaction				
Ownership share purchased (%)	11.70	11.67	0.50	56.67
PE ownership before transaction (%)	6.78	13.77	0.00	89.32
Simultaneous investors (number)	1.56	1.06	1.00	5.00
Percentage of observations with the following characteristics				
First entry	61.65%			
Industry match	70.73%			
PE-affiliated directors appointed	51.67%			
PE-affiliated CEO appointed	1.91%			
PE-affiliated CFO appointed	0.48%			

Table 3.
Descriptive statistics

$N = 209$

in the investee before the transaction. Nevertheless, it should be noted that it is not always possible to identify the first purchased portion of shares because of the minimum threshold reported to regulatory authorities (Schouten and Siems, 2010).

PE firms invest individually and in groups: on average, 1.56 PE investors simultaneously participated in each transaction. The descriptive statistics show that 71% of PE firms invested in targets from the industries of investor's specialization, as declared on PE official websites or indicated by Bloomberg or Thomson Reuters. In about 52% of the transactions (108 observations), investors appointed their affiliated directors onto the target firm's board of directors, while they changed the CEO or CFO after only four and one transactions, respectively.

Table 4 summarizes the mean comparison results for the subsamples of active and passive investments.

Based on the means comparison test (Table 4), there are no statistically significant differences in target firms' performance measures between the subsamples of the portfolio companies with active PE investment and firms with passive investor's approach.

Variable	Active investments, sample mean	Passive investments, sample mean	*t*-Value
Total assets	4,012.39	3,439.14	0.400
Tobin's q	1.79	2.02	−1.149
ROA	−0.08	−0.06	−0.345
Leverage	1.51	0.66	2.505**
Largest ownership share (%)	28.68	28.30	0.137
Ownership share purchased (%)	15.88	7.68	6.429**
PE ownership share before transaction (%)	10.23	1.80	4.974**

Table 4.
Test of the difference between two means

$N = 209$

Note: **Indicate significance at the 5% level

The exception is the financial leverage: target companies with active PE investors have significantly higher leverage than target companies in passive transactions. It could be an evidence of the higher agency costs and more acute agency problem in companies targeted by active PE investors. However, Achleitner *et al.* (2008a) demonstrate that, in Germany, PE firms invest actively in companies with low leverage. In active transactions, PE firms purchase significantly higher ownership stakes and, on average, possess higher ownership before the transaction, compared to passive investors. It is consistent with a view that the likelihood of active participation in companies' governance is higher if investors obtain larger ownership share in firms (Shleifer and Vishny, 1986).

4. Empirical results

The models' estimation was performed in Stata 12. The accounting data has been winsorized at the 5% and 95% level to avoid the bias of results by the outliers. All regressions' parameters were estimated using robust standard errors. The variance inflation factor test demonstrated no evidence of multicollinearity problem in the data.

4.1 Model (1)

Table 5 presents the marginal effects of Model (1).

The model is statistically significant. Four variables describing PE firm's characteristics are statistically significant.

The relationship between the ownership concentration measured by the variables *Largest shareholder ownership share* and *Second largest shareholder ownership share* and the likelihood of the shareholder activism is not statistically significant. From the agency problem perspective, it could be assumed that the use of activist strategy could enhance monitoring and decrease agency costs in companies with dispersed ownership. The PE investor is expected to use activist approach in such target firms because it is easier to implement changes in firms with many shareholders-free riders and no large blockholders that can vote against the activist's proposals. Nevertheless, the study results did not support this proposition, as stated in *H1*, as no relationship between the ownership concentration in a target firm and the probability of shareholder activism was found. This result can be

Dependent variable: Active	Expected sign	(1.1)	(1.2)
Age PE	*H3*: +	0.073*	0.0799*
Industry match	*H4*: +	0.207**	0.2067**
Ownership share purchased	*H2*: +	8.352***	3.115***
First entry		−1.009***	−0.3477***
Simultaneous investors		−0.053	−0.529
Leverage		0.010	0.024
Size		0.034*	0.0238*
Largest shareholder ownership share	*H1*: −	0.067	0.0237
Second-largest shareholder ownership share	*H1*: −	0.014	0.0941
France			−0.011
LR χ^2		58.950	48.79
p-Value		0.000	0.000
Pseudo R^2		0.254	0.263
N		209	209

Notes: This table presents the marginal effects; for binary variables, analogs of marginal effects are presented; *, ** and *** indicate significance at the 10, 5 and 1% levels, respectively

Table 5. Model (1) regression results

explained by the specific nature of PE investments in listed firms: in such deals, PE investors seem to be able to negotiate with existing shareholders and intervene in corporate governance of companies even given a concentrated ownership.

It can be concluded that there is a statistically significant relationship between the probability that PE investor will demonstrate shareholder activism and the ownership share purchased in the transaction (*Ownership share purchased*). The empirical evidence confirms *H2*. The ownership share purchased by the PE firm is rising together with the increase of probability of shareholder activism. This result is consistent with the general view of the agency theory and results of previous studies. With block share acquisitions, investors have strong incentives to monitor and advise portfolio companies managers (Chen *et al.*, 2014). Although activists can create trouble for management even if they only hold a small block of shares, with higher ownership stake obtained by the investor, there are more opportunities to become activist shareholder and use strategies to enhance value creation. Higher ownership allows the shareholder to facilitate corporate governance changes, appoint top management and board members. It allows responsible ownership to be implemented as a response to a lack of investors' satisfaction by corporate decisions and performance (Cocks and Ingley, 2010).

Based on the estimation results, there is a statistically significant relationship between the PE investor's age (*Age PE*) and the probability of PE activism. Thus, *H3* is confirmed. The older the PE firm, the higher the probability it will use shareholder activism. This result, obtained for listed companies, differs from the findings of Rauch *et al.* (2012) that the PE firm's age negatively relates to the likelihood of activism in venture capital transactions, and that there is no relationship between the two in PE buyout deals. For investments in public firms, a mature investor's expertise could be especially important because of such companies' complex organizational and governance systems.

There is also statistically significant difference in the probability of demonstrating activism by PE firms investing in a target firm in the industry of investor's specialization (*Industry match*) and PE firms investing in other industries. The study results support *H4*. The probability of using shareholder activism strategy is higher if the PE investor has expertise in the target company's industry. The investor with industry-specific knowledge can contribute the value to the management of the target firm. This finding supports the view of Armour and Cheffins (2011) that PE firms are a distinctive category of investors, bringing not only funds but also knowledge and experience to their portfolio companies.

There are differences found between the transactions with PE firm investing for the first time in a particular target firm (*First entry*) and transactions in which a PE firm has previously invested in this company. The probability that the PE firm will use shareholder activism is lower if the transaction is its first investment in the target company. This result suggests it is difficult for PE investors to buy, through their first investment in a public company, a sufficiently large block of shares to obtain the power needed for activism. This may be because of the need to buy from multiple shareholders in an open market purchase, or limitations on the proportion of shares a target company can issue in a single PIPE. To pursue its investment activity as an activist shareholder, the PE investor acquires additional ownership to enable it to appoint affiliated directors and introduce other changes to the company's operations and governance.

It was further identified that the larger the target company, in terms of total assets, the higher the probability that the PE firm will use shareholder activism. This can be attributed to the fact that PE investors expose a larger amount of funds to risk when investing in a bigger company, compared to purchasing the same ownership share in a smaller company; therefore, they are more likely to exercise closer control over their investment. Supporting

findings of Smith (1996) and Rehbein *et al.* (2004) argue that larger companies are more visible, and if these companies move in the direction proposed by the activist investor, than they could serve as a role model for smaller size companies. This could make a positive effect for investor in a long run.

4.2 Model (2)

All models are statistically significant. The results of the regression analysis are presented in Table 6.

The variable *Active* is statistically significant in the model with dependent variable *ROA* [Model (2.4)], but not in the model with *Tobin's q* [Model (2.2)]. Thus, there is no statistically significant difference in *Tobin's q* between the group of target firms with PE firm pursuing shareholder activism and the group of target firms with a passive PE investor. Therefore, the results do not lend support for *H5*.

Control variables *Size* and *Lagged ROA* included in Models (2.1) and (2.2) appeared to be statistically significant. The sign of the coefficient of the control variable *Size* corresponds to the results obtained in previous studies (Adams and Mehran, 2012; Cronqvist and Nilsson, 2003). However, ROA appeared to have a negative coefficient, contrary to the direct relationship with Tobin's q found in most studies.

Unlike in many prior studies, ROA was found to have an inverse relationship with Tobin's q. These findings can be explained by the diverse industries of the target companies in the sample, and the fact that nearly one-third of the transactions occurred during the crisis period, when market-based performance of public companies was affected mainly by external factors rather than by corporate governance and management of the firm.

In Model (2.4), the coefficient of *Active* is significant and has a negative sign. Therefore, the target firms' operational performance measured by ROA, on average, will be lower if the target firm has the PE investor demonstrating activism in comparison to the target firm with a passive PE investor. Thus, the research findings support *H6*.

Although a large number of studies agree on a positive role that shareholder activists play for the company (Battistin *et al.*, 2017; Clifford, 2008; Humphery-Jenner *et al.*, 2017; Ligterink *et al.*, 2017 Mietzner and Schweizer,2008; Rauch *et al.*, 2012; Renneboog *et al.*, 2007; etc.), existing research provides mixed evidence for the effect of PE investments on market and operational performance results. There is an evidence that in case of acquisition, a large ownership stake dominating investors could destroy company value transferring assets

	Tobin's q			ROA	
Variable	Expected sign	(2.1)	(2.2)	Expected sign	(2.3)	(2.4)
Active	*H5*: +		0.039 (0.196)	*H6*: –		−0.107** (0.056)
Leverage		−0.003(0.009)	−0.002 (0.0092)		−0.001(0.0005)	−0.0001 (0.0004)
Size		−0.127**(0.029)	−0.132**(0.026)		0.010 (0.009)	0.015 (0.010)
Lagged ROA		−1.721***(0.737)	−1.702***(0.718)		0.394***(0.093)	0.364***(0.089)
Crisis		0.239 (0.236)	0.245 (0.246)		−0.026 (0.045)	−0.009 (0.047)
Constant		2.801***(0.403)	2.796*** (0.397)		−0.013542	−0.014235
Adjusted *R*-squared		0.187	0.187		0.107	0.13
F-stat.		13.68	11.15		6.46	6.52
p-Value		0	0		0	0
N		209	209		209	209

Notes: The standard errors are reported in parentheses; *, ** and *** indicate significance at 10, 5 and 1% levels, respectively

Table 6.
Model (2) regression results

from the firm, diverting corporate resources, especially in countries with weak legal shareholders protection (Dahya *et al.*, 2008) or to be not active in governance being interested in short-term benefits versus long-term growth (Fich and Slezak, 2008). Badunenko *et al.* (2010) found an inverse relationship of the PE ownership share and the target company's ROA. Activists could influence managerial decisions acting in their own interests, not necessarily interests of all shareholders (Cocks and Ingley, 2010). The absence of a significant positive effect on target performance could be also attributed to the conflict of interests on behalf of activist investors as governance monitors (Clifford, 2008).

In all the models, the variable *Crisis* appeared to be not statistically significant. Therefore, the financial crisis could not be considered as a determinant of the target companies' performance.

5. Conclusions

This study was motivated by the increasing role of PE firms in creating shareholder value in target companies and widely recognized role of shareholder activism as a corporate governance mechanism (Filatotchev and Dotsenko, 2015; Benton and You, 2018).

PE firms are, nowadays, becoming active investors; even it is noted by experts in the field that the borders between shareholder activist strategies and traditional PE strategies are starting to become blurred (Crawford *et al.*, 2020). Because of their nature and competences, PE investors can develop strategies to improve portfolio companies' corporate governance and performance.

Despite some disagreements, the academic literature generally assumes investor activism targets the agency problem and, by decreasing agency costs or motivating managers to take on value-enhancing projects, leads to improving company's performance and increasing its shareholder value. Activists prompt a company to facilitate a dialogue between shareholders and management, helping to avoid a free-rider problem and lack of management discipline (Private equity and shareholder activism, 2008). Therefore, activism in virtue is a response to agency problem (Gillan and Starks, 2007) with activists serving as external governance monitors (Benton and You, 2018).

The motives and strategies of PE activism in public companies is a relevant and underdeveloped area of study. Among the most important questions that researchers rise in relation to activism strategies of institutional investors are the following: which firms do activist target and how does activism impact firm performance? (Brav *et al.*, 2008a).

This article examines the relationship between the probability of the shareholder activism in PE investments in Continental European listed companies and the characteristics of PE investor and target firms. Based on the empirical results, it is reasonable to conclude that the activism approach is highly driven by the PE investor's experience, in terms of years of operation and expertise in the target firm's industry. PE firms specifically choose targets in which their expertise will most effectively improve performance. This is an interesting finding as this relationship was not analyzed in previous studies on PE activism. With accumulated competences and experience in a specific industry, the PE firm implements the instruments that allow creating value for their investment targets. The probability that the PE firm will use shareholder activism is higher if it acquired a larger ownership share in the target firm, obtaining more opportunities to have an impact on performance of a portfolio company.

PE firm more likely becomes an active shareholder if it invests in a bigger company. Conversely, the probability will be lower if the PE firm invested in the target company for the first time, compared to cases in which a firm has previously invested in a target company. Contrary to the hypothesis on the relationship between ownership concentration in public firms and probability of the activism by PE investors, we did not find any link between those. It could be because of the fact that European companies targeted by PE firms

have a high ownership concentration, and investors in these firms are able to negotiate with large owners, who play important role in the corporate governance of the company.

The study did not identify that the target company's stock performance improves after the PE investor uses shareholder activism strategy, but the findings suggest that short-term operational performance results are poorer as consequences of shareholder activism by PE firms. PE investors tend to focus on the target's long-term performance; therefore, they will likely increase capital investments, rather than divest assets to demonstrate quick improvement in operational performance (Brunzell *et al.*, 2015).

This research makes a contribution to existing studies from several perspectives. It produces new empirical evidence on PE activism in Continental Europe. By distinguishing between active and passive investments; testing rarely considered characteristics to provide valuable insights into the relationships between investors and target's characteristics and investor activism; and analyzing the effect of activism on the target firm's performance, the study contributes variously to the still-limited body of literature on PE activism in public companies in Europe and complements empirical evidence mostly obtained from US studies or other research of a single national market.

Some limitations of the study are acknowledged. Results from the analysis of the transactions in Continental Europe countries with a French and German legal origin may be not generalizable to other markets, which are institutionally different, including the specifics of corporate governance legislation, investor protection and ownership structure. Prevalence of deals conducted in France and Germany also leads to constraints in the application of our results to other regions. In addition, only one type of activists' corporate governance interventions is considered in the paper – appointment of the PE firm-affiliated directors on the board or change of the CEO and/or CFO. Other activist-induced corporate governance changes [change in the board diversity and size, decrease in the free-cash-flow available for managers and other measures suggested by Jensen (1986)] are not considered in the analysis.

The study has practical implications for PE fund managers, other investors and target companies. First, activist and passive investment approach differently influences target firms' operational performance, which should be considered by other investors and target firms. Second, there is no evidence that the market perception of the target firm's value will change as a result of the PE shareholder's activism. Therefore, solely intervening in corporate governance via the replacement of the top managers or directors may not be enough to be reflected in the stock market investors' attitude toward company's future growth in value.

Further research is needed to investigate how the relationship between PE activism and target firm's performance is affected by the type of financing and other transaction details with the participation of PE firms, as well as other characteristics of PE investors and their targets. PE deals can be very complicated, given the specifics of the organization and structure of PE firms. Which specific mechanism do PE firms use to advise portfolio companies and help to change target company's performance in different types of deals? The relationship between shareholder activism strategy, investors and targets characteristics and performance needs further thought from both agency theory perspective and resource-based view. Future research is needed to identify long-term effects of PE investments and specific channels through which activists drive value creation in portfolio companies.

References

Acharya, V.V., Gottschalg, O., Hahn, M. and Kehoe, C. (2012), "Corporate governance and value creation: evidence from private equity", working paper, Stern School of Business, New York, NY, 19 February.

Achleitner, A.K., Betzer, A. and Gider, J. (2008b), "Do corporate governance motives drive hedge funds and private equity activities?", working paper No. 2008-11, Technical University of Munich, Munich.

Achleitner, A.K., Andres, C., Betzer, A. and Weir, C. (2008a), "Economic consequences of private equity investments on the German stock market", working paper No. 2008-05, Center for Entrepreneurial and Financial Studies (CEFS), Technical University of Munich, Munich.

Achleitner, A.K., Betzer, A., Goergen, M. and Hinterramskoglera, B. (2013), "Private equity acquisitions of continental European firms – the impact of ownership and control on the likelihood of being taken private", *European Financial Management*, Vol. 19 No. 1, pp. 72-103.

Adams, R.B. and Mehran, H. (2012), "Bank board structure and performance: evidence for large bank holding companies", *Journal of Financial Intermediation*, Vol. 21 No. 2, pp. 243-267.

Afza, T. and Nazir, M. (2015), "Role of institutional shareholders' activism in enhancing firm performance: the case of Pakistan", *Global Business Review*, Vol. 16 No. 4, pp. 557-570.

Aldatmaz, S. and Brown, G. (2020), "Private equity in the global economy: evidence on industry spillovers", *Journal of Corporate Finance*, Vol. 60 No. C.

Alvaro, S., Maugeri, M. and Strampelli, G. (2019), "Institutional investors, corporate governance and stewardship codes: problems and perspectives", Quaderni Giuridici (Legal Papers), January, pp. 1-78.

Andriosopoulos, D. and Panetsidou, S. (2021), "A global analysis of private investments in public equity", *Journal of Corporate Finance*, Vol. 69, p. 101832.

Armour, J. and Cheffins, B.R. (2011), "The past, present, and future of shareholder activism by hedge funds", *Journal of Corporation Law*, Vol. 37 No. 51, pp. 51-102.

Arthur, N., Chen, H. and Tang, Q. (2019), "Corporate ownership concentration and financial reporting quality. international evidence", *Journal of Financial Reporting and Accounting*, Vol. 17 No. 1, pp. 104-132.

Aslan, H. and Kumar, P. (2016), "The product market effects of hedge fund activism", *Journal of Financial Economics*, Vol. 119 No. 1, pp. 226-248.

Badunenko, O., Baum, C.F. and Schäfer, D. (2010), "Does the tenure of private equity investment improve the performance of European firms?", working paper, Boston College, Chestnut Hill, MA, 26 March.

Bargeron, L., Schlingemanne, F., Stulz, R. and Zutter, C. (2017), "What is the shareholder wealth impact of target CEO retention in public equity deals?", *Journal of Corporate Finance*, Vol. 46, pp. 186-206.

Battistin, E., Bortoluzzi, P., Buttignon, F. and Vedovato, M. (2017), "Minority and majority private equity investments: firm performance and governance", *Journal of Management and Governance*, Vol. 21 No. 3, pp. 659-684.

Bebchuk, L., Brav, A. and Jiang, W. (2015), "The long-term effects of hedge fund activism", working paper No. 21227, National Bureau of Economic Research, Cambridge, MA, June 2015.

Becht, M., Franks, J., Grant, J. and Wagner, H.F. (2017), "Returns to hedge fund activism: an international study", *The Review of Financial Studies*, Vol. 30 No. 9, pp. 2933-2971.

Ben Arfa, N., Karmani, M. and Labaronne, D. (2017), "Antecedents of hedge fund activism in French listed target firms", *Research in International Business and Finance*, Vol. 42 No. Issue C, pp. 1315-1326.

Benton, R. and You, J. (2018), "Governance monitors or market rebels? Heterogeneity in shareholder activism", *Strategic Organization*, Vol. 17 No. 3, pp. 281-310.

Bergström, C., Grubb, M. and Jonsson, S. (2007), "The operating impact of buyouts in Sweden: a study of value creation", *The Journal of Private Equity*, Vol. 11 No. 1, pp. 22-39.

Black, J. (2019), "Activism in Europe', 'country profile: Switzerland", in: Activist investing in Europe, available at: www.activistinsight.com

Black, B.S. (1998), "Shareholder activism and corporate governance in the United States", *The New Palgrave Dictionary of Economics and the Law*, Vol. 3, pp. 459-465.

Block, J., Fisch, C., Vismara, S. and Andres, R. (2019), "Private equity investment criteria: an experimental conjoint analysis of venture capital, business angels and family offices", *Journal of Corporate Finance*, Vol. 58, pp. 329-352.

Boucly, Q., Thesmar, D. and Sraer, D. (2009), "Leveraged buy-outs – evidence from French deals", *The Global Economic Impact of Private Equity Report: Globalization of Alternative Investments Working Papers*, Vol. 2, pp. 47-64.working paper.

Brav, A., Jiang, W. and Li, T. (2018b), "Picking friends before picking (proxy) fights: how mutual fund voting shapes proxy contests", working paper, Fuqua School of Business (Duke University), Columbia Business School and NBER, Warrington College of Business, the University of Florida, March 2018.

Brav, A., Jiang, W., Partnoy, F. and Thomas, R. (2008a), "Hedge fund activism, corporate governance, and firm performance", *The Journal of Finance*, Vol. 63 No. 4, pp. 1729-1775.

Brav, A., Jiang, W., Ma, S. and Tian, X. (2018c), "How does hedge fund activism reshape corporate innovation?", *Journal of Financial Economics*, Vol. 130 No. 2, pp. 237-264.

Brophy, D.J., Ouimet, P.P. and Sialm, C. (2004), "PIPE dreams? The performance of companies issuing equity privately", working paper 11011, National Bureau of Economic Research, Cambridge, MA, December 2004.

Brunzell, T., Liljeblom, E. and Vaihekoski, M. (2015), "Short-term expectations in listed firms: the effects of different owner types", *Journal of International Financial Management and Accounting*, Vol. 26 No. 3, pp. 223-256.

Caselli, S., Garcia-Appendini, E. and Ippolito, F. (2013), "Contracts and returns in private equity investments", *Journal of Financial Intermediation*, Vol. 22 No. 2, pp. 201-217.

Castellaneta, F. and Gottschalg, O. (2016), "Does ownership matter in private equity? The sources of variance in buyouts' performance", *Strategic Management Journal*, Vol. 37 No. 2, pp. 330-348.

Chen, G., Kang, J.-K., Kim, J.-M. and Na, H.S. (2014), "Sources of value gains in minority equity investments by private equity funds: evidence from block share acquisitions", *Journal of Corporate Finance*, Vol. 29, pp. 449-474.

Clark, G. and Hebb, T. (2004), "Pension fund corporate engagement: the fifth stage of capitalism", *Relations Industrielles*, Vol. 59 No. 1, pp. 142-169.

Clarke, J. and Shastri, K. (2000), "On information asymmetry metrics", working paper, University of Pittsburgh, Pittsburgh, PA, November 2000.

Clarkson, P., Pathan, S. and Tellam, A. (2016), "Do private equity target firms exhibit less effectual governance structures?", *Australian Journal of Management*, Vol. 41 No. 2, pp. 244-270.

Clifford, C.P. (2008), "Value creation or destruction? Hedge funds as shareholder activists", *Journal of Corporate Finance*, Vol. 14 No. 4, pp. 323-336.

Cocks, G. and Ingley, C. (2010), "Activist boards – not activist shareholders", Melbourne Business School, Bepress, available at: https://works.bepress.com/graeme_cocks/9/

Crawford, A. Gruenberg, M. and Schulte Roth and Zabel, L.L.P. (2020), "Friend or foe? The convergence of private equity and shareholder activism", Harvard Law School Forum on Corporate Governance, available at: https://corpgov.law.harvard.edu/2020/03/21/friend-or-foe-the-convergence-of-private-equity-and-shareholder-activism/

Cressy, R., Munari, F. and Malipiero, A. (2007), "Playing to their strengths? Evidence that specialization in the private equity industry confers competitive advantage", *Journal of Corporate Finance*, Vol. 13 No. 4, pp. 647-669.

Cronqvist, H. and Nilsson, M. (2003), "Agency costs of controlling minority shareholders", *The Journal of Financial and Quantitative Analysis*, Vol. 38 No. 4, pp. 695-719.

Cziraki, P., Renneboog, L. and Szilagyi, P.G. (2010), "Shareholder activism through proxy proposals: the European perspective", *European Financial Management*, Vol. 16 No. 5, pp. 738-777.

Dahya, J., Dimitrov, O. and McConell, J. (2008), "Dominant shareholders, corporate boards, and corporate value: a cross-country analysis", *Journal of Financial Economics*, Vol. 87 No. 1, pp. 73-100.

David, P., Bloom, M. and Hillman, A. (2007), "Investor activism, managerial responsiveness and corporate social performance", *Strategic Management Journal*, Vol. 28 No. 1, pp. 91-100.

Denes, M., Karpoff, J. and McWilliams, V. (2017), "Thirty years of shareholder activism: a survey of empirical research", *Journal of Corporate Finance*, Vol. 44, pp. 405-424.

Doing Business (2014), "Doing Business 2015", International Bank for Reconstruction and Development research, available at: www.doingbusiness.org/ (accessed 18 January 2016).

Faccio, M. and Lang, L.H. (2002), "The ultimate ownership of Western European corporations", *Journal of Financial Economics*, Vol. 65 No. 3, pp. 365-395.

Fama, E. and Jensen, M. (1983), "Separation of ownership and control", *The Journal of Law and Economics*, Vol. 26 No. 2, pp. 301-325.

Fich, E. and Slezak, S. (2008), "Can corporate governance save distressed firms from bankruptcy? An empirical analysis", *Review of Quantitative Finance and Accounting*, Vol. 30 No. 2, pp. 225-251.

Filatotchev, I. and Dotsenko, O. (2015), "Shareholder activism in the UK: types of activists, forms of activism, and their impact on a target's performance", *Journal of Management and Governance*, Vol. 19 No. 1, pp. 5-24.

Frankel, R.M. and Li, X. (2004), "Characteristics of a firm's information environment and the information asymmetry between insiders and outsiders", *Journal of Accounting and Economics*, Vol. 37 No. 2, pp. 229-259.

Gedjadze, M., Piot, G. and Schwienbacher, A. (2017), "Private equity fundraising and firm specialization", *The Quarterly Review of Economics and Finance*, Vol. 64, pp. 259-274.

Geranio, M. and Zanotti, G. (2012), "Equity markets do not fit all: an analysis of public-to-private deals in continental Europe", *European Financial Management*, Vol. 18 No. 5, pp. 867-895.

Gerhard, F. (2008), "Private investments in public equity (PIPEs) – a closer look at PIPE transactions in Switzerland", *European Company and Financial Law Review*, Vol. 5 No. 3, pp. 305-352.

Gertner, R. and Kaplan, S.N. (1996), "*The Value Maximizing Board", Working Paper*, University of Chicago, Chicago, IL, December 1996.

Gillan, S.L. and Starks, L.T. (2000), "Corporate governance proposals and shareholder activism: the role of institutional investors", *Journal of Financial Economics*, Vol. 57 No. 2, pp. 275-301.

Gillan, S.L. and Starks, L.T. (2007), "The evolution of shareholder activism in the United States", *Journal of Applied Corporate Finance*, Vol. 19 No. 1, pp. 55-73.

Gompers, P., Kaplan, S. and Mukharlyamov, V. (2016), "What do private equity firms say they do?", *Journal of Financial Economics*, Vol. 121 No. 3, pp. 449-476.

Goranova, M., Abouk, R., Nystrom, P. and Soofi, E. (2017), "Corporate governance antecedents to shareholder activism: a zero-inflated process", *Strategic Management Journal*, Vol. 38 No. 2, pp. 415-435.

Goranova, M. and Ryan, L. (2014), "Shareholder activism: a multidisciplinary view", *Journal of Management*, Vol. 40 No. 5, pp. 1230-1268.

Gordon, L. and Pound, J. (1993), "Information, ownership structure, and shareholder voting: evidence from shareholder sponsored corporate governance proposals", *The Journal of Finance*, Vol. 48 No. 2, pp. 697-718.

Gugler, K. and Yurtoglu, B.B. (2003), "Corporate governance and dividend pay-out policy in Germany", *European Economic Review*, Vol. 47 No. 4, pp. 731-758.

Guimaraes, P., Leal, R., Wanke, P. and Morey, M. (2019), "Shareholder activism impact on efficiency in Brazil", *Corporate Governance: The International Journal of Business in Society*, Vol. 19 No. 1, pp. 141-157.

Halpern, P., Kieschnick, R. and Rotenberg, W. (1999), "On the heterogeneity of leveraged going private transactions", *Review of Financial Studies*, Vol. 12 No. 2, pp. 281-309.

Hernandez-López, E. (2003), "Bag wars and bank wars, the Gucci and Banque National de Paris hostile bids: European corporate culture responds to active shareholders", *Fordham Journal of Corporate & Financial Law*, Vol. 9 No. 1, pp. 127-190.

Humphery-Jenner, M., Sautner, Z. and Sauchard, J.-A. (2017), "Cross-border mergers and acquisition: the role of private equity firms", *Strategic Management Journal*, Vol. 38 No. 8, pp. 1688-1700.

Investing in Europe: Private equity activity 2020 (2021), "Invest Europe", available at: www.investeurope.eu/research/activity-data/

Ivashina, V. and Kovner, A. (2011), "The private equity advantage: leveraged buyout firms and relationship banking", *Review of Financial Studies*, Vol. 24 No. 7, pp. 2462-2498.

J.P. Morgan (2014), "Knocking on the door – shareholder activism in Europe: five things you need to know", available at: www.jpmorgan.com/jpmpdf/1320656894344.pdf

Jensen, M.C. (1986), "Agency costs of free cash flow, corporate finance, and takeovers", *American Economic Review*, Vol. 76 No. 2, pp. 323-329.

Judge, W.Q., Gaur, A. and Muller-Kahle, M.I. (2010), "Antecedents of shareholder activism in target firms: evidence from a multi-country study", *Corporate Governance: An International Review*, Vol. 18 No. 4, pp. 258-273.

Kaplan, S.N. and Stromberg, P. (2009), "Leveraged buyouts and private equity", *Journal of Economic Perspectives*, Vol. 23 No. 1, pp. 121-146.

Katelouzou, D. (2013), "Myths and realities of hedge fund activism: some empirical evidence", *Virginia Law and Business Review*, Vol. 7 No. 3, pp. 459-511.

La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (1999), "Corporate ownership around the world", *The Journal of Finance*, Vol. 54 No. 2, pp. 471-517.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (1997), "Legal determinants of external finance", *The Journal of Finance*, Vol. 52 No. 3, pp. 1131-1150.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (2000), "Investor protection and corporate governance", *Journal of Financial Economics*, Vol. 58 No. 1-2, pp. 3-27.

Lang, L., Stulz, R. and Walkling, R.A. (1989), "Managerial performance, tobin's q, and the gains from successful tender offers", *Journal of Financial Economics*, Vol. 24 No. 1, pp. 137-154.

Latini, E.T., Fontes-Filho, J.R. and Chambers, E.L. (2014), "Private equity and corporate governance: managing Brazilian SMEs", *Corporate Governance*, Vol. 14 No. 2, pp. 220-237.

Li, J. and Qian, C. (2013), "Principal-principal conflicts under weak institutions: a study of corporate takeovers in China", *Strategic Management Journal*, Vol. 34 No. 4, pp. 498-508.

Ligterink, J., Martin, J. and Boot, A. (2017), "Private equity in the Netherlands: value creation, redistribution and excesses", Translation of core messages of the report (in Dutch) "Private equity in Nederland: Een stakeholder perspectief" (Ligterink *et al.*, 2017), prepared for the Dutch Ministry of Finance, p. 45.

Lim, J., Schwert, M. and Weisbach, M. (2021), "The economics of PIPEs", *Journal of Financial Intermediation*, Vol. 45, p. 100832.

Liu, Y. and Yang, J. (2015), "Optimal investment of private equity", *Finance Research Letters*, Vol. 14, pp. 76-86.

McNulty, T. and Nordberg, D. (2016), "Ownership, activism and engagement: institutional investors as active owners", *Corporate Governance: An International Review*, Vol. 24 No. 3, pp. 346-358.

Macey, J. (2008), *Corporate Governance: promises Kept, Promises Broken*, Princeton University Press, Princeton, N.J.

Market trends 2020/21: PIPEs (2020), "A practical guidance® practice note by Ari B. Blaut, Audra D. Cohen, and Lindsey C. Meyer, Sullivan and Cromwell LLP", available at: www.sullcrom.com/files/upload/Market-Trends-2020_21_%20PIPEs.pdf

Middleton, C., Fifield, S. and Power, D. (2007), "Investment in Central and Eastern European equities: an investigation of the practices and viewpoints of practitioners", *Studies in Economics and Finance*, Vol. 24 No. 1, pp. 13-31.

Mietzner, M. and Schweizer, D. (2008), "Hedge funds versus private equity funds as shareholder activists-differences in value creation", *Journal of Economics and Finance*, Vol. 38 No. 2, pp. 181-208.

O'Donnell, E. (2019), "Country profile: France', in: in: activist investing in Europe", available at: www.activistinsight.com

Opler, T. and Titman, S. (1993), "The determinants of leveraged buyout activity: free cash flow vs. financial distress costs", *The Journal of Finance*, Vol. 48 No. 5, pp. 1985-1999.

Peng, M., Wang, D. and Jiang, Y. (2008), "An institution-based view of international business strategy: a focus on emerging economies", *Journal of International Business Studies*, Vol. 39 No. 5, pp. 920-936.

Petry, S. (2015), *Private Equity Monitoring in Public Firms", Working Paper*, University of Melbourne, Melbourne, 2 June.

Phalippou, L., Rauch, C. and Umber, M. (2018), "Private equity portfolio company fees", *Journal of Financial Economics*, Vol. 129 No. 3, pp. 559-585.

Private equity and shareholder activism (2008), "Summary of the 2007 annual meeting reports of the royal Netherlands economic association", *De Economist*, Vol. 156 No. 1, pp. 95-101.

Private equity responsible investment survey 2019 (2019), PriceWaterhouseCoopers, available at: www.pwc.com/gx/en/services/sustainability/assets/pwc-private-equity-responsible-investment-survey-2019.pdf

Private equity trend report 2020 (2020), PriceWaterhouseCoopers, available at: www.pwc.de/en/private-equity/private-equity-trend-report-2020.html

Rauch, C., Umber, M.P. and Furth, S. (2012), "Private equity shareholder activism", working paper, Goethe University, Frankfurt School of Finance and Management, Frankfurt, January 2012.

Rehbein, K., Waddock, S. and Graves, S. (2004), "Understanding shareholder activism: which corporations are targeted?", *Business and Society*, Vol. 43 No. 3, pp. 239-267.

Renneboog, L.D.R., Simons, T. and Wright, M. (2007), "Why do public firms go private in the UK?", *Journal of Corporate Finance*, Vol. 13 No. 4, pp. 591-628.

Rigamonti, D., Gefes, E., Meoli, M. and Vismara, S. (2016), "The effect of the specialization of private equity firms on their exit strategy", *Journal of Business Finance and Accounting*, Vol. 43 Nos 9/10, pp. 1420-1443.

Rossi, F., Barth, J. and Cebula, R. (2018), "Do shareholder coalitions affect agency costs? Evidence from Italian-listed companies", *Research in International Business and Finance*, Vol. 46, pp. 181-200.

Rossi, S. and Volpin, P. (2004), "Cross country determinants of mergers and acquisitions", *Journal of Financial Economics*, Vol. 74 No. 2, pp. 277-304.

Särve, B. (2013), *PIPE Investments of Private Equity Funds: The Temptation of Public Equity Investments to Private Equity Firms*, Diplomica Verlag Gmbh, Hamburg.

Scellato, G. and Ughetto, E. (2013), "Real effects of private equity investments: evidence from European buyouts", *Journal of Business Research*, Vol. 66 No. 12, pp. 2642-2649.

Schouten, M. and Siems, M. (2010), "The evolution of ownership disclosure rules across countries", *Journal of Corporate Law Studies*, Vol. 10 No. 2, pp. 451-483.

Shleifer, A. and Vishny, R.W. (1997), "A survey of corporate governance", *The Journal of Finance*, Vol. 52 No. 2, pp. 737-783.

Shleifer, A. and Vishny, R.W. (1986), "Large shareholders and corporate control", *Journal of Political Economy*, Vol. 94 No. 3, Part 1, pp. 461-488.

Sjöström, E. (2008), "Shareholder activism for corporate social responsibility: what do we know?", *Sustainable Development*, Vol. 16 No. 3, pp. 141-154.

Sjostrom, W.K. Jr (2007), "PIPEs", *Entrepreneurial Business Law Journal*, Vol. 2 No. 1, pp. 381-413.

Smith, M.P. (1996), "Shareholder activism by institutional investors: evidence from CalPERS", *The Journal of Finance*, Vol. 51 No. 1, pp. 227-252.

Stotz, O., Wanzenried, G. and Dohnert, K. (2010), "Open market purchases of public equity by private equity investors: size and home bias effects", *Journal of Economics and Business*, Vol. 62 No. 6, pp. 562-576.

Stowell, D. (2010), "Overview of private equity", in Stowell, D. (Ed.), *An Introduction to Investment Banks, Hedge Funds, and Private Equity*, Elsevier Inc., New York, NY, pp. 283-306.

Uche, C., Adegbite, E. and Jones, M. (2016), "Institutional shareholder activism in Nigeria", *Corporate Governance*, Vol. 16 No. 4, pp. 680-692.

Villalonga, B., Amit, J., Trujillo, M.A. and Guzman, A. (2015), "Governance of family firms", *Annual Review of Financial Economics*, Vol. 7 No. 1, pp. 635-654.

Weir, C., Jones, P. and Wright, M. (2007), "Public to private transactions, private equity and performance in the UK: an empirical analysis of the impact of going private", *Journal of Management and Governance*, Vol. 19 No. 1, pp. 91-112.

Wilson, N., Wright, M., Siegel, D. and Scholes, L. (2012), "Private equity portfolio company performance during the global recession", *Journal of Corporate Finance*, Vol. 18 No. 1, pp. 193-205.

Further reading

Jensen, M. and Meckling, W. (1976), "Theory of the firm: managerial behavior agency, cost and ownership structure", *Journal of Financial Economics*, Vol. 3 No. 4, pp. 305-360.

Puche, B., Braun, R. and Achleitner, A.-K. (2015), "International evidence on value creation in private equity transactions", *Journal of Applied Corporate Finance*, Vol. 27 No. 4, pp. 105-122.

Romano, R. (1993), "Public pension fund activism in corporate governance reconsidered", *Columbia Law Review*, Vol. 93 No. 4, pp. 795-853.

Corresponding author

Yulia Ilina can be contacted at: jilina@gsom.pu.ru

Appendix

Table A1. Summary of shareholder activism regulations in selected countries

Country	Min. shareholding disclosure	Source	Calling GSM	Submitting proposals for a GSM	Source
France	5%, within 4 days	The Autorité des marchés financiers. Article L. 233–7 I and II of the Commercial Code	0.5%–5% (based on company's size), 30 days in advance	0.5%–5% (based on company's size), 25 days in advance	The French Commercial Code
Germany	3%,within 4 days	BaFin, Federal Financial Supervisory Authority. Section 21 of the Securities Trading Act	5%, 20 days in advance	5% or 500 thousand Euro in nominal value, 7 days after publication of the general meeting notice	The German Stock Corporation Act
Spain	3%, within 4 days	Ministerio de Economía y Hacienda. Información de participaciones significativas y participación de administradores y directivos	5%, 30 days in advance	5%, 5 days after publication of the general meeting notice	The Spanish Company Law
Switzerland	3%, within 4 days	The Federal Assembly of the Swiss Confederation. Financial Market Infrastructure Act	10%, two notices required, the first is 20 days in advance	1m Swiss francs in market value, at least 60 days in advance	The Swiss Code of Obligations
The Netherlands	3%, at "the moment the agreement becomes effective"	The Netherlands Authority for the Financial Markets (AFM). The Financial Supervision Act, p. 32	10%, 15 days in advance	1% or €50m in market value, at least 60 days in advance	The Dutch Company Law
Italy	2% (5% for SME), within 5 days	CONSOB. Legislative Decree 58/ 1998	5%, 30 days in advance	2.5%, 10 days after publication of the general meeting notice	The Consolidated Law on Finance
Belgium	5%, within 4 days	FSMA. Title II of the law of 2 May 2007 on disclosure of major holdings	3%, 30 days in advance	3%, 22 days in advance	The Belgian Company Code
Austria	4%, within 2 days	Wiener Börse. The Austrian Stock Exchange Act	5%, 14 days in advance	5%, 7 days in advance	The Austrian Stock Corporation Act

Note: GSM, general shareholders meeting