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Hedge Fund Activism in Europe: Market Reactions and Long-Run Performance

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Abstract

Shareholder activism has become a permanent fixture in global capital markets, influencing corporate policies and governance with the aim of enhancing shareholder value. While historically concentrated in the US, activism has gained traction in Europe, with hedge funds playing a dominant role in driving corporate change. Despite its growing prevalence, limited research has explored the impact of hedge fund activism in the European context, particularly compared with the well-documented evidence from the US. This study addresses this gap by examining the short-term and long-term effects of hedge fund activism on stock performance of European firms. The analysis uses a dataset of 342 hedge fund-led activist campaigns in Europe from 2016 to 2022. Short-term market reactions are estimated using a country-specific market model and cumulative average abnormal returns (CAARs) across multiple event windows. To examine whether short-term market reactions vary across different firm and campaign characteristics, subsamples based on firm size, campaign objectives, and regional corporate governance systems are also analyzed. Long-term stock performance is evaluated using value-weighted calendar-time portfolios, with abnormal performance in the first and second post-announcement years estimated using a six-factor model. The results show a 6.97% CAAR over the 41-day event window and a 3.21% CAAR over the three-day window centered on the announcement date. Small-cap firms record the highest abnormal returns, while large-cap firms record the lowest. The British Isles exhibit the largest market reaction, followed by Northern Europe, while Southern Europe shows smaller responses. Campaigns targeting the Sale of Target Company and M&A objectives yield the highest abnormal returns, while governance-related activism results in the lowest returns. In the long run, monthly alphas are small and statistically insignificant in both periods, at −0.94 basis points (bps) in the first post-announcement year and −0.15 bps in the second year.

Keywords

Hedge Funds, Shareholder Activism, Corporate Governance, Institutional Investors

1. Introduction

Shareholder activism, which was once associated with corporate raiders and the market for corporate control in the 1980s (Jensen & Ruback, 1983), has evolved into a well-established investment strategy that aims at influencing corporate policies and governance to maximize shareholder value (Brav et al., 2008b). To date, activist shareholders have managed to restructure boards, change executives, affect mergers and acquisitions, and modify dividend and buyback policies of their target firms. As Morgan (2015: p. 1) stated, "No recent development has influenced firms' strategic and financial decision-making as profoundly as the surge in shareholder activism following the global financial crisis." Shareholder activism has changed over the past decades, driven by different types of investors with various strategic goals, investment horizons, and regulatory constraints. Historically, activism was reactive (or ex-post), where traditional institutional investors (e.g., mutual and pension funds) who prefer passive ownership might turn to activism only after firm underperformance. These investors are constrained by fiduciary responsibilities and long-term investment horizons and so prefer to use private meetings and voting rights rather than direct confrontation. Over the past two decades, hedge funds, by becoming a dominant player in activism, have changed this landscape (Goranova & Ryan, 2014) and introduced a proactive (ex-ante) approach that distinguishes them from traditional institutional investors. The dominance of hedge funds in activism is mainly caused by a combination of regulatory reforms, changes in corporate governance structures, and the increase in institutional ownership, which created a more receptive environment for corporate influence (Brav et al., 2008a; Judge et al., 2010). These funds proactively seek opportunities to create value through corporate influence. They identify listed firms that they believe are undervalued and acquire stakes with the intent to intervene and make changes (Kahan & Rock, 2009). Between 1990 and 2007, the estimated AUM of hedge funds had increased from $39bn to over $1800bn (HFR, 2023). Amid this expansion, the financial crisis of 2008 dealt a blow to activist hedge funds, as their performance lagged behind other hedge fund strategies (Bebchuk et al., 2015). Activist hedge funds were more exposed to market downturns and economic instability due to less hedging activities. Although hedge fund activism declined during the crisis, it resurged in the post-crisis period as financial markets stabilized (Morgan, 2015). This resurgence in hedge fund activism was part of a broader wave of shareholder activism that reshaped corporate governance in the post-crisis era.

Shareholder activism has historically been most prevalent in the US, which accounted for almost all activist campaigns until the 1990s. Since then, shareholder

activism first emerged in the United Kingdom in the 1990s and gradually spread to other European countries in the following years. Europe accounted for an average of 16% of activist campaigns worldwide between 2014 and 2023 (Diligent Market Intelligence, 2024). Although the emergence of activism in Europe was influenced by US-based hedge funds, due to a different corporate governance model, European activists tend to be more cooperative than their American peers. However, they also engage in hostile interventions when necessary (Becht et al., 2017). European firms have more concentrated ownership, which limits the success of aggressive tactics (Croci, 2007). Moreover, European corporate culture emphasizes negotiation and collaboration, which make direct confrontations less common (Croci, 2007). Therefore, unlike the US, where public campaigns and proxy battles are frequently used, European activists often operate behind closed doors (Selzner, 2015). Accordingly, only one-third to half of activist campaigns in Europe go public. As a result, activist activity in Europe is likely underreported to a greater extent in datasets compared to the US (Halbye & Jessen, 2016).

Despite the extensive body of research on shareholder activism, the majority of studies have focused on the US, where activism is more prevalent, and disclosure system is more comprehensive. Therefore, much less is known about the impact of hedge fund activism in Europe. Moreover, existing research has primarily concentrated on short-term market reactions to activism announcement, while the long-term effects on stock performance remain less explored. This gap in the literature has led to an incomplete understanding of whether activist hedge funds can generate similar stock returns in European targets and whether their impact remains over long run. This study addresses this gap by analyzing hedge fund activism in Europe, focusing on its short-term and long-term effects on stock performance. Therefore, the main question of this study is "do activist investors in Europe generate short-term abnormal returns, and if so, do these gains remain in the long run without reversing?" While the primary research question examines both short-term and long-term abnormal returns, this study also investigates factors that may influence short-term market reactions to activist campaigns. In particular, it explores how target firm size, campaign objectives, and corporate governance differences across European nations relate to short-term abnormal returns. To do so, this research employs an event study using a dataset of 342 hedge fund-led campaigns between 2016 and 2022. Short-term market reactions are assessed by measuring CAARs within multiple event windows surrounding the public disclosure date of activist campaigns, while long-term impact is evaluated using value-weighted calendar-time portfolios. To estimate long-term abnormal returns, the constructed portfolios are regressed against 6 factors to control for systematic risks. Additionally, by creating sub-samples, this study looks at three characteristics, including target market capitalization, target nationality, and campaign objectives, to see whether these differences affect how the share prices react when the campaign is announced.

The remainder of the paper is organized as follows. Section 2 reviews the theo-

retical and empirical literature on hedge fund activism, with particular attention to agency theory, European corporate governance systems, and evidence on short- and long-term stock performance. Section 3 describes the data, sample construction, and the methodologies used for the short-term event study and long-term calendar-time portfolio analysis. Section 4 presents and discusses the empirical results, including the announcement effects, subgroup analyses, and long-term stock performance. Finally, Section 5 concludes by summarizing the main findings, discussing the study's limitations, and outlining directions for future research.

2. Literature Review

Shareholder activism has become an established feature of the global corporate landscape, with activist investors increasingly influencing firms' strategic and financial decision-making. While extensive research has examined the effects of activism in the US, far less is known about its impact in Europe. Given the differences in corporate governance systems, it remains unclear whether activism in Europe produces similar market outcomes. By synthesizing prior literature, this section aims to establish a clear foundation for the empirical analysis that follows and highlight gaps in the existing research.

2.1. Activism as a Solution to Principal-Agent Problem

The foundation of what would later evolve into principal-agent theory can be traced back to the work of Berle Jr. and Means (1932), who first documented the growing separation between ownership and control in modern corporations. They observed that as businesses expanded and ownership became dispersed among numerous shareholders, control increasingly fell to managers rather than the firm's owners. This introduces a potential divergence in interests, as managers (agents) might not always act in the best interests of shareholders (principals), who legally own the company. Accordingly, Berle and Means identified the risk of managerial opportunism, where executives could prioritize personal benefits over maximizing shareholder value.

Next, the work of Jensen and Meckling (1976) contributed to the development of agency theory by providing a framework to analyze the economic implications of the separation of ownership and control. They introduced the concept of agency costs, which is a consequence of the delegation of decision-making authority from shareholders to managers. These costs arise because managers, as self-interested utility maximizes, may not always make decisions that align with shareholder interests. Instead, they may prioritize other factors, such as job security, empire-building, or personal benefits, leading to inefficiencies that impact shareholder returns (Bhagat & Bolton, 2008).

While internal control mechanisms aim to mitigate agency problem, they often prove insufficient, particularly in case of dispersed ownership that weakens the ability and motivation of a minority shareholder to exert meaningful oversight

(Jensen, 1993; Anson et al., 2003). In other words, a minority shareholder is reluctant to bear the full cost of monitoring when its benefit is proportional to their stake, allowing other shareholders to free ride and benefit without contributing. It is within this gap that shareholder activism emerged in agency theory as an alternative monitoring mechanism that becomes particularly relevant when the external market for corporate control is restricted (Black, 1990; Karpoff, 2001). The logic follows that, by stepping in to address shortcomings in internal monitoring and management accountability, activists seek to reduce agency costs and restore shareholder value (Anson et al., 2003; Briggs, 2007).

The classic agency problem, as identified by Berle Jr. and Means (1932), stems from the separation of ownership and control. However, some studies challenge this traditional view, noting that many public corporations now have significant institutional block holders, which may mitigate agency problem by reuniting ownership and control (Holderness, 2009; Briggs, 2007; Dent Jr., 1989; Gilson & Gordon, 2013). However, while institutional investors, such as mutual funds and pension funds, hold large equity stakes, they may lack the motivation and competence to challenge corporate leaders, because their compensation is often tied to portfolio performance rather than governance interventions (Gilson & Gordon, 2013). This phenomenon, referred to as rational reticence, suggests that while institutional investors have the capacity to influence governance, they generally do not initiate governance changes themselves. Instead, they tend to respond to governance proposals put forth by more proactive activist investors (Gilson & Gordon, 2013). Since conflicts of interest, structural limitations, and legal constraints limit the effectiveness of institutional investor in leading activism (Black, 1998; Gillan & Starks, 2000), they have increasingly supported hedge funds and other types of activists when convinced of the potential for value creation (Rock, 2015). Therefore, institutional investors can facilitate hedge fund activism by voting in their interest (Rock, 2015). This also helps mitigate the collective action problem in dispersed ownership structures. The ability of hedge funds to persuade institutional investors to back their initiatives further reinforces their role in the market for corporate influence, bridging the gap between passive shareholders and managerial control.

Hedge funds operate under a business model that is suitable for activism. They have fewer conflicts of interest and are more willing to challenge management when necessary. Their compensation structure provides stronger incentives to push for changes that unlock shareholder value (Halbye & Jessen, 2016; Brav et al., 2022). Most hedge funds follow a two and twenty compensation scheme, where they charge a 2% management fee, and a 20% performance fee based on investment gains. Hence, their business model naturally incentivizes them to monitor companies more closely, as their returns are directly tied to performance improvements in target firms (Krishnan et al., 2015). Another factor that enables hedge funds to outperform other activists is their regulatory advantages. For instance, the absence of legal diversification mandates allows hedge funds to invest in a

small number of high-potential targets, ensuring they have enough resources to better perform active ownership (Brav et al., 2022). Having a concentrated portfolio means hedge funds have a strong financial stake in the success of their activist campaigns, so that their willingness to engage in prolonged discussions and/or battles with management increases. On the other hand, mutual and pension funds are subject to portfolio diversification requirements that limit exposure to any single firm. Moreover, hedge funds can lock in investor capital for extended periods, ensuring that they have the time and stability needed to implement activist strategies (Clifford, 2008). Regulatory advantages also allow hedge funds to use financial leverage and derivatives. They can borrow capital or use options and swaps to amplify their stakes in target companies. Therefore, they can increase their influence on corporate decisions without committing excessive capital.

2.2. Regional Variations in European Corporate Governance System

While shareholder activism has traditionally been associated with the US, the European market has also embraced this phenomenon, albeit with regional differences in effectiveness and acceptance. The legal traditions that underpin corporate governance systems determine how easily shareholders can influence corporate decisions, the level of protection offered to minority shareholders, and the corporate ownership concentration. Corporate governance in Europe is not a single uniform model but rather a collection of varied systems shaped by local cultural, legal, and economic factors. However, there are two broad classifications, including the Anglo-American model, which follows common law and operates under Market-oriented governance, and the Continental European model, which follows civil law and is more control-based (Bebchuk & Roe, 1999; Judge et al., 2010).

The first model, which applies to the British Isles and the US, is distinguished by the presence of many publicly traded companies and large stock market cap compared to GDP. Additionally, ownership concentration is relatively low, with numerous individual and institutional investors holding minority stakes in companies. As a result, governance mechanisms are better designed to maximize shareholder value and provide minority shareholders with sufficient rights to influence corporate decision-making (Faccio & Lang, 2002). Therefore, these markets have been historically more receptive to shareholder activism, as the corporate governance structure naturally encourages active ownership. In contrast, Continental European model is characterized by more concentrated ownership in the hands of large block holders, including families, unions, foundations, and state (Bessler et al., 2015). Legal frameworks in these countries, based on civil law, emphasize state regulation and codified rules, making corporate governance more stable but sometimes less flexible in resolving business disputes. Since countries within Europe exhibit variation in terms of legal framework, economic development, ownership mixture, and shareholder rights, it is hard to consider the region as a single, unified entity. Therefore, a detailed examination would ideally focus

on individual nations, as each has its own distinct framework. However, two more regions along with the British Isles can be identified for our analysis. These two include Southern Europe (Italy, France, Spain, Portugal, and Greece) and Northern Europe (Germany, Switzerland, Austria, Netherlands, Belgium, and Nordic countries).

The British Isles have a distinct position within the European corporate governance landscape, largely due to their structural resemblance to the US system. This similarity is rooted in the region's reliance on Anglo-American common law, which fosters a corporate governance environment that prioritizes investor protection (Porta et al., 1998). Since the responsibility to monitor corporate management is diffused over a large number of minority shareholders, the governance system ensures that they are granted sufficient rights to influence corporate decisions. Additionally, the presence of a vibrant stock market with diffused ownership and one share-one vote rule makes active ownership more realizable (Halbye & Jessen, 2016). Unlike the rest of Europe, where major stakeholders often hold board positions, UK boards are shareholder-centric, giving external investors more say in corporate governance. In the UK, shareholders have greater control over the selection of board members since a majority vote is required to elect or remove them, whereas in the US, the highest vote requirement makes it easier for management to retain their preferred directors, even with limited shareholder support (Becht et al., 2009). Moreover, activists can put forward board nominees with a relatively small ownership stake, whereas activists in the US must navigate expensive proxy battles or satisfy strict ownership requirements for nomination (Filatotchev & Dotsenko, 2015). Overall, some researchers view the UK's corporate governance environment as the most activist-friendly worldwide (Black, 1998; Becht et al., 2009).

Northern Europe follows a civil law tradition (German and Scandinavian) that emphasizes stakeholder-oriented governance rather than purely shareholder-driven one. Therefore, countries in this region prioritize long-term stability and stakeholder interests over short-term shareholder value maximization. Corporate governance here is well-established, with clear legal frameworks ensuring management monitoring. However, these frameworks also create barriers to rapid shareholder-driven interventions, making activism more complex compared to Anglo-American markets. Ownership concentration is typically higher, with families, foundations, and labor unions exerting significant influence over corporate affairs. Despite these differences, minority investor protection is stronger than in Southern Europe (Porta et al., 1998), as robust regulatory frameworks safeguard investor rights and ensure fair treatment of shareholders, even if activism is less encouraged than in the UK or the US.

Southern Europe, characterized by the dominance of the French civil law tradition, presents the least favorable environments for shareholder activism due to high ownership concentration, relatively weaker investor protections, and regulatory constraints (Porta et al., 1998; Raja & Kostyuk, 2015). In this region, family

firms, cross-shareholding arrangements, and pyramidal structures allow dominant shareholders to control corporate affairs, which limits the influence of minority shareholders (Cziraki et al., 2010; Enriques & Volpin, 2007; Erede, 2013). The legal framework does not prioritize shareholder value to the extent seen in the other two regions, making activism less attractive and often less effective. Activists typically face more resistance in this region, where corporate management, controlling shareholders or governments employ defensive mechanisms to limit external influence (Girard & Gates, 2014). In 2014, the introduction of loyalty shares in both Italian and French companies granted more voting power to long-term shareholders. Moreover, in 2020, some governments in Southern Europe introduced protective measures to shield domestic companies from activist pressure. For example, France took an aggressive stance by expanding state-backed investment funds to counteract activist influence (Morgan, 2020). Due to these entrenched governance structures, shareholder activism in Southern Europe tends to focus more on negotiation and private engagements rather than public campaigns or proxy battles (Selzner, 2015).

2.3. Empirical Findings

The effectiveness of shareholder activism has been a subject of ongoing empirical debate, with extensive research yet little consensus on what constitutes effectiveness. This arises from dissimilarities in its definitions and varying emphases on outcome metrics (Denes et al., 2017). Some studies rely on abnormal returns, while others focus on accounting measures, changes in corporate management or operations, or the successful execution of activist demands. Each of these measures provides a different perspective, which leads to different conclusions on whether shareholder activism is effective. Moreover, differences in research methodology, sample selection, and studied time period add more complexity to the debate.

Given the focus of this study, stock performance will serve as the main subject of the following empirical review. Specifically, this section will examine prior research on targeted firms' ability to generate abnormal returns, assessing both short- and long-term studies. Additionally, the section will identify potential relationships between results and factors like form of activism and studied time period. This will provide a thorough understanding of the empirical landscape, identifying key patterns and variations in activism's impact on firm performance.

2.3.1. Short-Term Studies

Shareholder activism may affect share values in the short term through market expectations, and influence both market and operational performances in the long term through actual changes and outcomes (Gillan & Starks, 2000). When an activist campaign is publicly announced, the immediate effect on share values stems from how investors perceive the new information and the expectations it creates. According to the efficient market hypothesis, share values adjust quickly to incorporate all new information and consequent expectations (Fama, 1970). More spe-

cifically, the market reacts based on both the potential benefits and risks associated with the intervention. If the market perceives the campaign as likely to drive value creation, the share value may increase in response. However, the same announcement may suggest that management has been uncooperative or resistant to change in private negotiations with activist, which can be interpreted as a signal of underlying weaknesses within the company that were previously unnoticed, leading to a negative market reaction. The trade-off between these two effects characterizes the short-term impact of activism. The extent to which the market leans toward one interpretation over the other depends on factors such as the target characteristics, the activist's track record, the activist's share ownership, and the specific demands being made (Brav et al., 2022; Krishnan et al., 2015; Denes et al., 2017; Klein & Zur, 2009).

To analyze short-term market reactions, one should first choose an event type that determines the starting point for activist involvement. The main event types examined in the literature include regulatory filings, shareholder proposals, press releases, proxy fights, and negotiated settlements or non-proposal pressure. In the US, a Schedule 13D filing is a regulatory disclosure that occurs when an investor accumulates above 5% of a firm's shares and intends to influence corporate decisions. This event serves as an initial public declaration of activist intent and is a key focus of activism research (Brav et al., 2022; Greenwood & Schor, 2009; Clifford, 2008). Shareholder proposals represent a formal mechanism through which investors can suggest governance, financial, or strategic changes to be voted on during shareholder meetings. This type of event is also frequently used in prior studies (Karpoff et al., 1996; Wahal, 1996; Filatotchev & Dotsenko, 2015). In some cases, one of the parties (activist or target) may issue a public release to announce the campaign, making the activist's intentions visible to the broader market (Bebchuk et al., 2015; Becht et al., 2010; Becht et al., 2017). The use of proxy fights, where activists seek to replace members of the board with preferred candidates, can be seen in the work of Alexander et al. (2010). Among the different approaches to shareholder activism, private engagements, such as negotiated settlements or non-proposal pressure, play a significant role, as many campaigns do not become public. These engagements are less frequently observed in previous studies, as they often occur behind closed doors and lack formal disclosures. However, some studies incorporate non-public activism through indirect methods, such as analyzing confidential datasets. Becht et al. (2009) provide a rare examination of this form of activism by analyzing confidential records from the Hermes UK Focus Fund (HUKFF).

Table 1 summarizes empirical research on the short-term market impact of hedge fund activism by listing key studies. It is evident that the majority of prior studies focused on the US. This may be the result of structural conditions that make activism more visible and measurable in the US market. Activist investors with above 5% of shares in the target company must file a Schedule 13D with the SEC, disclosing their stake and intentions. No equivalent, comprehensive disclo-

sure system exists elsewhere (Becht et al., 2017). While other countries may have disclosure requirements, they vary in timing and ownership thresholds, and the specific intentions of activists may not always be clearly stated. Also, when considering multiple countries, data fragmentation is a major challenge. Therefore, researchers examining activism in Europe and Asia must piece together information from corporate filings, news reports, and fund disclosures (Becht et al., 2017). The reliance on multiple, often inconsistent sources increases the risk of incomplete or biased datasets. Additionally, a concentrated ownership structure reduces activism visibility (Becht et al., 2017). In these cases, activists frequently engage behind closed doors, which limits the observable data available to researchers (Halbye & Jessen, 2016).

Table 1. Characteristics and findings of short-term studies.

Author(s)	Location	Sample Size	Period	Activist Type	Alpha Measure	Model	Abnormal Return
Greenwood & Schor (2009)	US	980	1993-2006	Hedge funds	CAR	FF - 3	Positive
Boyson & Mooradian (2011)	US	418	1994-2005	Hedge funds	CAR	Market model	Positive
Brav et al. (2022)	US	4657	1994-2018	Hedge funds	BHAR	Market model	Positive
Clifford (2008)	US	197	1998-2005	Hedge funds	CAR	Market model	Positive
Becht et al. (2010)	Europe	305	2000-2008	Hedge funds	CAR	Market model	Positive
Becht et al. (2017)	Global	1740	2000-2010	Hedge funds	CAR	Market model	Positive
Klein & Zur (2009)	US	1003	2003-2005	Hedge funds	BHAR	Market model, FF - 3	Positive
Krishnan et al. (2015)	US	1262	2008-2014	Hedge funds	CAR	Market model	Positive

The studies covering earlier periods (1980s-1990s) tend to show insignificant or even negative abnormal returns (Wahal, 1996; Karpoff et al., 1996; Carleton et al., 1998; Gillan & Starks, 2000), while those from the 2000s onward more frequently report positive outcomes. Additionally, there is a notable divide in results based on activist type. While hedge funds consistently generate positive abnormal returns, pension funds and multi-activist studies show mixed results. Denes et al. (2017) provide further support for these trends, showing that activism has become more frequently associated with value creation, and that the emergence of hedge fund activism represents continuous efforts by entrepreneurial activists to improve their tactics in monitoring and engaging with corporate managers.

Brav et al. (2022) provide one of the most extensive analyses of hedge fund activism in the US. They examined the short-term market reaction to hedge fund activism, using an event window of (−20, +20) surrounding the 13D filing date. The study reports a statistically significant CAR of 4.8%. Their analysis also computes abnormal returns for different campaign objectives. They find that objec-

tives targeting the sale of target company and business strategy generate the highest average CAR with 6.6% and 6.2%, respectively. Moreover, they find that small caps get higher abnormal returns. Additionally, hostile engagements generate stronger market reactions, with close to 4% higher returns on average.

Becht et al. (2017) conduct an international study on hedge fund activism, analyzing 1740 interventions across 23 nations during the 2000s. Similarly, they employed a (−20, +20) event window around the disclosure of activist engagements to measure abnormal returns. The study reports a CAR of 6.4% across all countries, with regional variations. The US exhibits the highest announcement effect at 7.0%, followed by Asia at 6.4% and Europe at 4.8%. Before expanding their research globally, Becht et al. (2010) focused specifically on hedge fund activism within Europe, analyzing 362 public and private campaigns during 2000-2008. Using the same (−20, +20) event window, they report significant positive alphas for both types of campaigns. Similarly, they found that hostile interventions yield higher returns than non-hostile ones. Moreover, this study suggests that country-level legal differences do not significantly influence abnormal returns in Europe. Instead, activism outcomes appear to be shaped more by firm-specific characteristics, the activist's objectives and track record, and the level of engagement intensity rather than by differences in regulatory environments.

2.3.2. Long-Term Studies

A central debate in shareholder activism revolves around the issue of short-termism, meaning that activist investors prioritize immediate stock price gains at the expense of both long-term market and operational performance. Critics argue that activists, particularly hedge funds, pressure firms into making decisions that provide an immediate boost to share prices but potentially undermine long-term value creation (Bratton & Wachter 2010; George & Lorsch, 2014). However, some scholars confirm the long-term benefits of activism. Studies such as Bebchuk et al. (2015) contend that activists are ultimately aligned with shareholder value maximization, which inherently incorporates long-term considerations. Research by Brav et al. (2022) found that activist hedge funds had a relatively positive impact on firms' fundamentals compared to non-targeted firms in the years following their intervention. This suggests that activism, when exercised effectively, need not be at odds with long-term corporate health but can instead serve as a catalyst for sustainable business growth. Overall, a key concern is still whether a positive announcement reaction (if any) reflects genuine long-term value creation or merely a temporary boost driven by market overreaction or financial engineering by activist (e.g., buybacks, increased dividends, or increased leverage).

Table 2 summarizes empirical research on the long-term market impact of hedge fund activism by listing key studies. While short-term studies on hedge fund activism are abundant, long-term studies remain relatively scarce. Additionally, the US studies span from 1993 to 2018, providing the most up-to-date insights into the long-term effects of hedge fund activism. However, the European

study (Becht et al., 2010) covers an earlier period from 2000 to 2008, and the global study (Becht et al., 2017) extends from 2000 to 2010. The lack of updated research beyond 2010 for non-US firms makes it difficult to generalize the long-term effects of activism across different regulatory environments and corporate governance systems. Therefore, it is critical to base conclusions on the most recent and comprehensive analyses. Despite these limitations, these studies do not support the hypothesis that activist-driven stock price increases are short-lived and reverse over time. Instead, activism appears to sustain at least neutral, if not positive, long-term market performance.

Table 2. Characteristics and findings of long-term studies.

Author(s)	Location	Sample Size	Period	Activist Type	Alpha Measure	Model	Abnormal Return
Greenwood & Schor (2009)	US	980	1993-2006	Hedge funds	CAR	FF - 3	Positive
Brav et al. (2022)	US	4657	1994-2018	Hedge funds	CTP	FF - 5 & Carhart	Insignificant
Clifford (2008)	US	197	1998-2005	Hedge funds	CTP	FF - 3 & 4 & Carhart	Insignificant
Becht et al. (2010)	Europe	305	2000-2008	Hedge funds	BHAR	Market model	Positive
Becht et al. (2017)	Global	1740	2000-2010	Hedge funds	CTP	FF - 3 & Carhart	Insignificant
Klein & Zur (2009)	US	1003	2003-2005	Hedge funds	BHAR	FF portfolios	Positive

3. Data and Methodology

3.1. Data and Sample Construction

Empirical studies on shareholder activism have frequently used regulatory filings, such as Schedule 13D in the US and corresponding regulatory disclosures in other jurisdictions, as a key source of activist campaign data. These filings require investors to disclose their positions once their ownership surpasses a predefined threshold, typically ranging from 3% to 5%, depending on the country (ESMA, 2022). In larger targets, accumulating even a 3% stake can be costly or unnecessary if activists can pursue their goals with a smaller shareholding. Therefore, relying solely on regulatory filings may lead to underreporting the campaigns. This may lead to potential sample selection bias. To address this limitation, this study uses Bloomberg's global activism database as the primary source for campaigns data. Bloomberg aggregates information from media reports, regulatory filings, and press releases (Kommel & Verma, 2021). Activist campaigns targeting European firms between 01/01/2016 and 31/12/2022 were extracted. A total of 588 activist campaigns were found along with key details such as campaign main objective, start date, and end date (where available). Bloomberg's campaign start date was manually verified against public sources, including company and activist disclosures, news reports, and regulatory filings. The event date was defined as the first

public disclosure that a given hedge fund intended to influence the target company, rather than the first disclosure of share ownership alone.

Since hedge fund activism is the focus of this study, manual filtering was done by reviewing news articles, fund websites, investment strategy descriptions, and regulatory filings. This ensured that only activists operating as hedge funds were included in the analysis. After that, 384 campaigns were identified as being led by 137 unique hedge fund activists. Given that a company can be targeted by multiple hedge funds within a short period, campaigns occurring less than one month apart were consolidated into a single event. When multiple campaigns were merged, the earliest verified public disclosure of activist intent among the combined campaigns was retained as the event date. In 58 campaigns involving 25 target firms, two to three hedge funds acted in coordination (i.e., wolf pack activism). Specifically, 17 firms were targeted by two hedge funds, while 8 firms were targeted by three within a short period. As a result, 15% of the initially collected campaigns by hedge funds were classified as wolf pack activism, a figure comparable to the 17% reported in Becht et al. (2017) for Europe. This adjustment led to the removal of 33 campaigns, reducing the dataset to 351 unique events. Furthermore, four campaigns were excluded because the target firms delisted within the first month of the activist campaign, which made it impossible to analyze their post-activism stock performance. Finally, after retrieving share price data for the targeted firms from Bloomberg, a few additional campaigns were removed due to incomplete data. Following this filtering process, the final dataset includes 342 hedge fund activist campaigns for long-term analysis and 341 for short-term analysis.

The country distribution of campaigns indicates that the UK accounts for 41% of the total campaigns. Similarly, Becht et al. (2017) reported that 43% of European campaigns occurred in the UK during 2000s. In Northern Europe, Germany (48 campaigns) has the highest number of campaigns, followed by Switzerland (28), the Netherlands (19), and Sweden (18). However, Southern Europe, including France (30), Italy (19), and Spain (11), saw less activist activity. The sector distribution of campaigns shows that Industrials, Financials, and Consumer Discretionary were the most frequently targeted sectors, accounting for nearly half of all campaigns in the sample of this study. Although the Utilities and Energy sectors recorded the lowest number of campaigns, the presence of activism in every sector indicates that no sector is entirely resistant to hedge fund interventions. The yearly distribution of campaigns shows that the number of campaigns increased from 32 (2016) to 55 (2017). Then, it remained relatively stable through 2018-2021, with peaks in 2020 (59). The decline in hedge fund activism in 2022 (37) is largely attributed to the slowdown of M&A activity, which has been a major driver of activist campaigns in Europe. Additionally, macroeconomic challenges such as high inflation and rising interest rates, and geopolitical instability have made activism more difficult and, in some cases, less appealing in the region.

Table 3. Hedge funds' capital commitment and investment horizon in Europe 2016-2022.

Parameters	Initial Ownership (%)	Initial Invested Capital (in million €)	Holding Period (Days)
5th	0.4	2.7	37
25th	2.2	28.2	206
Median	5	70.9	388
75th	8.0	262.4	666
95th	18.1	1,192.4	1332
Mean	6.3	270.8	491
N	322	322	283

Table 3 presents descriptive statistics for activists' initial ownership stakes, invested capital, and holding periods. The median initial ownership stake is 5%, with an average of 6.3%, indicating that hedge fund activists generally hold minority positions in their target firms. These figures are close to the European evidence reported by Becht et al. (2010), who find a median stake of 5% and an average of 6.1%, while prior US studies report somewhat higher average initial stakes of 8.8% - 9.8% (Boyson & Mooradian, 2011; Brav et al., 2022; Greenwood & Schor, 2009). Initial invested capital shows substantial variation, with a median of €70.9 million and a mean of €270.8 million, suggesting a right-skewed distribution driven by a smaller number of large investments. The median holding period is 388 days, while the mean is 491 days. The latter is broadly comparable to the average holding period of 532 days reported by Brav et al. (2022) for US hedge fund activism. Holding-period statistics are available for 283 campaigns with observed exit dates, compared with 322 observations for ownership stakes and invested capital.

3.2. Sub-Samples for Short-Term Analysis

Not all activist campaigns are the same, and their short-term market impact may depend on several characteristics of the target firm and the campaign itself. To examine this heterogeneity, the sample is divided according to three dimensions: target firm size, the corporate governance environment of the target country, and campaign objectives. These sub-samples allow the analysis to examine whether the announcement effect of hedge fund activism differs across firms and campaigns with different characteristics. The subgroup comparisons are descriptive. The analysis evaluates abnormal returns within each subgroup but does not directly test whether the differences between subgroups are statistically significant. In addition, the comparisons do not control for differences in firm and campaign characteristics across groups. Accordingly, the observed rankings should not be interpreted as evidence of causal effects of firm size, campaign objectives, or regional corporate governance systems.

Firm size may influence the magnitude of the market reaction to an activist campaign. Smaller firms may require less capital for an activist to acquire a mean-

ingful ownership stake and may provide greater opportunities for the activist to influence corporate decisions. In contrast, intervention in large firms generally requires greater financial resources, and the activist may have less influence relative to the overall size and ownership structure of the target. To examine whether market reactions differ according to target size, firms are ranked by market capitalization and divided into three approximately equal groups: small-cap firms with market capitalization between €11 million and €836 million (114 firms), mid-cap firms between €836 million and €5.59 billion (114 firms), and large-cap firms between €5.59 billion and €262 billion (113 firms). The abnormal returns of these three groups are examined separately to identify whether the announcement effect varies with target firm size.

European corporate governance systems differ considerably in terms of ownership concentration, investor protection, legal traditions, and the ability of minority shareholders to influence corporate decisions. As discussed in Section 2.2, these differences may affect both the ability of hedge fund activists to intervene and investors' expectations regarding the potential outcome of an activist campaign. Accordingly, the sample is divided into three regional groups: British Isles (142 campaigns), Northern Europe (135 campaigns), and Southern Europe (64 campaigns).

Activist hedge funds may pursue different objectives, and the nature of their demands can affect investors' expectations regarding potential value creation. The classification used in this study groups campaign objectives into three broad areas: Governance-related, Finance-related, and Business-related objectives. An activist campaign may focus on a single objective or pursue several objectives simultaneously; therefore, the objective categories are not mutually exclusive.

Governance-related objectives include demands concerning the board of directors, management, shareholder rights, transparency, and executive remuneration. Finance-related objectives concern financial policies and transactions that activists believe can increase shareholder value. In this study, these objectives are separated into three sub-groups: Mergers and Acquisitions, Capital Structure, and Sale of Target Company. M&A objectives may involve supporting, opposing, or seeking changes to proposed transactions. Capital structure objectives can include demands for higher dividends, share repurchases, changes in leverage, or recapitalization. Sale of Target Company objectives involve campaigns in which activists seek the sale of the company or significant assets to a third party. Business Strategy objectives focus on changes to the firm's operations or strategic direction. These may include operational improvements, cost reductions, greater concentration on core businesses, divestitures or spin-offs, expansion into new markets, investment in growth opportunities, or broader strategic reviews. Accordingly, five objective sub-samples are examined in the short-term analysis: Governance, M&A, Capital Structure, Sale of Target Company, and Business Strategy.

3.3. Short-Term Study Process

This study employs an event study methodology to analyze the impact of hedge fund

activism on the share values of target firms. The analysis examines how the public announcement of activism influences stock prices and whether such events generate abnormal short-term returns. Day 0 is defined as the first verified public disclosure of activist intent, as described in Section 3.1. The methodology consists of three main components: (1) event windows, which define the period over which stock price movements are measured; (2) expected returns, which establish a baseline against which actual returns are compared; and (3) abnormal returns, which capture deviations from expected performance that can be attributed to the activism event.

In this study, multiple event windows are used. This way the analysis provides a more comprehensive understanding of all critical aspects of this short-term effect, mitigating the risk of misinterpreting results based on an arbitrarily chosen single window.

The first event windows are [−10; +10] and [−20; +20], which extend ten and twenty trading days before and after the event day. The rationale behind this selection is twofold: first, enhance comparability with major prior studies such as Brav et al. (2022) and Becht et al. (2017), which used similar windows, and second, to capture the different phases of short-term effect. Regarding the latter, longer windows serve two critical purposes. First, they help identify whether stock prices begin to adjust before the disclosure date, which could indicate information leakage and/or activist share accumulation (Klein & Zur, 2009). Second, they allow the study to observe full price reaction after the announcement, capturing potential delayed effects as investors reassess the activist objectives and potential for value creation.

In addition to these longer windows, the [−1; +1] window is used to isolate the immediate reaction to the activism disclosure. Since it is reasonable to assume semi-strong efficiency for the market, a significant portion of the price adjustment should occur within a very short time frame when news is made public. However, a [−1; +5] window is also included to account for potential market inefficiency or delayed reactions.

The [−20; −1] window is also selected to fully focus on pre-event effect. This is particularly relevant in activism studies because hedge funds often accumulate most of their holdings a few months before disclosure date (Brav et al., 2008a). Additionally, insider information could cause some traders adjust their positions and impact the share values before the event day. Meanwhile, the [0; +20] window is also chosen to fully capture the post-event effect. This window helps identify whether stock prices begin to stabilize after the event day or if volatility persists. While some events trigger an immediate reaction, prices may continue adjusting as investors process new information.

To assess whether hedge fund activism creates abnormal returns in the short term, the next step is to estimate what the firm's share return would have been in the absence of the announcement effect. This is done using a standard market model. Specifically, this approach involves regressing the firm's stock returns against the returns of a stock market index that represents the country in which the firm is listed. Applying a country-specific market model ensures that the esti-

mation reflects relevant economic conditions and investor behaviors for the firm. Next, to ensure that the estimated return from this model is not influenced by price movements related to the announcement effect itself, the study applies a 250-day estimation period before the longest event window [−270; −21]. Equation (1) indicates the market model as follows:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \tag{1}$$

where:

- $R_{i,t}$ the stock return of firm *i* on day *t*,
- α_i is the stock-specific intercept,
- β_i measures the stock's responsiveness to market movements,
- $R_{m,t}$ is the return of the market index on day *t*, and
- $\varepsilon_{i,t}$ is the error term, capturing unexplained variations.

By estimating α_i and β_i using regression analysis over the 250-day pre-event period, stock's expected returns within a given event window can be predicted. This allows for the calculation of abnormal returns by comparing expected returns to actual returns as indicated in Equation (2):

$$AR_{i,t} = R_{i,t} - \left(\alpha_i + \beta_i R_{m,t}\right). \tag{2}$$

where $R_{i,t}$ is the actual return of firm *i* on day *t*, and $\left(\alpha_i + \beta_i R_{m,t}\right)$ represents the expected return based on the market model. Since stock price reactions are analyzed over a given event window, abnormal returns are aggregated using CAR measure, calculated in Equation (3):

$$CAR_i = \sum_{t_1}^{t_2} AR_{i,t}\ . \tag{3}$$

where t_1 and t_2 mark the start and end of the event window. While BHAR is another common measure, CAR is preferred in this study because it avoids compounding effects and is more suitable for short-term analysis. Using CAR also enhances comparability with prior studies, as major studies on hedge fund activism, such as Becht et al. (2017), Clifford (2008), Boyson and Mooradian (2011), Greenwood and Schor (2009), also relied on CAR to measure stock price reactions within event windows.

Since this study analyzes the short-term price reaction to hedge fund activism across multiple firms, it is necessary to aggregate abnormal returns across all firms to obtain a meaningful measure of the overall sample response to activism. The best way to do this is by computing Cumulative Average Abnormal Return (CAAR), which represents the averaged CARs of all firms in the sample (or sub-samples) over each event window.

To assess whether CAAR is statistically different from zero, this study uses the standardized cross-sectional test developed by Boehmer et al. (1991), with the adjustment proposed by Kolari and Pynnönen (2010). The standardized cross-sectional test accounts for event-induced changes in return variance, while the Kolari-Pynnönen adjustment accounts for cross-sectional correlation among abnormal returns that may arise when event dates and event windows overlap. The null

hypothesis is that CAAR is equal to zero, whereas the alternative hypothesis is that CAAR is different from zero. The tests are two-sided, and statistical significance is evaluated at the 1%, 5%, and 10% levels.

3.4. Long-Term Study Process

The short-term event study provides insights into the immediate market reaction to announcement of activism. However, short-term abnormal returns may not always reflect the true impact of activism in the long run, since stock prices can be influenced by overreaction, liquidity constraints, and behavioral biases. Therefore, investors may overestimate the ability of activists to create value, leading to an initial stock price surge that later corrects downward. To determine whether the short-term reaction was genuinely unbiased and driven solely by new information about value creation or destruction, it is necessary to examine the long-term performance. To achieve this, this study employs Calendar-Time Portfolios (CTP) to estimate long-term abnormal returns.

This study examines two distinct time periods following the activism announcement:

- [+1; +12]: The first 12 months after the public disclosure of activism,
- [+13; +24]: The second 12 months following the first period.

Once a company is publicly targeted by a hedge fund activist, it is not immediately included in the long-term analysis. Instead, it is added to the portfolio at the beginning of the first full month after the activism announcement. This delay allows the market to fully process and react to the announcement before the firm is included in the long-term study. Each firm remains in the first portfolio for one year, after which it moves to the second portfolio for the following year. This allows for a separate analysis of the first and second post-activism years.

If a target firm is delisted during the post-announcement holding period, it remains in the portfolio through the delisting month. The return for the delisting month is measured from the preceding month-end price to the terminal value received by shareholders at delisting. Where available, the terminal value is based on the cash or security consideration associated with the delisting; otherwise, the final observed trading price is used. The firm is removed from the portfolio only after the delisting-month return has been incorporated.

Since hedge fund activists target firms of different sizes, the study employs a value-weighted approach. Portfolio weights are recalculated at the beginning of each month using each firm's most recently available market capitalization. Accordingly, a firm's weight changes over time as its market capitalization changes, while the portfolio is also rebalanced to incorporate new firms entering the portfolio and firms exiting because of delisting or reaching the end of the holding period. To maintain statistical reliability, at least five targets are needed for both portfolios in each month.

To ensure comparability across European markets, all stock prices, market capitalizations, and portfolio returns are expressed in euros. Monthly stock returns are

based on adjusted return series, thereby incorporating dividend distributions and other relevant price adjustments. In order to estimate excess returns of these portfolios, the Fama-French 5-Factor Model with an additional momentum factor is used (Fama & French, 2015; Carhart, 1997). Equation (4) shows the regression model:

$$R_{it} - R_{ft} = \alpha + \beta_1 \left(R_{mt} - R_{ft} \right) + \beta_2 SMB_t + \beta_3 HML_t + \beta_4 RMW_t + \beta_5 CMA_t + \beta_6 MOM_t + \epsilon_{it} \quad (4)$$

where the dependent variable represents the excess return of the calendar time portfolio relative to the risk-free rate. The model controls for market, size, value, profitability, investment, and momentum factors. The intercept (α), represents the abnormal return of the portfolio after controlling for these systematic risk factors. The European Fama-French factor returns and the risk-free rate are obtained from Kenneth R. French's Data Library.

4. Results and Discussion

4.1. Short-Term Valuation Effects

The short-term analysis examines 341 events occurring between 2016 and 2022. CAARs are estimated across six event windows for the full sample and the three sets of sub-samples. Figure 1 illustrates the evolution of CAAR over the [−20; +20] event window for the full sample. CAAR begins to rise during the pre-event period, followed by a sharp increase around the event date. The upward movement continues into the post-event period before gradually stabilizing toward the end of the event window.

Table 4 reports CAARs and their statistical significance across the six event windows. The [−20; +20] window produces a CAAR of 6.97%, which is statistically significant at the 1% level. The [−10; +10] window similarly shows a positive and highly significant CAAR of 5.74%. The shorter [−1; +1] window, which captures the immediate reaction around the announcement, reports a CAAR of 3.21%, with day 0 contributing 1.96%. Expanding the immediate window to [−1; +5] increases CAAR slightly to 3.66%, indicating that most of the immediate price adjustment occurs close to the announcement date.

Table 4. Findings for the short-term analysis of the full sample.

Event Windows	CAAR	Median	Adjusted BMP Statistic	*P*-value
[−20; +20]	0.0697***	0.0449	3.502	0.0004
[−10; +10]	0.0574***	0.0336	3.334	0.0008
[−1; +1]	0.0321***	0.0162	5.512	0.0000
[−1; +5]	0.0366***	0.0198	2.848	0.0042
[−20; −1]	0.0292**	0.0139	2.057	0.043
[0; +20]	0.0405*	0.0258	1.861	0.059

Note that ***, **, * shows statistical significance at 1%, 5%, and 10% levels.

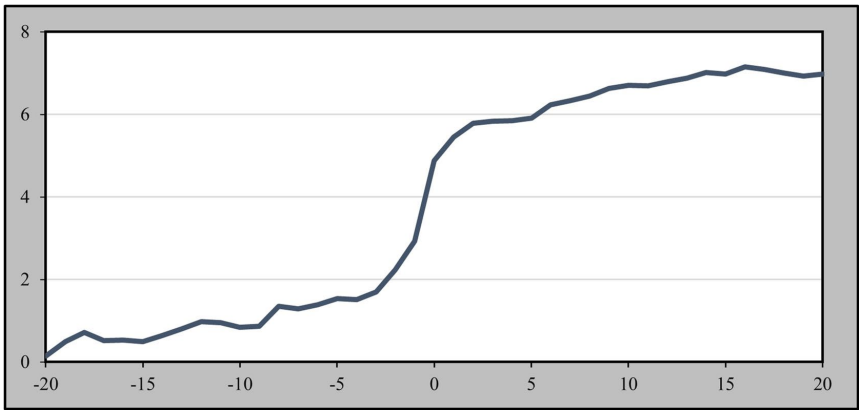


Figure 1. CAAR (%) for the short-term analysis of the full sample.

The timing of abnormal returns provides additional information about the market response. The pre-event window [−20; −1] records a statistically significant CAAR of 2.92%, meaning that approximately 42% of the total [−20; +20] abnormal return occurs before the event date. The post-event window [0; +20] records a positive CAAR of 4.05%, although its statistical significance is weaker than other event windows. The positive pre-event CAAR is consistent with several possible mechanisms, including activist share accumulation or information leakage before the formal announcement. On the one hand, hedge funds often accumulate most of their holdings a few months before disclosure date (Brav et al., 2008a). On the other hand, market makers and some other market participants learn of the presence of an informed blockholder before the official announcement, leading to anticipatory trading and price appreciation ahead of the event day. According to Di Maggio et al. (2019), broker networks have an important role in this information leakage. Specifically, they find that investors who use the same brokers as activist funds often purchase shares in the same target companies shortly before the disclosure date. This suggests that the information spreads through broker networks and not hedge fund activists themselves because they have no incentive to do so (Brav et al., 2022).

Overall, the short-term event study shows a positive market reaction around hedge fund activism announcements in Europe. The strongest statistical evidence occurs close to the event date, with a 3.21% CAAR over [−1; +1]. The positive announcement reaction is consistent with investors assigning value to the expected consequences of activist involvement. These findings are also consistent with previous studies documenting positive announcement effects associated with hedge fund activism, including Brav et al. (2022) and Becht et al. (2010, 2017).

Now a key question remains: Is this price reaction truly unbiased, or does it eventually revert to previous levels? If prices tend to decline in the long run after the initial surge, it could suggest that the market overreacts rather than pricing in actual value creation. In line with this, a central debate on shareholder activism revolves around the issue of short-termism, where activist investors are accused of prioritizing immediate stock price gains at the expense of long-term perfor-

mance. Critics argue that hedge funds often push companies toward financial engineering strategies, such as share buybacks, special dividends, or asset sales, which inflate stock prices in the short term but may leave firms weaker in the long run.

Another concern is the possibility of pump-and-dump behavior, where activists accumulate shares, drive up prices through public campaigns, and then exit their positions at the expense of long-term shareholders (Brav et al., 2022). If hedge fund activism merely triggers a temporary market overreaction, with prices later reverting to prior levels, it would imply that these interventions do not create lasting fundamental value but instead capitalize on short-term market inefficiencies. The next section presents evidence to refute this hypothesis.

Furthermore, the observed abnormal returns may not stem from anticipated value creation by the activist but rather from the perception that hedge funds are skilled stock picker. However, evidence challenges this interpretation. In Europe, investors must disclose shareholdings of 3% - 5% within a maximum of two trading days after surpassing the threshold, similar to the US 13D filing requirement (ESMA, 2022). Meanwhile, in this study's sample, the median activist stake on the announcement date is 5%, with some reaching as high as 18.1% (95th percentile). This means that, in some cases, activists' shareholdings were known in advance of publicly announcing their campaigns. Therefore, if the abnormal returns were solely due to the activist's stock picking, one would expect a more gradual price increase as market participants detected and responded to the accumulation of shares. Instead, the abrupt spike in share prices suggests that the market values the activist's engagement itself rather than merely their investment skill. While the latter may contribute to market reaction, the timing and magnitude of price movements suggest that investors also price in expectations of activist-driven changes.

Although the full-sample results indicate a positive average market reaction, this aggregate effect may conceal important differences across firms and campaigns. The following analyses therefore examine announcement returns across target firm size, corporate governance region, and campaign objectives.

4.1.1. Size Sub-Samples

Target firm size is a key factor that may influence how strongly stock prices react to activist campaigns. As previously outlined, the dataset is divided into terciles based on market capitalization, allowing for a comparison between smaller, mid-sized, and larger firms.

Figure 2 illustrates the CAARs across different firm-size groups over [−20; +20] event window. The line chart reveals a clear ordering in the magnitude of abnormal returns across firm-size groups. Small-cap stocks experience the highest abnormal returns, with CAAR reaching 10%. The stronger price reaction could be driven by the fact that smaller firms are more susceptible to external pressures, either due to lower liquidity, lower institutional ownership, or higher risk premiums (Amihud, 2002; Gompers & Metrick, 2001; Fama & French, 1992). Mid-cap

stocks also show significant abnormal returns, peaking around an average of 7.5% in the post-event period. Large-cap stocks exhibit the lowest reaction, with CAAR stabilizing at around 3.3% few days after the event.

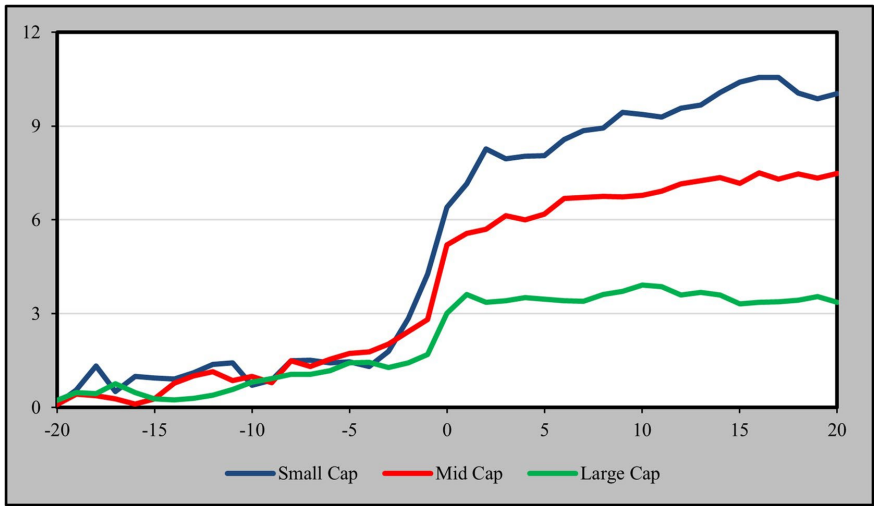


Figure 2. CAARs for the short-term analysis of the size sub-samples.

Table 5 confirms this pattern across the different event windows. Small-cap firms record a [−20; +20] CAAR of 10.03% and an immediate [−1; +1] CAAR of 4.31%, both statistically significant at the 1% level. Mid-cap firms generate corresponding CAARs of 7.49% and 3.14%. Large-cap firms exhibit the lowest abnormal returns, with CAARs of 3.37% over [−20; +20] and 2.18% over [−1; +1]. The magnitude of CAAR therefore declines monotonically from the small-cap to the mid-cap and large-cap sub-samples. This pattern is consistent with previous evidence reported by Brav et al. (2022), who also document larger announcement returns among smaller activist targets.

Table 5. Findings for the short-term analysis of the size sub-samples.

Size	Event Windows	CAAR	Median	Adjusted BMP Statistic	*P*-value
Small Cap	**[−20; +20]**	0.1003***	0.0708	4.646	0.0000
	[−10; +10]	0.0795***	0.0442	4.875	0.0000
	[−1; +1]	0.0431***	0.0213	5.201	0.0000
	[−1; +5]	0.0520***	0.0308	3.601	0.0005
	[−20; −1]	0.0426**	0.0319	2.059	0.0399
	[0; +20]	0.0577**	0.0331	2.613	0.0138
Mid Cap	**[−20; +20]**	0.0749***	0.0449	3.272	0.0014
	[−10; +10]	0.0592***	0.0303	3.300	0.0009
	[−1; +1]	0.0314***	0.0118	4.150	0.0000
	[−1; +5]	0.0376***	0.0178	2.640	0.0095

Continued

	[−20; −1]	0.0281	0.0058	1.565	0.1204
	[0; +20]	0.0468*	0.0239	1.755	0.0821
Large Cap	[−20; +20]	0.0337**	0.0263	1.989	0.0491
	[−10; +10]	0.0335**	0.0239	2.074	0.0401
	[−1; +1]	0.0218**	0.0157	2.454	0.0155
	[−1; +5]	0.0204	0.0190	1.562	0.1198
	[−20; −1]	0.0169	0.0069	0.850	0.3941
	[0; +20]	0.0168	0.0237	0.771	0.4406

Note that ***, **, * shows statistical significance at 1%, 5%, and 10% levels.

4.1.2. Corporate Governance System Sub-Samples

Table 6 and Figure 3 compare announcement returns across the British Isles, Northern Europe, and Southern Europe. The British Isles exhibit the largest [−20; +20] CAAR at approximately 7.7%, followed closely by Northern Europe at approximately 7.2%. Southern Europe exhibits a smaller market reaction of approximately 4.7%.

Table 6. Findings for the short-term analysis of the regional sub-samples.

Region	Event Windows	CAAR	Median	Adjusted BMP Statistic	*P*-value
The British Isles	[−20; +20]	0.0774***	0.0520	3.578	0.0005
	[−10; +10]	0.0712***	0.0440	3.711	0.0003
	[−1; +1]	0.0386***	0.0162	4.727	0.0000
	[−1; +5]	0.0450***	0.0191	3.224	0.0014
	[−20; −1]	0.0327*	0.0198	1.781	0.0701
	[0; +20]	0.0447**	0.0250	2.245	0.0329
Northern Europe	[−20; +20]	0.0724***	0.0457	3.545	0.0006
	[−10; +10]	0.0557***	0.0303	3.230	0.0017
	[−1; +1]	0.0333***	0.0192	3.970	0.0001
	[−1; +5]	0.0383***	0.0289	2.904	0.0045
	[−20; −1]	0.0233	0.0084	1.170	0.2452
	[0; +20]	0.0491**	0.0371	2.178	0.0387
Southern Europe	[−20; +20]	0.0472*	0.0296	1.987	0.0522
	[−10; +10]	0.0308*	0.0159	1.801	0.0764
	[−1; +1]	0.0153**	0.0077	2.304	0.0241
	[−1; +5]	0.0150	0.0135	1.678	0.1023
	[−20; −1]	0.0341*	0.0101	1.790	0.0804
	[0; +20]	0.0131	0.00445	0.589	0.5742

Note that ***, **, * shows statistical significance at 1%, 5%, and 10% levels.

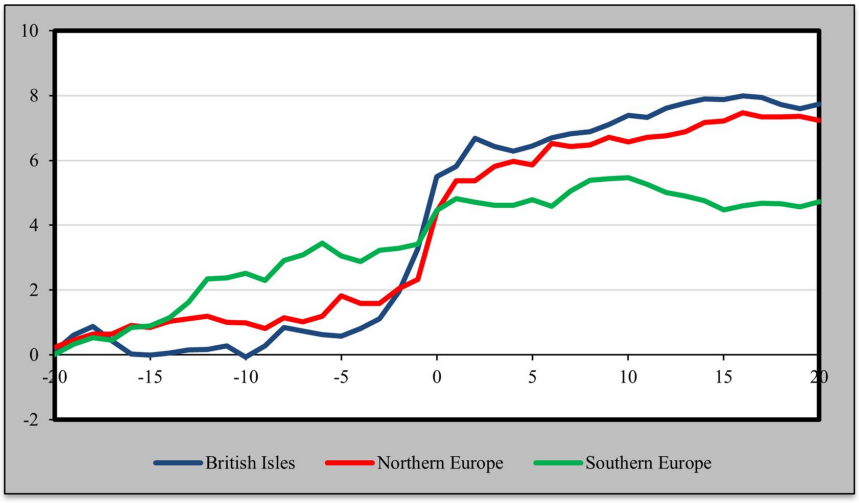


Figure 3. CAARs for the short-term analysis of the regional sub-samples.

In all three regions, CAAR begins increasing before the event date, although the pre-event component is particularly pronounced in Southern Europe. The immediate [−1; +1] CAAR is 3.86% in the British Isles, 3.33% in Northern Europe, and 1.53% in Southern Europe, with all three estimates statistically significant. Differences are also visible in the post-event period. The [0; +20] CAAR is 4.47% in the British Isles and 4.91% in Northern Europe, compared with 1.31% in Southern Europe, where the post-event estimate is statistically insignificant. Southern Europe also records a relatively large pre-event CAAR of 3.41%. These patterns are consistent with the institutional differences discussed in Section 2.2. However, the regional rankings are descriptive. The analysis does not test whether CAARs differ significantly across regions or establish that governance systems cause the observed differences.

4.1.3. Objectives Sub-Samples

Figure 4 and Table 7 compare short-term abnormal returns across campaign objectives. Because individual campaigns can pursue more than one objective, these categories are not mutually exclusive, and the comparisons should be interpreted descriptively. The largest market reactions are observed for campaigns involving the Sale of Target Company and M&A objectives. Over the [−20; +20] window, the Sale of Target Company category generates a CAAR of 12.20%, while M&A campaigns generate a CAAR of 10.80%. The Sale of Target Company category also records the largest immediate reaction, with a [−1; +1] CAAR of 6.02%, compared with 2.98% for M&A campaigns. These categories therefore exhibit the largest positive market reactions among the objective sub-samples. M&A and Sale of Target Company campaigns also show substantial pre-event price movements. The [−20; −1] CAAR reaches 8.41% for M&A and 5.18% for Sale of Target Company. This pattern may reflect investor anticipation of potential transactions, premium buyouts, or improved deal terms. The relatively strong market reaction to Sale of Target Company objectives is consistent with Greenwood and Schor (2009), while

Brav et al. (2008a, 2022) similarly document relatively large abnormal returns for campaigns involving corporate sales and M&A transactions.

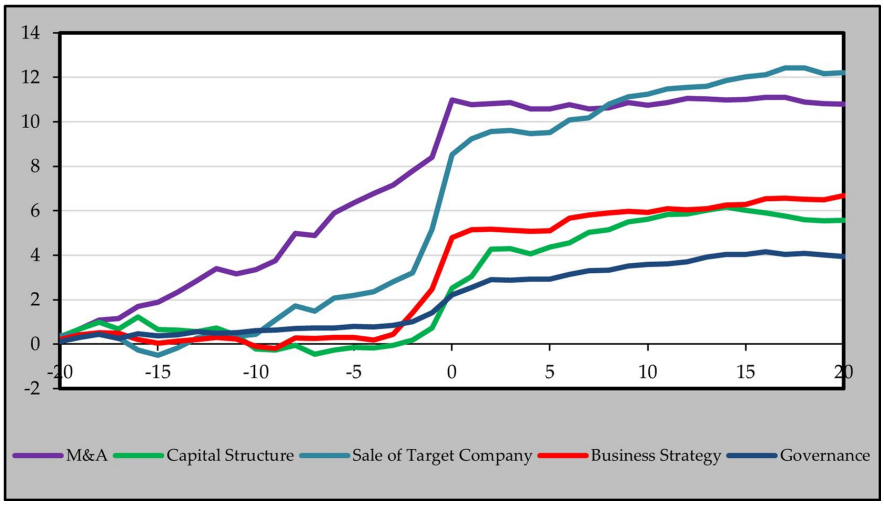


Figure 4. CAARs for the short-term analysis of the objectives sub-samples.

Table 7. Findings for the short-term analysis of the objectives sub-samples.

Objective	Event Windows	CAAR	Median	Adjusted BMP Statistic	*P*-value
Governance	[−20; +20]	0.0395	0.0242	1.604	0.1100
	[−10; +10]	0.0306*	0.0201	1.740	0.0896
	[−1; +1]	0.0152***	0.0135	3.020	0.0044
	[−1; +5]	0.0192*	0.0144	1.901	0.0557
	[−20; −1]	0.0141	0.0103	0.794	0.4229
	[0; +20]	0.0254	0.0196	1.405	0.2023
M&A	[−20; +20]	0.108**	0.0653	2.351	0.0204
	[−10; +10]	0.0758**	0.0462	2.607	0.0107
	[−1; +1]	0.0298***	0.0117	3.654	0.0005
	[−1; +5]	0.0279*	0.0137	1.912	0.0596
	[−20; −1]	0.0841*	0.0595	1.867	0.0658
	[0; +20]	0.0237	0.0215	1.451	0.1502
Capital Structure	[−20; +20]	0.0557**	0.0370	2.178	0.0313
	[−10; +10]	0.0522**	0.0256	2.229	0.0280
	[−1; +1]	0.0285***	0.0166	3.559	0.0007
	[−1; +5]	0.0416**	0.0209	2.504	0.014
	[−20; −1]	0.0072	0.0017	0.486	0.6315
	[0; +20]	0.0485*	0.0340	1.787	0.0793
Sale of Target Company	[−20; +20]	0.1220***	0.1160	3.027	0.0033
	[−10; +10]	0.1090***	0.0681	2.901	0.0045
	[−1; +1]	0.0602***	0.0250	4.027	0.0001

Continued

	[−1; +5]	0.0632**	0.0310	2.687	0.0102
	[−20; −1]	0.0518*	0.0310	1.852	0.0724
	[0; +20]	0.0703**	0.0533	2.063	0.0478
Business Strategy	**[−20; +20]**	0.0669**	0.0458	2.201	0.0296
	[−10; +10]	0.0569**	0.0376	2.183	0.0311
	[−1; +1]	0.0374***	0.0221	3.561	0.0007
	[−1; +5]	0.0369**	0.0244	2.081	0.0442
	[−20; −1]	0.0248	0.0114	1.325	0.1838
	[0; +20]	0.0421*	0.0267	1.785	0.0787

Note that ***, **, * shows statistical significance at 1%, 5%, and 10% levels.

Business Strategy and Capital Structure campaigns generate positive but smaller announcement returns. This indicates that they do not produce the same level of short-term abnormal returns as full-scale corporate transactions. Over the [−20; +20] window, CAAR is 6.69% for Business Strategy and 5.57% for Capital Structure. Both categories exhibit highly significant immediate reactions, with [−1; +1] CAARs of 3.74% and 2.85%, respectively. Their pre-event returns are smaller than those associated with M&A and Sale of Target Company campaigns: the [−20; −1] CAARs are 2.48% for Business Strategy and 0.72% for Capital Structure, and neither is statistically significant. Most of the observed market reaction in these categories therefore occurs around or after the public announcement.

Governance-related campaigns exhibit the smallest market reaction. The [−20; +20] CAAR is 3.95% and statistically insignificant, while the immediate [−1; +1] CAAR is 1.52% and statistically significant. Both the pre-event and post-event CAARs are statistically insignificant. Governance objectives often take time to materialize and may lack an immediate and tangible outcome. Also, some governance campaigns might not focus on financially material objectives. Instead, they might focus on social and environmental sustainability, transparency, executive compensation, factors that, while relevant to corporate health, do not directly alter a company's valuation in the short term. As a result, governance-related activism is perceived as a gradual rather than transformational change, leading to a slower and more muted market response. Findings in the literature on this type of activism are mixed, as the results depend on the specific demands scholars include in this category. Both Becht et al. (2010) and Brav et al. (2008a) find that governance objectives do not cause a meaningful change in stock prices. On the other hand, Boyson and Mooradian (2011) find governance activism to be the most effective, generating the highest abnormal returns.

Overall, the objective-based results show considerable heterogeneity in announcement returns. Campaigns involving corporate transactions, particularly Sale of Target Company and M&A objectives, are associated with the largest CAARs, while Governance campaigns exhibit the smallest market response.

4.2. Long-Term Stock Performance

From short-term analysis, it was found that hedge fund activism generates statistically significant abnormal returns. The immediate stock price surge reflects investor optimism about activist involvement, as markets incorporate expectations of potential value creation. However, this raises a question: Does the market continue to price activism positively, or do stock prices eventually revert, suggesting an initial market overreaction? Markets are not always perfectly efficient. Investors might overestimate the potential of activism. This led to an initial price surge that subsequently corrects downward. If this is the case, one would expect to observe a long-term underperformance in stock prices post-activism, which indicates that the initial surge was an overreaction, rather than a lasting revaluation. To test this hypothesis, the stock performance of activist targets is analyzed using a value-weighted calendar-time portfolio method. To assess whether the initial abnormal returns persist over time, the constructed portfolios are regressed against 6 factors to control for systematic risks. The intercept, α, represents the estimated monthly abnormal return for the constructed portfolios. The regression results are presented in Table 8.

The results show that alpha is statistically insignificant in both post-announcement periods. The estimated monthly abnormal returns are −0.94 bps in the first year and −0.15 bps in the second year. Accordingly, no statistically significant post-announcement abnormal performance is detected in either period. The market factor coefficient (β_{RMRF}) is positive and highly significant in both periods, with values of 0.61 in the first year and 0.62 in the second year. This confirms that the stock returns of activist targets are strongly influenced by overall market movements.

Table 8. Long-term abnormal returns subsequent to hedge fund intervention.

	First Portfolio: [+1;+12]			Second Portfolio: [+13;+24]		
Variables	**Coefficients**	**t-Stat**	***P*-value**	**Coefficients**	**t-Stat**	***P*-value**
α (%)	−0.0094	−0.0269	0.9786	−0.0015	−0.01221	0.9903
β_{RMRF}	0.6082	7.0672	0.0000	0.6198	7.7378	0.0000
β_{SMB}	0.3107	1.3420	0.1831	0.1981	0.9731	0.3332
β_{HML}	0.5100	1.9987	0.0487	0.7341	3.4506	0.0009
β_{RMW}	0.2277	0.7009	0.4853	0.9043	2.9992	0.0035
β_{CMA}	−0.2636	−0.6653	0.5076	0.0014	0.0039	0.9969
β_{MOM}	−0.2608	−1.9711	0.0519	0.0132	0.1034	0.9179
N		94			94	
R^2		0.6733			0.6453	
Adj R^2		0.6508			0.6206	

The size coefficient (β_{SMB}) is not statistically significant in either period. This

means that there is no clear relationship between size factor and post-activism performance. Considering that the portfolios are value-weighted, meaning that larger firms have a greater influence on the portfolio's performance, this could partly explain why the size factor is not significant. Since bigger companies dominate the portfolio, the effects of smaller firms might be diluted, which makes it harder to detect a meaningful size-related impact. If the portfolios were equal-weighted, where all firms had the same influence regardless of market cap, the model might have shown a different outcome for the size coefficient.

The value coefficient (β_{HML}) is positive and significant in both years, which aligns with the fact that hedge funds often target undervalued firms (Brav et al., 2022; Gantchev, 2013). The profitability coefficient (β_{RMW}) shows a noticeable shift between the two periods. In the first year, the coefficient is 0.23 but insignificant. However, in the second year, the coefficient increases to 0.90 and becomes highly significant. This means, in the second year, the expected returns of activist targets are more explained by the profitability factor. This suggests that, over time, these stocks behave more like firms that typically have high profitability characteristics. However, while this shift occurs after activism, the model does not prove that activism caused firms to become more profitable. While activism may play a role, additional analysis of firm-level financial data would be needed to determine whether it directly improves profitability, which is beyond the scope of this study.

The investment coefficient ( ), is not significant in either period. The negative momentum coefficient ( ) in the first period may indicate a slight downward adjustment following the initial stock price increase. However, because the portfolio alpha is statistically insignificant, the analysis does not detect statistically significant abnormal performance at the portfolio level during this period. In the second period, the momentum coefficient is small and statistically insignificant.

The explanatory power of this model is strong in both periods, as indicated by the R^2 values that approximately 64% - 67% of the variation in portfolio returns is explained by the six-factor model. The Adjusted R^2 values further confirm the robustness of the model after adjusting for the number of predictors. The model effectively captures systematic risk factors influencing activist targets' stock returns over time, as evidenced by the statistically insignificant alpha. Overall, the estimated monthly alphas are small and statistically insignificant in both periods. This means that stock prices do not exhibit long-term underperformance after the initial surge. This finding is broadly consistent with previous US-focused studies using calendar-time portfolio approaches, including Brav et al. (2022) and Clifford (2008), which also found that there is no strong evidence of mean reversion.

5. Conclusion

This study provides a comprehensive analysis of hedge fund activism in Europe, beginning with an exploration of its historical evolution and theoretical founda-

tion before transitioning to an empirical examination of its market impact. It traces the development of shareholder activism from early corporate raiders to its modern role as a sophisticated investment strategy employed by hedge funds. Moreover, it highlights the role of shareholder activism in mitigating the principal-agent problem while also examining the regional differences in corporate governance systems in Europe and how they affect shareholder activism.

Despite the extensive body of research on shareholder activism, the majority of studies have focused on the US, where activism is more prevalent, and disclosure system is more comprehensive. Therefore, much less is known about the impact of hedge fund activism in Europe. Moreover, existing research has primarily concentrated on short-term market reactions to activism announcement, while the long-term effects on stock performance remain less explored. This gap in the literature has led to an incomplete understanding of whether activist hedge funds can generate similar stock returns in European targets and whether their impact remains over long run. This study addresses this gap by analyzing hedge fund activism in Europe, focusing on its short-term and long-term effects on stock performance.

To do so, this research employs an event study using a dataset of 342 hedge fund-led campaigns between 2016 and 2022. Short-term market reactions are assessed by measuring CAARs within multiple event windows surrounding the public disclosure date of activist campaigns, while long-term impact is evaluated using value-weighted calendar-time portfolios. To estimate long-term abnormal returns, the constructed portfolios are regressed against 6 factors to control for systematic risks. Additionally, by creating sub-samples, this study looks at three characteristics, including target market capitalization, target nationality, and campaign objectives, to examine whether announcement returns vary across these characteristics.

The short-term event study confirms a positive market reaction to hedge fund activism announcements in Europe, as reflected in the statistically significant CAARs across various event windows. The main event window [−20, +20] records a CAAR of 6.97% and immediate market reaction captured by [−1, +1] window registers a CAAR of 3.21%. Stock prices increase significantly in response to these events, which suggests that the market expects activist involvement to enhance shareholder value. This means that activism is viewed as a catalyst for corporate change, with investors incorporating expectations of potential value creation into stock prices as soon as the activist's intention becomes public, presumably even before any corporate changes are implemented by activists. These findings answer the first part of our main research question while aligning with previous literature, which consistently documents a positive announcement effect from hedge fund activism.

Regarding the sub-samples, the impact of hedge fund activism on short-term reactions was found to be heterogeneous. As for target size, small-cap firms react the strongest across all event windows, with highly significant CAAR values. Mid-

cap firms exhibit positive abnormal returns, but at a lower magnitude than small caps. Their reactions are still statistically significant across most windows. Large-cap firms display the weakest reactions, with CAAR values that are both lower in magnitude and less frequently statistically significant. The event window [−1; +1] shows higher statistical significance for all firm sizes, suggesting that price reactions are most pronounced immediately around the event date.

Regarding the regional sub-samples, the British Isles show the strongest market reaction to activism, with statistically significant CAAR across all event windows. This descriptive ranking is in line with expectations, as the Anglo-American governance model promotes strong shareholder rights, which facilitates minority investor activism and enables them to exert greater influence on corporate decisions. Northern Europe follows closely, with positive abnormal returns, though slightly lower in magnitude and significance. Southern Europe exhibits the weakest response, with most of its abnormal returns occurring before the event day followed by small and insignificant post-event abnormal returns. The [−1; +1] window indicates that immediate reactions are most pronounced in the British Isles (3.86%) and Northern Europe (3.33%), whereas Southern Europe's response (1.53%) is lower in magnitude.

Regarding campaign objectives, M&A and Sale of Target Company generate the strongest market reactions. Over the full event window, M&A (10.8%) and the Sale of Target Company (12.2%) exhibit the highest CAARs, both of which are highly significant. In comparison, business strategy and capital structure objectives generate lower but still substantial returns, with CAARs of 6.7% and 5.6%, respectively, in the [−20; +20] window. Finally, governance-related activism generates the weakest market reaction, with a [−20; +20] CAAR of only 3.95%, which is statistically insignificant.

Following the initial positive market reaction to hedge fund activism, the estimated monthly alphas are statistically insignificant in both post-announcement periods, with values of −0.94 bps in the first year and −0.15 bps in the second year. Accordingly, no statistically significant post-announcement abnormal performance is detected during either period. This finding is particularly relevant in the European context, where evidence on the long-term stock performance of activist targets remains relatively limited. By examining both the immediate announcement effect and the subsequent two-year performance of European targets, this study extends the existing literature by providing recent European evidence on hedge fund activism.

While this study provides new insights into hedge fund activism in Europe, certain limitations should be mentioned, together with potential directions for future research. This study focuses only on publicly disclosed activist campaigns. European shareholder activism often occurs behind closed doors, preferring private negotiation over public confrontation. Specifically, only one-third to half of activist campaigns in Europe go public, and so activist activity is likely underreported in databases. Since more contentious or high-profile campaigns are more likely to

be disclosed, this might lead to selection bias. Future research should explore ways to incorporate private engagements to provide a more accurate picture of hedge fund activism in Europe.

One challenge in assessing the impact of hedge fund activism on market performance is the difficulty of establishing a direct causal link. There is a possibility that observed stock price increases may partly reflect pre-existing conditions rather than activism itself. Moreover, other market-wide factors could influence stock returns around the time of activism announcements. Future research could employ causal inference techniques, such as instrumental variables or difference-in-differences approaches to better isolate the true causal impact of activism. Finally, this study evaluates long-term performance solely through stock returns, which may not fully reflect the real impact of activism on target firms. Future studies could integrate accounting measures of performance to assess whether activist interventions drive operational improvements alongside market performance.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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