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The Product Market Effects of Hedge Fund Activism^{*}

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ABSTRACT

We examine the product market spillover effects of hedge fund activism (HFA) on the industry rivals of target firms. HFA has negative real and stockholder wealth effects on the average rival firm. The effects on rivals' product market performance is commensurate with post-activism improvements in target's productivity, cost and capital allocation efficiency, and product differentiation. Financially constrained rivals accommodate these improvements but those facing high intervention threat respond effectively to them. The spillover effects are strengthened in less concentrated and low entry barrier industries. The results are robust to the alternative hypothesis of strategic target selection by hedge funds.

JEL Classification

G34, L13

Keywords

Hedge fund activism; Product markets; Spillover effects; Market shares; Markups

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