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The Effect of Hedge Fund Activism on Workplace Diversity

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Abstract

The Effect of Hedge Fund Activism on Workplace Diversity

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Prior research on shareholder activism has focused on its positive impact on shareholders' economic benefits, while also acknowledging its adverse effects on stakeholders, particularly employees. This study delves into the influence of shareholder activism, specifically by hedge fund activists, on employee diversity at the managerial level. The findings reveal that firms tend to improve racial diversity in the workplace after becoming targets of hedge fund activism. Additionally, this research examines whether the purpose behind hedge fund activism influences a firm's decision to implement changes in workplace diversity. The results indicate that firms increase racial diversity when hedge fund activism aims to enhance the targeted firm' s performance. However, diversity does not show significant improvements when the purpose of activism is to acquire ownership or control. This study contributes to shareholder activism research by highlighting the impact of hedge fund activism on the racial composition of rank-and-file employees. Moreover, this paper contributes to research on workplace diversity by highlighting the unintended consequences of shareholder activism on diversity and how the perceived threat posed by activists may discourage firms from proactively enhancing diversity.

Keyword : workplace diversity, shareholder activism, performance pressure, threat-rigidity

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Chapter 1. Introduction

The number of hedge fund activists has been on the rise, and these activists wield considerable influence over various corporate decisions (David et al., 2007; Brav et al., 2009; Cheng et al., 2012). Research suggests that hedge fund activism benefits shareholders by enhancing operational performance but can have negative consequences for stakeholders (Clifford, 2008; Brav et al., 2015; Del Guercio et al., 2008; DesJardine & Durand, 2020). Specifically, employees of targeted firms may experience stagnant wages, higher injury rates, and increased turnover (Brav et al., 2015; Chen et al., 2021; Shi et al., 2022). However, the existing literature has primarily focused on the economic impact of hedge fund activism on employees while neglecting its potential implications for workplace diversity.

Examining the impact of hedge fund activism on employee diversity is significant, considering the vital role of human capital within firms (Campbell, Coff, & Kryscynski, 2012). Bias and discrimination based on certain ascriptive characteristics, such as race or gender, can lead to a missed opportunity in fully utilizing a firm's human capital (Siegel et al., 2019). Additionally, workplace diversity serves as an indicator of who is valued within the organization (Crook et al., 2011; Chatain & Meyer-Doyle, 2017). It also signals to potential employees whether they can expect fair treatment in the workplace. If workplace diversity is hindered by hedge fund activism, it may signal bias and discrimination within the firm, potentially demotivating employees and affecting their performance.

Hedge fund activism is recognized as a catalyst for performance pressure within targeted firms. However, research on the effect of performance pressure on diversity has yielded mixed results. Some studies suggest that performance pressure can increase diversity. For instance, Zhang (2019) found that NBA coaches are less likely to discriminate against Black players and give them more playing time when their teams have been consecutively losing and are thus under performance pressure. On the other hand, other studies indicate that when a firm's performance falls below aspiration level, there is a likelihood of decreased ascriptive diversity (Jung et al., 2023). This could be attributed to the fact that during low performance periods, managers may seek individuals they can trust and rely on to act quickly without much coordination. Such individuals are more likely to be their similar counterparts in terms of gender and/or race.

To address these conflicting findings, I introduce a significant contingency: whether firms perceive performance pressure as a threat or an opportunity. Drawing from the threat-rigidity theory, I propose that when senior managers perceive hedge fund activism as a threat to their positions, they are more inclined to prioritize the preservation of existing routines, which can perpetuate inequality. Conversely, I argue that when senior managers view activism as an opportunity to enhance the firm's performance, they are more inclined to implement changes and actively consider employing racial minorities in the managerial level. To investigate this mechanism, I focus on the firm's decision-making process regarding the employment of racial minorities in managerial positions.

Using a difference-in-differences (DID) approach, we conducted a comparison between the change in the racial composition of employees at the managerial level in firms targeted by hedge fund activists (i.e., treatment firms) and a matched sample of firms not targeted by hedge fund activists (i.e., control firms). The findings indicate that following the announcement of hedge fund activism, targeted firms experience a 2.27% increase in Black managers compared to the control firms. To investigate whether this increase in Black managers resulted from a decrease in the representation of other minority groups, such as Asian or Hispanic individuals, in managerial positions, I performed further tests. The results show that the increase in Black managers is primarily attributed to a 2.15% decrease in the number of White managers following the activism.

Additionally, I document that the increase in racial diversity after hedge fund activism is particularly concentrated in cases where the purpose of the activisms is to dispute or address concerns over the targeted firm's performance. Notably, such effects on racial composition are not observed in cases where the activism's purpose is to seek control over the firm, which is likely perceived as a threat by the senior management.

This study aims to contribute to the existing research on shareholder activism by investigating the influence of hedge fund activism on workplace diversity, specifically focusing on an increase in the representation of racial minorities in the workforce. We posit that the pressure imposed by hedge fund activists to enhance performance may prompt managers to mitigate their racial bias and actively seek changes by appointing racial minorities to managerial positions. Furthermore, we hypothesize that the impact of hedge fund activism on workplace diversity will be less pronounced if the targeted firm perceives activism as a threat. This can be attributed to the threat-rigidity theory, where threats often trigger inflexible responses and exacerbate ingroup favoritism and outgroup discrimination.

Chapter 2. Theory and Hypotheses

2-1. Hedge fund activism and performance pressure

Hedge fund activists employ a diverse array of tactics to improve performance of targeted firms and attain financial gains. These tactics encompass communication with executives, filling lawsuits, and initiating takeover bids (Brav et al., 2009). Through these multifaceted strategies, activists frequently call for changes in the board (Gantchev, 2013), assets restructuring, cash redistribution (Chen & Feldman, 2018), and significant cost-cutting measures (Westphal & Bednar, 2008) to enhance the firm's financial performance.

Previous studies suggest that these tactics intensify performance pressure on targeted firms, leading to heterogeneous effects on the shareholders and stakeholders of these firms. First, research indicates that activism contributes to an increase in the financial value of targeted firms, thereby enhancing shareholders' wealth. This is evident from the improvements in targeted firms' operational performance and productivity (Clifford, 2008; Del Guerico et al., 2008; Brav et al., 2015), as well as their financial market valuation measured by Tobin's Q (Boyson & Mooradian, 2008). Moreover, activism has been linked to enhanced innovation efficiency (Brav et al., 2018), and positive returns following the announcement of activist involvement (Clifford, 2008).

Second, hedge fund activists have negative effects on stakeholders. While shareholders may derive benefits from activism, the wealth of bondholders in targeted firms tends to decrease (Klein & Zur, 2011). Additionally, studies indicate that CEO turnover increases (Del Guercio et al., 2008; Brav et al., 2009), and there is a reduction in corporate social responsibility investments (DesJardine & Durand, 2020) following hedge fund activism. These findings suggest that while activism may lead to positive outcomes for shareholders, it can have adverse consequences for other stakeholders in the targeted firms.

Significantly, there is an increasing interest in understanding the effects of shareholder activism on rank-and-file employees. Past research has primarily concentrated on the consequences of activism at the firm level or within the upper echelons, such as the board of directors or CEOs. However, hedge fund activism brings about substantial changes to various aspects of firms, including strategies and financial performance, which are highly likely to impact the employees of targeted firms. Employees' career trajectories and interests often differ from those of executives, making it essential to delve into further studies exploring the repercussions of hedge fund activism on employees.

Prior studies indicate that activists' initiatives often introduce changes that elevate uncertainty in employees' careers, such as company restructuring or alterations to the firm's strategies. For instance, Brav et al. (2015) discovered that activism results in stagnant wages and work hours for employees. The rise in career uncertainty prompts valuable employees, particularly those holding stock options, to leave the firms. Furthermore, Shi et al. (2022) reveal that workplace injuries increase after hedge fund activism, as activists prioritize operational efficiency over investments related to employee safety measures. These findings underscore the importance of considering the implications of hedge fund activism not only on shareholders and executives but also on the well-being and career prospects of rank-and-file employees. The changes initiated by activists can have substantial impacts on employees' lives and should be a crucial area of focus in future research.

Despite the increasing interest in the impact of hedge fund activism on employees, there remains a lack of research examining its effects on workplace diversity. While Chu et al. (2023) explored how shareholder activism influences diversity at the board level, this study represents the first attempt to investigate its impact on workplace diversity among rank-and-file employees. This gap in the literature is surprising, especially considering the recent surge in hedge fund activism and the growing interest in workplace diversity.

By addressing this research gap, this study aims to shed light on the potential influence of hedge fund activism on diversity within organizations, particularly at the employee level. Understanding how activism impacts workplace diversity is vital for enhancing our comprehension of the broader consequences of shareholder activism and its implications for workforce representation and inclusivity.

2-2. Performance pressure and racial bias

Racial bias refers to the unfair treatment of individuals based on their race (Pager & Shepherd, 2008). This bias has been persistently present and remains an ongoing issue in the labor market, affecting various aspects such as hiring, performance evaluation, and promotion (Pager 2003; Bertrand & Mullainathan 2004; Elvira & Town 2001; Castilla 2008; Elvira & Zarzick 2002). Two primary types of racial bias are taste-based bias and statistical discrimination. Taste-based bias occurs when a person holds preferences or prejudices regarding certain ascriptive characteristics, such as an individual's gender or race (Charles & Guryan, 2008). On the other hand, statistical discrimination happens when an individual associates specific ascriptive characteristics with the quality or performance of individuals (Phelps, 1972; Aigner & Cain, 1977; Rubineau & Kang, 2012; Tilcsik, 2021).

Racial bias has been recognized as costly for firms, as highlighted by Becker (1957). When managers show preferences based on an employee's race, it can result in a situation where employees are not evaluated and promoted based on their true merit and quality. In contrast, firms are more likely to achieve their full competitiveness when managers make employment decisions based on individual's qualifications and capabilities. Studies report that competition within organizations tends to reduce racial bias because it limits managers' scope to exercise such biased judgments (Ashenfelter & Hannan 1986; Pager 2016). As managers recognize that racial bias is less beneficial for the overall profitability of the firm, they are more inclined to correct their biases under highly competitive pressures. Consequently, fostering a competitive environment can play a crucial role in mitigating racial bias within organizations and promoting a fairer and more meritocratic workplace culture.

Performance pressure has been identified as a crucial factor that restrains managers from exercising racial bias. When managers face demands to enhance performance rapidly, they have limited scope to rely on their personal preferences while making employment decisions. Instead, they are more inclined to prioritize individuals who possess the necessary qualifications. Zhang (2019) investigates the decision-making process of NBA coaches in employing White or Black players under performance pressure. The study reveals that when teams experience consecutive losses, there is a heightened pressure on coaches to improve performance, resulting in an increase in playing time for Black players. This shift occurs because managers are more focused on providing opportunities to the most skilled players, regardless of their race. These findings highlight how performance pressure can serve as a powerful mechanism in reducing racial bias and promoting merit-based decision-making in the employment process. In high-pressure situations, managers tend to prioritize performance and qualifications over racial considerations, leading to a more equitable and objective approach to employee selection.

According to performance feedback theory, whether an organization's performance surpasses their aspiration level influences managers' decision-making. When performance exceeds the aspiration level, managers are more inclined to maintain the status quo. However, when performance falls below the aspiration level, managers are likely to engage in problemistic search and instigate changes to address the underperformance. One of the key avenues through which they initiate these changes is by altering the organization's hiring and promotion decisions.

The role of middle managers is particularly significant in shaping how a firm operates and in determining its overall performance. Therefore, when underperformance becomes apparent, managers are more willing to take risks and implement strategic changes. This includes hiring individuals who may have been less likely to be considered for middle management positions, such as racial minorities. By doing so, managers aim to improve the organization's performance and move closer to their desired aspiration level.

I contend that performance pressure induced by hedge fund activism can significantly influence senior managers of targeted firms to reduce racial bias and enhance racial diversity in managerial positions. As described earlier, hedge fund activism increases the likelihood of CEO turnover or changes in the board of directors and management when performance is not fully recovered. In such circumstances, managers have a greater incentive to utilize the most capable and competent employees available, leading them to set aside their racial biases and focus on making strategic decisions that prioritize the organization's success.

By embracing diversity in managerial positions, firms can harness a wider range of perspectives and experiences, which can contribute to improved decision-making and better overall performance. Performance pressure from hedge fund activism can thus serve as a catalyst for positive changes in the realm of workplace diversity, enabling firms to create a more inclusive and successful organizational environment.

Hypothesis 1: Hedge fund activism is positively associated with an increase in the targeted firm's racial diversity.

2-3. Purpose of hedge fund activism and firm's responses

Previous studies examining the relationship between performance pressure and diversity have produced mixed findings. Zhang (2019) demonstrates that performance pressure leads to an increase in diversity, as managers have limited scope to exercise their biases and instead prioritize individuals based on their qualifications and merit. In contrast, other studies suggest that when an organization experiences underperformance, there is a decrease in ascriptive diversity (Jung et al., 2022). During periods of low performance, executives are more inclined to favor managers whom they trust and can communicate with efficiently, often leading them to select individuals who share similar ascriptive characteristics, such as race, gender, and culture.

These contrasting outcomes underscore the complexity of the relationship between performance pressure and diversity. The impact of performance pressure on diversity can be context-dependent, influenced by various factors such as the firm's performance levels and the specific preferences of managers. Understanding these nuances is essential for comprehending how performance pressure may affect workplace diversity in different organizational settings.

The conflicting results on this matter present a puzzling challenge. To shed light on this issue, I propose an important contingency to explain the divergent findings: whether firms perceive performance pressure as a threat or an opportunity. According to threat-rigidity theory, when organizations view external pressure as a threat, it elicits rigid responses. The primary objective becomes swiftly addressing the issue, minimizing disruptions, and restoring normal operations (Staw, Sandelands, & Dutton, 1981). Additionally, perceiving a threat intensifies intergroup bias, leading to increased ingroup favoritism and outgroup discrimination (Stephan & Stephan, 2000; Hogg 2014). The decision of senior managers to hire racial minorities in management positions is contingent on how they perceive hedge fund activism. Depending on their interpretation of the activism's impact and objectives, their approach to promoting diversity within the organization may vary significantly. Understanding these perceptual factors can offer valuable insights into reconciling the conflicting outcomes and unraveling the intricate relationship between performance pressure and diversity in the workplace.

In this context, my focus is on the purpose of hedge fund activism, which can be categorized into dispute, concern, and control. Activism categorized as dispute and concern arises when hedge fund activists disagree with the firm's strategy, express concerns about the stock price, or demand information from the firm's management. On the other hand, activism categorized as control occurs when hedge fund activists aim to alter or nominate members of the board of directors, acquire control of the company, or change the top-level management. According to Shi and DesJardine (2022), when activists target firms with the purpose of gaining control, their objectives extend beyond merely expressing opinions; they seek more direct power and oversight over CEOs and corporate decision making. In cases where hedge fund activism aims to take control of the firm, the perception of threat is likely to elicit rigid responses from the targeted firm, thereby mitigating the positive effect on racial diversity. Understanding the specific purpose behind hedge fund activism is crucial for discerning its potential impact on workplace diversity. Activism aimed at control may present unique challenges, leading to different responses from the targeted firm and influencing the degree to which diversity initiatives are prioritized during such periods of pressure.

I argue that the perception of hedge fund activism as a threat or opportunity plays a pivotal role in influencing senior managers' responses. When senior managers perceive hedge fund activism as a threat, they are more likely to prioritize the preservation of existing routines and may inadvertently perpetuate racial inequality in the workplace. This defensive stance arises from the desire to quickly address the perceived threat and minimize disruptions to the organization.

Conversely, when senior managers view activism as an opportunity to enhance the firm's performance, they are more inclined to take proactive measures and embrace changes. This positive outlook encourages them to explore avenues that can improve the organization's competitiveness, including considering the employment of racial minorities in managerial positions.

Thus, the perception of hedge fund activism shapes senior managers' decision-making processes. A threat perception may lead to a conservative approach, whereas an opportunity perception fosters a more dynamic and inclusive environment, potentially promoting diversity initiatives such as hiring racial minorities for managerial roles. Understanding this interplay between perception and managerial response is crucial for comprehending the impact of hedge fund activism on workplace diversity and the broader organizational outcomes.

Hypothesis 2: When hedge fund activists threaten to take control of the firm (vs. expressing dispute or concern about performance), the subsequent increase in the targeted firm's racial diversity following hedge fund activism will be mitigated.

Chapter 3. Methods

3-1. Identifying firms targeted by hedge fund activists

I follow existing research (Brav et al., 2015, Francis et al., 2021) to identify institutional investor activists. This identification process is based on investor filings of Schedule 13D and 13D/A. According to Section 13D of the 1934 Securities Exchange Act, investors are required to file with the U.S. Securities and Exchange Commission (SEC) within 10 days of acquiring more than 5% of any class of securities if they have an interest in influencing the management of the company. Additionally, in cases where there is a material change of 1% or more in the shareholder's position after the initial 13D filing, the shareholder is obligated to file an amendment via a 13D/A. These Schedule 13D and 13D/A filings have been widely used in prior research to identify instances of shareholder activism (Brav et al., 2015; Francis et al., 2021; DesJardine and Durand, 2020; Shi et al., 2020).

I use the Audit Analytics Shareholder Activism database to retrieve 13D and 13D/A filings. The database provides the date when the firm was targeted, the name and characteristics of institutional investors, and the purpose of activism. I manually search the name of institutional investors to discern whether it is a hedge fund activist or not. In cases where there are multiple attacks on a firm by hedge fund activists, I only include the first attack in the sample. The final sample consists of 166 firms and subsequent 13,729 establishments targeted by hedge fund activists from 2000 to 2015.

To construct the dependent variable, I utilize the EEO-1 surveys. The Equal Employment Opportunities Commission (EEOC) began collecting demographic characteristics of firms at the establishment level to ensure compliance with the Civil Rights Act of 1964. Before 1982, all private sector firms with a minimum of 50 employees and firms under federal contract with at least 25 employees were required to submit EEO-1 forms annually. However, the standard was raised in 1982, making it mandatory for all private sector firms with at least 100 employees and firms under federal contract with at least 50 employees to submit the forms. The EEO-1 survey provides a breakdown of the number of employees for each demographic group, including male, female, White, Black, Hispanic, Asian, and Native Americans, in each occupational level within the firm. Past studies have demonstrated that the reliability of EEO-1 reports is comparable to that of the U.S. census or the Current Population Survey (CPS) (Tomaskovic-Devey et al., 2006).

To examine the impact of hedge fund activism on workplace diversity, we adopt a difference-in-differences research design. This involves comparing changes in diversity between firms targeted by hedge fund activism and non-targeted firms over time, both before and after the activism occurred. Since being targeted by hedge fund activism is not random, I employ one-to-one propensity score matching to identify control firms that closely resemble the treated firms based on certain firm characteristics known to influence the likelihood of being targeted. The three variables used for matching are firm size (measured by the natural logarithm of total assets), leverage (measured by the ratio of total liabilities to total assets), and return on assets (measured by the ratio of net income to total assets). I use these variables for matching because prior research has shown that smaller firms with higher leverage (Brav et al., 2008; Greenwood & Schor, 2009), and lower return on assets (Clifford, 2008) are more susceptible to being targeted by hedge fund activism.

To identify the control firm for each targeted treatment firm, I first conduct a logistic regression with the dependent variable as a dummy variable, taking the value of 1 if the firm was targeted by hedge fund activism in year t and 0 if it was not. The independent variables in the regression are three matching variables from year t-1. I then use the predicted propensity score from the logistic regression to conduct the propensity score matching. In the final sample, I have a total of 13,729 establishments representing 166 firms. For each hedge fund activism event, I collect data for three years before and three years after the event to analyze the trend in workplace diversity over time.

3-2. Variables

Dependent variable. The dependent variable is the ratio of racial minorities in management positions divided by the total number of employees within an establishment. The focus is specifically on the number of racial minority managers, as it best represents the firm's level of diversity (Kalev, Dobbin, & Kelly, 2006; Ferguson & Koning, 2017; Zhang, 2019). The data includes five different racial groups: White, Black, Hispanic, Asian, and Native Americans. However, Native Americans were excluded from the analyses as most of the firms had no Native Americans in management positions.

*Independent variable*s. To conduct the DiD analysis, two indicator variables were created. First, *Treatment* is a dummy variable set to 1 when the firm is the target of hedge fund activism and 0 when the firm is a matched control firm. Second, *Post* is a dummy variable set to 1 within 3 years after the activism event and 0 within 3 years before the event. A 6-year window was chosen, including 3 years after and 3 years before the activism, to avoid conflating longer periods with other changes in the firm that may affect workplace diversity. I use

Treatment X Post as an independent variable to test the hypotheses.

Control variables. First, I include establishment fixed effects to control for time-invariant establishment characteristics. This approach allows testing the change in racial composition within establishments rather than between establishments. I also include year fixed effects to account for time trends in workplace diversity. Second, I include control variables that capture time-variant establishment and firm-level characteristics. I include the number of workers in the establishment as it can influence the racial composition at the managerial level. I also control for racial composition at the non-managerial level to distinguish managerial-level racial composition from firm-level racial inequality. I include ratios of Black, Hispanic, and Asian employees in the model. Additionally, I include firm-level financial characteristics that could influence workplace diversity. Specifically, I control for firm size by taking the natural logarithm of total assets, as larger firms may have more diverse workplaces. Furthermore, I control for leverage using the ratio of a firm's debt to total assets.

Chapter 4. Results

Table 2 presents the results for testing Hypothesis 1, which posits that hedge fund activism leads to higher rates of racial minorities at the managerial level. The dependent variables for models 1 through 4 are the percentage of Black, White, Hispanic, and Asian managers out of the total employees. In model 1, the coefficient for *Treat X Post* is positive and statistically significant ($b=2.273$, $p<0.05$). These results indicate that firms targeted by hedge fund activists are likely to increase the representation of Black managers by 2.273% compared to control firms. Model 2 reveals a negative and statistically significant coefficient for *Treat X Post* ($b=-2.146$, $p<0.10$), explaining a significant portion of the increase in Black managers observed in model 1. However, in models 3 and 4, the coefficient for *Treat X Post* is not statistically significant. This suggests that the increase in Black managers in firms targeted by hedge fund activists may be offset by a decrease in White managers, but not Hispanic or Asian managers.

Figure 1 illustrates the change in Black managers for treated and control firms, with the blue line representing treated firms and the red line denoting control firms. Importantly, one can observe a parallel trend in the change of Black managers before the activism, which constitutes a critical assumption when employing the Difference-in-differences. Following the activism, there is a clear and notable increase in the representation of Black managers within the targeted firms, while no discernible change is evident in the control firms.

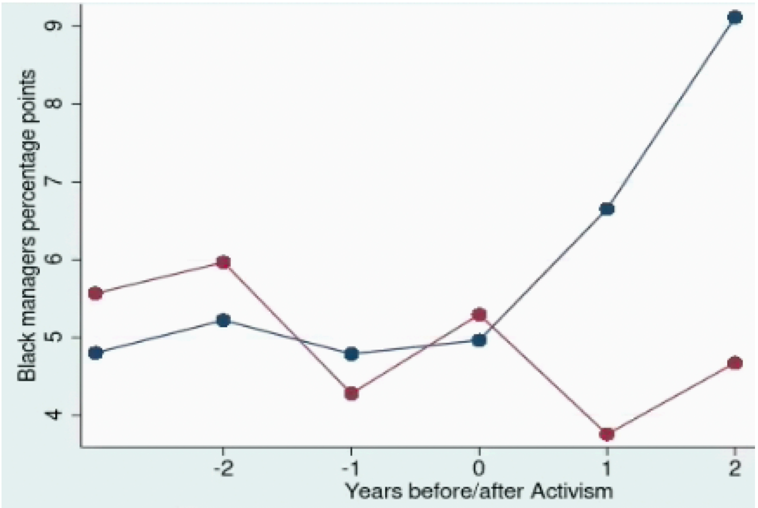
Table 2: Linear Estimation of Managerial Composition

	(1) Percent Black	(2) Percent White	(3) Percent Hispanic	(4) Percent Asian
Treat X Post	2.273*	-2.146	0.534	-0.661
	(1.98)	(-1.95)	(1.58)	(-0.97)
Percent black-office workers	13.30*	-11.05	-8.739	6.490
	(2.42)	(-1.51)	(-1.45)	(0.66)
Percent white-office workers	0.197	0.709	-7.364**	6.458
	(0.13)	(0.10)	(-2.65)	(0.80)
Percent Hispanic-office workers	3.331	-15.39*	4.502	7.558
	(1.92)	(-2.33)	(0.47)	(0.81)
Percent Asian-office workers	-1.016	-16.17*	-3.130	20.32*
	(-0.73)	(-2.00)	(-1.89)	(2.22)
Total number workers (log)	0.0972	-0.529	-0.356	0.787
	(0.21)	(-0.78)	(-0.55)	(1.51)
Tobin's Q	-0.0901	0.279	-0.0430	-0.146
	(-0.33)	(0.72)	(-0.27)	(-0.67)
Return on asset	-0.635	1.846	-0.367	-0.844
	(-0.64)	(0.89)	(-0.35)	(-0.93)
Dividend	2.187	-2.211	1.770	-1.746
	(1.39)	(-0.61)	(1.11)	(-1.00)
Asset (log)	0.155	-0.680	0.186	0.339
	(0.20)	(-0.43)	(0.25)	(0.66)
Leverage	-0.341	0.547	0.0177	-0.223
	(-1.42)	(1.48)	(0.11)	(-1.20)
Stock return	0.00640	-0.0382*	0.00960	0.0222***
	(0.68)	(-2.32)	(1.26)	(3.77)
Constant	2.430	89.69***	15.32*	-7.433
	(0.34)	(7.36)	(2.03)	(-0.69)
Observations	6845	6845	6845	6845

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Figure 1

Change in Black managers for treated and control firm



Hypothesis 2 suggests that the positive effect of hedge fund activism on workplace diversity would be concentrated in cases where the activism's purpose is not related to taking control over the firm. To explore this, I test the subsample of activism purposes, which include dispute, concern, and control. In model 1, the coefficient of *Treat X Post* is positive and statistically significant (b=5.035, p<0.01). In model 2, the coefficient of *Treat X Post* is also positive and statistically significant (b=4.348, p<0.05). Conversely, in model 3, the coefficient of *Treat X Post* is not statistically significant. These findings indicate that the positive impact of hedge fund activism on workplace diversity is concentrated in cases where the purpose of the activism is not related to taking control over the target firms.

Table 3: Subsample of activism purpose: dispute, concern, control

DV: Percent Black	(1) Dispute	(2) Concern	(3) Control
Treat X Post	5.035**	4.348*	1.821
	(3.26)	(2.21)	(1.79)
Post	-4.102**	-5.459*	-2.182*
	(-2.85)	(-2.51)	(-2.14)
Percent Black-office workers	13.36***	14.14**	11.19
	(5.01)	(3.38)	(1.28)
Percent White-office workers	-1.508	-0.282	0.044
	(-0.47)	(-0.07)	(0.02)
Percent Hispanic-office workers	-2.386	-4.263	4.089
	(-0.93)	(-1.32)	(1.39)
Percent Asian-office workers	-2.607	-5.532**	-0.748
	(-1.33)	(-3.03)	(-0.35)
Total number workers (log)	0.901*	0.593	-0.93
	(2.41)	(1.23)	(-1.32)
Tobin's Q	0.19	-0.536	-0.217
	(1.18)	(-1.35)	(-0.43)
Return on asset	-4.118*	0.353	0.318
	(-2.36)	(0.23)	(0.51)
Dividend	4.855	15.88	3.696
	(1.09)	(0.84)	(1.90)
Asset (log)	2.361	-1.99	-0.581
	(1.75)	(-1.75)	(-0.91)
Leverage	1.997*	-1.252	-0.187
	(2.45)	(-1.24)	(-1.04)
Stock return	0.057	-0.011	-0.004
	(0.96)	(-0.17)	(-0.57)
Constant	-11.97	17.76	2.172
	(-0.99)	(1.90)	(0.29)
Observations	509	984	5033

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Chapter 5. Conclusion

This study investigates the impact of hedge fund activism on workplace diversity and examines how the purpose of activism shapes this impact. The findings reveal that hedge fund activism leads to an increase in the representation of Black managers, while the number of White managers decreases. This effect is observed specifically when the purpose of hedge fund activism is to dispute over strategy or express concern about performance. In contrast, when the aim of activism is to take control of the firm, the impact on workplace diversity is mitigated.

This finding extends the literature on shareholder activism. While recent studies have focused on the impact of shareholder activism on various aspects, such as employee safety, wages, and career trajectories, this is the first study to explore the impact of hedge fund activism on diversity among rank-and-file employees. This is a surprising gap in the literature, especially given the growing interest in both shareholder activism and diversity.

This paper suggests that performance pressure within firms, driven by hedge fund activists, serves as a key motivator behind the observed increase in workplace diversity. This pressure leaves little room for managers to exercise racial bias and emphasizes the importance of hiring individuals based on their merits. However, the literature on this relationship between performance pressure and diversity has yielded mixed results, showing both positive and negative associations.

This paper proposes a mechanism that can explain the conflicting findings regarding the effect of performance pressure on diversity. Drawing on threat-rigidity theory, this study demonstrates that the positive effect of hedge fund activism on workplace diversity is concentrated in cases where activists do not propose to take control, thus avoiding provoking threat reactions from firms. On the other hand, the results indicate that the positive effect of hedge fund activism on workplace diversity is diminished when activists aim to take over control of the targeted firms.

In conclusion, this research sheds new light on the impact of shareholder activism on workplace diversity at the rank-and-file employee level. This effect is driven by activism that disciplines managers through expressing concern about performance or disputing over strategy. This study suggests that such effects are linked to an organization's threat-rigid responses in cases where activism is perceived as a threat.

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국문 초록

헤지펀드의 주주행동주의가 기업의 인적 다양성에 미치는 영향

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주주행동주의에 대한 이전 연구는 행동주의가 주주들의 경제적 이익에 긍정적인 영향을 미치는 반면, 이해관계자들, 특히 직원들에게는 부정적 영향을 미친다는 점에 집중했다. 본 연구는 헤지펀드의 주주행동주의가 직원 다양성에 미치는 영향을 탐구한다. 헤지펀드의 주주행동주의의 대상이 된 기업은 직장 내 인종 다양성을 증가시키는 것으로 나타났다. 또한, 본 연구는 주주행동주의의 목적에 따라 행동주의가 기업의 직장 내 다양성 개선 결정에 영향을 미치는지를 탐구하였다. 주주행동주의의 목적이 해당 기업의 성과 향상을 목표로 할 때 기업들이 인종 다양성을 높이지만, 목적이 소유권과 통제 획득을 목표로 할 때에는 다양성

개선이 크게 나타나지 않았다. 본 연구는 주주행동주의가 직원의 인종 구성에 미치는 영향을 강조하여 주주행동주의 연구에 기여한다. 또한, 이 연구는 행동주의 투자에 의해 유발된 소유권과 통제에 대한 위협이 기업들이 다양성을 증진하는 정도가 감소시킨다는 것을 밝힘으로써 다양성 연구에 기여한다.

주요어 : 기업 내 다양성, 주주 행동주의, 성과 압박

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