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The “CalPERS effect” revisited again

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Abstract

Smith [Smith, M., 1996. Shareholder activism by institutional investors: evidence from CALPERS. *Journal of Finance* 51, 227-252] and Wahal [Wahal, S., 1996. Public pension fund activism and firm performance. *Journal of Financial and Quantitative Analysis* 31, 1-23] identify significant positive abnormal returns surrounding the announcement of performance targetings by the California Public Employees Retirement System (CalPERS), dubbed the “CalPERS effect.” More recent studies suggest that this “CalPERS effect” continues in later samples. While I confirm the early period results, I find the results reported in studies examining later periods are driven by the inclusion of early 1992–1993 targetings and from a significant bias in the market model parameters caused by estimation during periods of known under-performance. Additionally, these results are partially driven by the failure to control for contaminating events and the use unnecessarily long event windows. Contrary to previous studies, after addressing these methodological concerns, I find no evidence to support the continued existence of a “CalPERS effect”.

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1. Introduction

Institutional activism is carried out through devices such as publicly targeting laggards, introducing shareholder proposals and engaging in private negotiations with poorly performing or poorly governed companies. Some institutions work in concert through

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groups such as the Council for Institutional Investors (CII), whereas others, such as the California Public Employees' Retirement System (CalPERS) and Teachers' Insurance Annuity Association – College Retirement Equities Fund (TIAA—CREF), take action directly. The empirical evidence regarding the effectiveness of institutional activism, however, is mixed. While the literature suggests that institutional investors have been successful in influencing the corporate governance practices of firms, studies that examine the ability of institutional activism to affect the performance of targeted companies offers mixed and sometimes even conflicting results. [Karpoff \(1998\)](#) seemingly reconciles some of the differences by pointing out that some studies examine the impact on performance when there are specific proxy proposals, while others focus targeting primarily on performance and governance in general.

CalPERS is a recognized leader and major proponent of institutional shareholder activism. CalPERS activism began in the mid 1980s, under CEO Dale Hanson, with the filing of takeover related and corporate governance related proxy proposals for targeted firms. These types of actions have been commonly called proxy targetings in the literature. Starting in 1992, CalPERS' focus shifted away from targeting specific governance issues in favor of targeting firms upon their prior performance and overall governance practices. These targetings are commonly referred to as non-proxy or performance-based targetings. With this shift in focus in 1992, CalPERS began releasing its annual "focus list" of targeted firms to the *Wall Street Journal* each year. Starting in 1995, under CEO James Burton, CalPERS began a process of identifying and targeting smaller firms as well as adopting a less public and confrontational approach when dealing with the focus list firms. However, the annual focus list continued to be published annually in the *Wall Street Journal*.

Previous studies of the short-term announcement effects of CalPERS activism consistently show significant short-term positive abnormal returns associated with performance related targetings. The positive wealth effect associated with CalPERS performance targetings has been popularly dubbed the "CalPERS effect." While [Smith \(1996\)](#) and [Wahal \(1996\)](#) were the first to document the "CalPERS effect" using CalPERS' targetings from 1987–1993, [Anson, White, and Ho \(2003\)](#), [English, Lie, and Maxwell \(2003\)](#), and [English, Smythe, and McNeil \(2004\)](#) document the persistence of the "CalPERS effect" in later samples. A summary of five studies that have examined the markets' reaction to the release of the CalPERS' focus lists is provided in [Table 1](#).

Whether the "CalPERS effect" exists is an important research question since CalPERS, and many other institutional investors, continue to commit time, effort, and financial resources toward this form of activism based upon the belief that their efforts will lead to improved stock returns. In this paper I seek to address whether the positive abnormal returns found in previous studies can be explained by problems in the methodologies used and whether the "CalPERS effect" persists into later years. While my results support the findings of [Smith \(1996\)](#) and [Wahal \(1996\)](#) for the early period prior to 1994, I find no evidence to support the persistence of a "CalPERS effect" into later periods. I contend that the results of [Anson, White, and Ho \(2003\)](#), [English, Lie, and Maxwell \(2003\)](#), and [English, Smythe, and McNeil \(2004\)](#) are driven by the inclusion of targetings from 1992 to 1993 and from various problems with the event study methodologies employed.

Table 1
Summary of studies examining the market reaction to the release of the CalPERS' focus list

Study	Sample period	<i>N</i>	Market model estimation	Event Window	Results	Methodological Issues
Smith (1996)	1987–1993 CalPERS	25	–260 to –61 VW index	0, +1	.68% (.96%) mean (median) CAR for performance based targeting.	No control for contaminating events. No control for “repeat offenders”. No control for event clustering.
Wahal (1996)	1987–1993 nine activist funds ^a	50	–250 to –11 EW index	–1, +5	CARs regressed on control variables. Significance on dummy for performance based targets.	No control for contaminating events ^b . No control for “repeat offenders.” No control for event clustering.
Anson, White, and Ho (2003)	1992–2001 CalPERS	96	“One-year” ending at –181 unknown index	+5, +94	13.31% mean CAR for sample without repeat offenders.	No control for contaminating events ^c .
English, Lie, Maxwell (2003)	1987–1998 CalPERS ^d	113	–255 to –30 EW index	0, +10	3.27% mean CAR for sample of 83 first time targetings.	No control for contaminating events. No control for event clustering.
English, Smythe, and McNeil (2004)	1992–1997 CalPERS	63	–275 to –21 VW, EW, and size indices	–1, +10, +1	1.23% (–1, +1) and 1.20% (0, +1) using EW index without repeat offenders ^e .	

^a Only three of the nine funds examined engaged in performance (Nonproxy) targeting CalPERS accounts for 23 of these performance targetings.

^b Although the author looks for contaminating events, technology improvements that allow a full text search of the Wall Street Journal allow for a far more robust and exhaustive analysis of contaminating events than was available when this paper was published.

^c Although the authors look for contaminating events, they only do so surrounding the announcement of the focus list, not during the event window showing abnormal returns.

^d The authors examine targeting by both the Council of Institutional Investors (CII) and CalPERS The information reported in this table reports only their CalPERS results.

^e Very similar results are shown using size-indexed market model.

Specifically, even though CalPERS is known to target poorly performing firms, each of these studies use market model parameters estimated over a pre-event window. Using pre-event parameters leads to a positive bias when used to calculate cumulative abnormal returns. With the exception of [English, Smythe, and McNeil \(2004\)](#), these studies fail to control for contaminating events occurring around the CalPERS announcements. Finally, the majority of these studies use unnecessarily long event windows that allow the compounding of any bias from the other problems mentioned.

2. The data

In this study I examine 91 firms targeted for poor performance by CalPERS from 1990 through 2003. The sample was constructed by combining [Wahal's \(1996\)](#) sample of 23 performance related CalPERS targetings over the 1990 to 1993 period with 107 targeting announcements gleaned from the annual CalPERS' focus lists from 1992 to 2003. Some firms were targeted more than once ("repeat offenders"), providing a total of 113 firm targeting announcements. When examining the firms from [Wahal's \(1996\)](#) sample I use the date CalPERS first contacted the targeted companies ("letter date").¹ The event dates for the focus lists were identified by searching the full text of the *Wall Street Journal* using the ProQuest database. With the exception of several targetings from 1992, I find no evidence of any news leakage related to the composition of the focus list in the six months prior to its release.² This is consistent with [Anson, White, and Ho \(2003\)](#) who assert, "CalPERS has total control over the release of its Focus List and guards this information jealously. Consequently, there is no 'slippage' of information prior to the publication date." and [English, Smythe, and McNeil \(2004\)](#) who contend "... the *Wall Street Journal* target list press release date provides us with an unambiguous event date that is presumed to be new news, at least to the market at large."

After the event dates are identified for each of the 113 targetings, the full text of the *Wall Street Journal* is searched using the ProQuest online databases for the -2 to $+2$ trading day window surrounding the event date.³ Firms with significant news stories occurring in this window were classified as having a "contaminating event." A list of the 23 firms from [Wahal's \(1996\)](#) sample, along with the corresponding event dates and contaminating events references are provided in Appendix A. A list of the 107 focus list targetings, along with the corresponding event dates and contaminating events references are provided in Appendix B. General descriptive information on the number, size, market adjusted returns, and number of contaminating events for the CalPERS targets is provided in [Table 2](#).

¹ I use this date instead of the first available news date since Wahal's strongest results were found using this date.

² The results in this study are consistent whether I use the official release date for these firms or the first available news story date.

³ Beginning with 1996, I also check Edgar Online for any relevant SEC filings in the -2 , $+2$ window surrounding the event date. When replicating [Wahal's \(1996\)](#) results, I also examine a longer (-1 , $+5$) event window, so for [Wahal's \(1996\)](#) sample I identify contaminating events during the -2 , $+6$ window surrounding the "letter date."

Table 2
Descriptive statistics

	Full sample	Year of targeting announcement													
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total number of firms targeted	113	2	3	13	12	10	9	10	10	9	9	10	5	5	6
Number of "repeat offenders"	23	0	0	2	7	3	4	2	3	1	0	1	0	0	0
Number with contaminating events	28	0	1	4	6	2	3	3	2	1	1	2	0	2	1
Mean market capitalization (millions)	3918.0	1025.9	21790.4	7894.0	6738.5	6211.6	1717.3	705.2	1314.1	3909.7	1675.4	4798.8	764.5	7686.8	2252.7
Median market capitalization (millions)	1336.5	1025.9	7825.5	2786.6	2325.7	1152.3	1001.8	311.7	894.0	1008.5	1790.8	1930.2	316.5	7497.4	1071.4
Mean 1-year market adjusted returns	-22.12%	-27.76%	-13.79%	-7.88%	3.80%	5.57%	-1.75%	-61.09%	-26.59%	-16.27%	-43.61%	-38.38%	-10.15%	-57.10%	-38.43%
Median 1-year market adjusted returns	-26.21%	-27.76%	-4.62%	-2.47%	-8.38%	3.29%	-17.40%	-55.49%	-29.67%	-25.17%	-42.78%	-47.46%	-37.93%	-64.87%	-51.86%
Mean 5-year market adjusted returns	-121.87%	-74.18%	-70.66%	-77.57%	-87.20%	-119.70%	-78.86%	-159.40%	-135.44%	-151.59%	-187.45%	-211.94%	-110.35%	-74.57%	-59.13%
Median 5-year market adjusted returns	-119.24%	-74.18%	-82.14%	-85.22%	-97.00%	-125.64%	-84.50%	-163.61%	-155.66%	-156.28%	-200.43%	-248.73%	-94.60%	-108.30%	-67.74%

Descriptive statistics for firms targeted by CalPERS over the period from 1990 to 2003 are presented in this table. "Repeat offenders" are firms that were targeted by CalPERS the previous year. Firms with "contaminating events" are those firms where a significant news event was found by searching the full text of the Wall Street Journal using the Proquest online databases during the five-day window surrounding the announcement of the firm's appearance on the CalPERS list. Market capitalization data are collected from the CRSP database five days prior to targeting by CalPERS. The 1-year market adjusted returns are calculated as the mean holding period return on the focus list firms for the 12 months prior to the month of targeting by CalPERS minus the corresponding holding period return on the CRSP value weighted index. The 5-year market adjusted return is calculated similarly using the 60 months prior to the month of targeting by CalPERS. Some firms have missing data items.

The CalPERS targetings appear to be fairly evenly distributed across the 14-year sample period with the exception of 1990–1991 and 2001–2003. The number of contaminating events is comparable to those reported in [English, Smythe, and McNeil \(2004\)](#) who also find a total of 20 contaminating events for the 1992 to 1997 period. Also of interest in [Table 2](#) is the noticeable decrease in the mean and median market capitalization of targeted firms corresponding to CalPERS' increased attention to smaller firms beginning in 1995. A final observation from [Table 2](#) is that these firms have typically performed very poorly compared to the market for the one and five-year period prior to their inclusions on the CalPERS' focus lists.

3. Analysis

I perform my event study analysis on four separate sub-samples of CalPERS' targetings. First, to examine whether the results of [Smith \(1996\)](#) and [Wahal \(1996\)](#) are robust to concerns with the event study methodology, I examine a sample of 23 early CalPERS targetings from 1990 to 1993.⁴ Second, I examine whether the "CalPERS effect" persists in a later sample of 82 targetings over the period from 1994 to 2003. Third, I examine the sample of 63 targetings from 1992 to 1997 to determine the extent to which the results reported in [English, Smythe, and McNeil \(2004\)](#) are driven by problems with their event study methodology. Finally, as an overall test of the effectiveness of CalPERS' targeting, I examine the entire sample of 112 CalPERS performance targetings by combining [Wahal's \(1996\)](#) data with the CalPERS focus lists from 1990 to 2003.⁵

3.1. Event study using pre-event estimated market model parameters

In order to provide a benchmark for comparison with previous studies, I begin my analysis by following the event study methodology of [English, Smythe, and McNeil \(2004\)](#). Following their method, cumulative average abnormal returns (CARs) are calculated using the market model with the parameters estimated using daily returns over the period from -275 to -21 trading days relative to the announcement date. Consistent with their study, for purposes of statistical inference, I use the non-parametric sign test of [Corrado \(1989\)](#) and the t -statistic proposed by [Boehmer, Musumeci, and Poulsen \(1991\)](#). For comparison with other studies, I also report [Patell's \(1976\)](#) t -statistic and the standard cross sectional t -statistic. Although I report only results in this paper using the CRSP equally weighted index for market model estimation, all of the results presented in this paper are fully consistent with and the inferences unchanged when the CRSP value weighted or size indices are used.

⁴ I would like to thank Sunil Wahal for providing data for this study. Although [Wahal \(1996\)](#) reports 21 such targetings in his paper, his dataset contains 23 unique targetings. The difference in sample size can likely be attributed to Sizzler Int'l that was targeted twice and had an outdated permno in the Wahal dataset.

⁵ The full sample provides a good comparison for [English, Lie and Maxwell's \(2003\)](#) study that looks at targetings through 2002. I don't replicate the results of [Anson, White, and Ho \(2003\)](#) for two reasons. First, they show no significant CARs for the (0, +4) window and they implicitly imply that the market is inefficient by examining a (+5, +94) event window. Second, even if one believes that the (+5, +94) window is appropriate, none of the sample firms survives this window without experiencing other contaminating events.

I calculate the CARs for the $(-1, 0)$, (0) , $(-1, +1)$, and $(-2, +2)$ event windows.⁶ For the Wahal (1996) sub-sample I also calculate CARs for the $(-1, +5)$ window since the event is based upon the CalPERS letter date and it is unclear as to when any information may have become public. Brown and Warner (1980, 1985) emphasize the importance of correctly identifying the exact event date and minimizing the length of the event window. Given CalPERS' claim that "CalPERS has total control over the release of its Focus List and guards this information jealously. Consequently, there is no 'slippage' of information prior to the publication date" and that the information is released in the Eastern Edition of the *Wall Street Journal* and is widely available to investors prior to the markets opening on the event day, (0) would appear to be the most suitable event window to examine. This window gives investors one full day of trading to incorporate the information from the CalPERS' focus lists into prices. An argument could be made that the *Wall Street Journal* has access to the list on event day minus one and therefore an examination of the $(-1, 0)$ window may also be appropriate. There is no reason to suspect that the market requires more than one full trading day to incorporate the information contained in focus lists; therefore results from longer event windows may be suspect. The event study results using a pre-event estimation of the market model parameters is provided in Table 3.

The results presented in panel A of Table 3 are consistent with those of Wahal (1996), with a significant CAR of 1.72% over the $(-1, +5)$ window for all CalPERS targetings. It is interesting to note that, while the $(-1, +5)$ windows are significant, none of the shorter windows shows significant abnormal returns for the "clean" sub-sample. When examining the post Wahal (1996) sample in panel B, however, there appears to be no evidence to support a "CalPERS effect." There are no significant CARs in the $(-1, 0)$ or (0) event windows. While there appears to be a significant CAR of 0.69% for the $(-1, +1)$ window for the full sample, this result appears to be driven by contaminating events, since the "clean" sub-sample CAR for the sample window is -0.14% and insignificant. The results presented in panel C are comparable to the results presented by English, Smythe, and McNeil (2004).^{7,8} Consistent

⁶ English, Smythe, and McNeil (2004) also consider a $(0, +1)$ event window but give no justification for its use. Such a window would be appropriate in situations where it is unclear as to whether the market has had sufficient time to incorporate the information from the news story on the event day. For example, it is well known that many earnings announcements are released after the market has closed. In such a case including event day +1 into the window is appropriate. However, in this study, we know that the information is released prior to the markets opening on the event day in the Eastern Edition of the *Wall Street Journal*. Although I do examine the $(-1, +1)$ and $(-2, +2)$ event windows, I do so for comparison with previous research and to show how longer event windows allow for the compounding of the bias from the pre-event estimated parameters.

⁷ For comparison, English, Smythe, and McNeil report a CAR of .95% for the full sample and 1.24% for the "no repeats" sample. The slight differences in results are attributable to revisions in the CRSP database subsequent to English, Smythe, and McNeils' analysis. I would like to thank Janet Eder at the Center for Research in Security Prices for providing the CRSP daily history data from December 1997 used to verify this result.

⁸ English, Smythe, and McNeil (2004) report a CAR of 1.23% for the same $(-1, +1)$ window. In addition to revisions in the CRSP daily history file, the difference in results can be attributed to the use of different sources to identify contaminating events. Although English, Smythe, and McNeil (2004) use the *Wall Street Journal* to identify event dates, they use Lexis-Nexis to identify their contaminating events. In this paper, to be consistent, I use the ProQuest database to search the full text of the *Wall Street Journal* to identify both the event dates and contaminating events. Although I find the same number of contaminating events as ESM, the distribution of these contaminating events likely differs. I contacted Thomas Smythe and Philip English requesting the list of contaminating events from their study, however this data is no longer available.

Table 3
Abnormal returns associated with the announcement of targeting by CalPERS using pre-event market model parameters

Sample	Window	Average abnormal return	% with + abnormal return	Sign test statistic	Patell's (1976) <i>t</i> -statistic	Cross sectional <i>t</i> -statistic	<i>t</i> -statistics of Boehmer et al. (1991)	<i>N</i>
<i>Panel A — Wahal's (1996) 1990–1993 sample</i>								
CalPERS	–1, 0	–0.30%	47.83%	–0.21	0.12	–0.45	0.10	23
Performance targetings	0	0.15%	43.48%	–0.63	0.73	0.39	0.69	23
	–1, +1	0.15%	60.87%	1.04	0.88	0.22	0.88	23
	–2, +2	0.18%	60.87%	1.04	0.77	0.18	0.76	23
	–1, +5	1.72%	69.57%	1.88	2.22	1.51	2.17	23
No repeat CalPERS targetings	–1, 0	0.30%	61.54%	0.83	0.65	0.55	0.88	13
	0	0.38%	46.15%	–0.28	0.89	0.81	0.92	13
	–1, +1	0.58%	69.23%	1.39	1.05	0.83	1.24	13
	–2, +2	1.10%	76.92%	1.94	1.06	1.55	1.72	13
	–1, +5	1.91%	84.62%	2.50	1.48	1.91	2.31	13
Clean sample CalPERS targetings	–1, 0	–0.29%	44.44%	–0.33	–0.13	–0.43	–0.17	9
	0	–0.03%	33.33%	–1.00	–0.01	–0.06	–0.01	9
	–1, +1	–0.19%	55.56%	0.33	0.13	–0.23	0.16	9
	–2, +2	1.44%	77.78%	1.67	1.02	1.52	1.48	9
	–1, +5	2.58%	88.89%	2.33	1.54	1.91	2.15	9
<i>Panel B — PostWahal (1996) 1994–2003 sample</i>								
Full sample	–1, 0	0.31%	55.42%	0.99	1.10	0.74	1.29	82
	0	0.47%	51.81%	0.33	1.51	1.25	1.50	82
	–1, +1	0.69%	54.22%	0.77	1.87	1.27	2.06	82
	–2, +2	0.94%	49.40%	–0.11	1.73	0.91	1.57	82
No repeat sample	–1, 0	0.27%	53.62%	0.60	0.83	0.54	0.96	68
	0	0.48%	50.73%	0.12	1.57	1.12	1.59	68
	–1, +1	0.71%	53.62%	0.60	1.75	1.15	1.86	68
	–2, +2	1.11%	49.28%	–0.12	1.77	0.89	1.51	68
Clean sample	–1, 0	–0.21%	49.12%	–0.13	0.09	–0.39	0.10	56
	0	0.26%	47.37%	–0.40	1.26	0.54	1.27	56
	–1, +1	–0.14%	49.12%	–0.13	0.49	–0.22	0.56	56
	–2, +2	0.34%	47.37%	–0.40	0.72	0.28	0.71	56

Panel C — English, Smythe, and McNeils' (2004) 1992–1997 Sample

Full sample	–1, 0	0.40%	61.91%	1.89	1.30	1.02	1.34	63
	0	0.41%	50.79%	0.13	1.30	1.16	1.25	63
No repeat sample	–1, +1	0.99%	68.25%	2.90	2.45	2.07	2.62	63
	–2, +2	0.74%	58.73%	1.39	1.76	0.92	1.70	63
	–1, 0	0.43%	60.00%	1.34	1.09	0.98	1.31	45
	0	0.46%	48.89%	–0.15	1.28	1.05	1.35	45
Clean sample	–1, +1	1.28%	71.11%	2.83	2.41	2.29	2.68	45
	–2, +2	1.09%	62.22%	1.64	1.97	1.02	1.81	45
	–1, 0	0.18%	58.07%	0.90	0.70	0.37	0.78	31
	0	–0.17%	38.71%	–1.26	–0.01	–0.43	–0.01	31
	–1, +1	1.04%	77.42%	3.05	1.73	1.85	1.95	31
	–2, +2	0.36%	61.29%	1.26	0.96	0.37	1.16	31

Panel D — Full Sample from 1990 to 2003

Full sample	–1, 0	0.23%	55.75%	1.22	1.18	0.67	1.26	112
	0	0.38%	50.44%	0.09	1.55	1.32	1.55	112
	–1, +1	0.65%	56.64%	1.41	2.35	1.52	2.49	112
	–2, +2	1.07%	55.75%	1.22	2.55	1.36	2.40	112
No repeat sample	–1, 0	0.26%	55.44%	1.04	1.08	0.67	1.28	91
	0	0.37%	48.91%	–0.21	1.51	1.12	1.57	91
	–1, +1	0.76%	56.52%	1.25	2.36	1.57	2.51	91
	–2, +2	1.39%	57.61%	1.46	2.84	1.47	2.58	91
Clean sample	–1, 0	–0.21%	49.32%	–0.12	–0.04	–0.48	–0.05	72
	0	0.14%	43.84%	–1.05	0.82	0.37	0.85	72
	–1, +1	–0.01%	50.69%	0.12	0.70	–0.02	0.79	72
	–2, +2	0.64%	53.43%	0.59	1.37	0.65	1.43	72

The average cumulative abnormal returns associated with the announcement of CalPERS targeting a firm are reported in this table. The targetings occur over the period from 1990 to 2003. The event dates for the Wahal (1996) 1990–1993 sample reported in Panel A were obtained directly from Sunil Wahal. The event dates used in Panels B and C are determined by searching for the first available news story in the Wall Street Journal using the ProQuest online databases. The full sample analysis reported in Panel D uses the earliest date available when combining Wahal's (1996) sample with the official CalPERS focus list release dates for the 1990–2003 period. Consistent with English, Smythe, and McNeil (2004), the market model is used to calculate the cumulative abnormal returns using an estimation period beginning –275 trading days and ending –21 trading days relative to the announcement date using the CRSP equally weighted index. Patell's (1976) *t*-statistic standardizes the event period abnormal returns using the estimation period standard deviation of the estimation period abnormal returns in order to reduce the effect of high return variance stocks on the test. The ordinary cross sectional *t*-statistic allows for event-induced variance changes, but assumes no cross-sectional dependence in abnormal returns. *t*-statistic of Boehmer et al. (1991) uses a standardized residual method as in Patell (1976), but then adds a correction for event-induced variance. No repeats refers to no “repeat offenders,” which are firms that were targeted by CalPERS the previous year. Contaminating events were identified in those firms where a significant news event was found by searching the full text of the *Wall Street Journal* using the Proquest online databases during the five-day window surrounding the announcement of the firm's appearance on the CalPERS list. The “clean” sample eliminates repeat offenders and firms with contaminating news events. All firms were required to have valid returns available on the CRSP database for at least 100 trading days of the market model estimation period. One firm had a missing return on the event day and is therefore excluded from this analysis.

with English, Smythe, and McNeil (2004), for the most appropriate event windows, $(-1, 0)$ and (0) , I find no significant CARs related to CalPERS targeting. The results presented in panel D show the overall effectiveness of CalPERS targetings over the entire 1990 to 2003 sample period. In examining the “clean” sub-sample, it is apparent that none of the event windows shows significant CARs. These results fail to support the existence of a “CalPERS effect” over the entire history of CalPERS performance targetings.

3.2. Event study using post-event estimated market model parameters

All five of the studies examining the “CalPERS’ effect” identified earlier in Table 1 use pre-event market model parameter estimation in their event study analysis. The use of pre-event estimation is of particular concern since CalPERS is known to target firms based upon prior poor performance and therefore the use of pre-event estimated parameters could result in biased CARs. English, Smythe, and McNeil (2004) acknowledge that the market model alphas are significantly negative and they argue, “. . . using market adjusted returns to measure changes in performance of CalPERS’ targets may bias any results . . .”. I agree with their argument only if the market model parameters prove to hold constant through time. If the market model parameters are stable, then the event study results should be robust regardless of whether the parameters are estimated pre- or post-event. To address this issue of robustness, I repeat the event study analysis using market model parameters estimated from +21 to +275 trading days relative to the CalPERS announcement dates. Although two firms do not survive long enough for post-event parameter estimation, the pre-event results reported earlier in Table 3 are consistent even with these two firms removed. The results of this analysis are presented in Table 4.

The results presented in panel A are very similar to those presented earlier using pre-event parameter estimation. The CARs for the $(-1, +5)$ window in the “clean” sub-sample are 2.41% and significant at a 10% level even with a sample of only nine firms. Like the previous pre-event estimation results, the “CalPERS effect” is not robust to alternative event windows, with only CARs from the $(-1, +5)$ windows being significant. The results presented in panel B continue to show the absence of a “CalPERS effect” after 1993. The pre-event estimation bias is apparent in the results presented in panel C where the CARs are noticeably lower using post-event estimation. Most notable from panel C, and contrary to the results of English, Smythe, and McNeil (2004), there are no significant CARs, even for the $(-1, +1)$ window when examining the “clean” sub-sample. Also of interest are the results from panel D, which fail to show any significant CARs associated with CalPERS targeting over the 1990 to 2003 period. A key similarity between the results from Tables 3 and 4 is that for the most appropriate event windows, $(-1, 0)$ and (0) , there are no significant CARs related to CalPERS targeting.

The results from Table 4 suggest the market model parameters are not fixed and the use of pre-event estimated parameters in the analysis of CalPERS targeting may lead to a positive bias in reported CARs. To further examine the potential effect of the estimation period on the results, I examine both the mean and median market model alphas and betas estimated using both pre and post event estimation periods. To test for the stability of these parameter estimates, I also examine the mean and median pair wise differences in the parameters. The results of this analysis are presented in Table 5.

As expected, given CalPERS known targeting of poor performers, the results in Table 5 show the mean and median daily market model alphas estimated using pre-event returns are consistently significantly negative for all four of the sub-samples examined. When examining the post-event estimated parameters I find that, while the mean and median alphas remain significantly negative, they are significantly larger than their pre-event counterparts. The alphas tend to revert toward zero with both the mean and median change being significantly different from zero. These results indicate bias in the pre-event estimated parameters and suggest the use of post-event estimated parameters. For example, the mean difference in alphas for the “clean” sample for the period examined by English, Smythe, and McNeil (2004) reported in panel C is 14 basis points per day. Over a three-day event window, such as the $(-1, +1)$ window used by English, Smythe, and McNeil (2004), this potential bias would compound to 42 basis points over the entire window.

3.3. Event study using market adjusted returns

English, Smythe, and McNeil (2004) argue that, “Market-adjusted returns are only appropriate under certain circumstances, which do not appear to be met in our sample. This method implicitly assumes that the average β of the stocks being examined is one and the average α is zero.” An equally important assumption for the use of the market model as a benchmark for expected returns is that the estimated parameters are fixed and constant through time. A strong argument can be made based on the results from Table 4 that market model parameters are not fixed, and therefore it is improper to use the market model as the return generating process when calculating CARs. In cases with unstable parameters, the use of market-adjusted returns would be preferred. To address these concerns, as well as to provide a check on the robustness of the results presented in Table 5, I repeat the event study analysis using market-adjusted returns. The results of this analysis are provided in Table 6.

The results using market-adjusted returns from Table 6 confirm the earlier results using post-event estimated parameters. When using market-adjusted returns none of the CARs is significantly different from zero for any of the event windows in all of the four sub-samples examined. While a “CalPERS effect” may have existed in the early period examined by Wahal (1996), the market adjusted returns results, when combined with the results from Table 4, are strong evidence against the continuation of the “CalPERS effect” after 1993.

3.4. Robustness of the event study results

Based upon the results from Tables 3–6, I contend that the CARs surrounding the release of the CalPERS focus lists are partially the result of biased market model parameters caused by estimation during periods of known poor performance. Proponents of the “CalPERS effect” could certainly argue that the pre-event parameters represent the “true” and “correct” parameters and that any shift in those parameters is the result of targeting by CalPERS. In other words, the fact that the alphas are significantly negative pre-event, then increase significantly after targeting, is itself evidence supporting the “CalPERS effect.” I address this concern in two ways. First, attributing the gradual shift in parameters to CalPERS is not consistent with the widely held theory of efficient markets.

Table 4
Abnormal returns associated with the announcement of targeting by CalPERS using post-event market model parameters

Sample	Window	Average abnormal return	% with + abnormal return	Sign test statistic	Patell's (1976) <i>t</i> -statistic	Cross sectional <i>t</i> -statistic	<i>t</i> -statistics of Boehmer et al (1991)	N
<i>Panel A — Wahal's (1996) 1990–1993 sample</i>								
CalPERS performance targetings	–1, 0	–0.13%	47.83%	–0.21	0.14	–0.19	0.11	23
	0	0.23%	43.48%	–0.63	0.96	0.59	0.90	23
	–1, +1	0.40%	60.87%	1.04	1.00	0.60	0.93	23
	–2, +2	0.41%	56.52%	0.63	0.99	0.44	0.86	23
	–1, +5	1.87%	60.87%	1.04	2.39	1.66	2.15	23
No repeat CalPERS targetings	–1, 0	0.45%	61.54%	0.83	0.77	0.78	0.90	13
	0	0.43%	46.15%	–0.28	1.19	0.89	1.11	13
	–1, +1	0.71%	69.23%	1.39	1.01	0.97	1.11	13
	–2, +2	1.14%	69.23%	1.39	1.02	1.60	1.45	13
	–1, +5	2.04%	69.23%	1.39	1.61	1.90	2.26	13
Clean sample CalPERS targetings	–1, 0	–0.23%	44.44%	–0.33	–0.23	–0.34	–0.29	9
	0	–0.01%	33.33%	–1.00	0.06	–0.02	0.06	9
	–1, +1	–0.25%	55.56%	0.33	–0.10	–0.30	–0.11	9
	–2, +2	1.18%	66.67%	1.00	0.80	1.17	1.00	9
	–1, +5	2.41%	66.67%	1.00	1.53	1.59	1.87	9
<i>Panel B — PostWahal (1996) 1994–2003 sample</i>								
Full sample	–1, 0	0.19%	57.50%	1.34	0.48	0.46	0.54	80
	0	0.37%	56.25%	1.12	0.97	1.03	0.99	80
	–1, +1	0.49%	56.25%	1.12	1.06	0.92	1.13	80
	–2, +2	0.26%	47.50%	–0.45	0.70	0.27	0.67	80
No repeat sample	–1, 0	0.20%	58.21%	1.34	0.31	0.42	0.36	67
	0	0.42%	59.70%	1.59	1.11	1.02	1.17	67
	–1, +1	0.56%	55.22%	0.86	0.99	0.92	1.07	67
	–2, +2	0.32%	46.27%	–0.61	0.75	0.28	0.69	67
Clean sample	–1, 0	–0.17%	58.18%	1.21	–0.32	–0.33	–0.38	55
	0	0.25%	60.00%	1.48	0.63	0.55	0.69	55
	–1, +1	–0.13%	50.91%	0.13	–0.01	–0.20	–0.01	55
	–2, +2	–0.34%	43.64%	–0.94	0.15	–0.30	0.17	55

Panel C—English, Smythe, and McNeils' (2004) 1992–1997 sample

Full sample	–1, 0	0.15%	56.45%	1.02	0.73	0.39	0.65	62
	0	0.25%	48.39%	–0.25	0.83	0.71	0.78	62
	–1, +1	0.64%	64.52%	2.29	1.78	1.32	1.69	62
	–2, +2	0.23%	51.61%	0.25	1.13	0.29	1.06	62
No repeat sample	–1, 0	0.17%	55.56%	0.75	0.48	0.39	0.50	45
	0	0.30%	48.89%	–0.15	0.76	0.69	0.78	45
	–1, +1	0.83%	64.44%	1.94	1.64	1.49	1.62	45
	–2, +2	0.34%	53.33%	0.45	1.20	0.32	1.09	45
Clean sample	–1, 0	–0.02%	61.29%	1.26	0.28	–0.05	0.27	31
	0	–0.30%	45.16%	–0.54	–0.44	–0.73	–0.50	31
	–1, +1	0.66%	67.74%	1.98	1.39	1.09	1.32	31
	–2, +2	–0.36%	51.61%	0.18	0.67	–0.35	0.71	31

Panel D—full sample from 1990 to 2003

Full sample	–1, 0	0.13%	56.36%	1.33	0.58	0.39	0.58	110
	0	0.30%	52.73%	0.57	1.07	1.07	1.06	110
	–1, +1	0.49%	58.18%	1.72	1.62	1.16	1.62	110
	–2, +2	0.52%	51.82%	0.38	1.78	0.71	1.69	110
No repeat sample	–1, 0	0.18%	57.78%	1.48	0.56	0.48	0.63	90
	0	0.30%	54.44%	0.84	1.03	0.95	1.08	90
	–1, +1	0.58%	57.78%	1.48	1.59	1.22	1.64	90
	–2, +2	0.69%	53.33%	0.63	2.00	0.79	1.85	90
Clean sample	–1, 0	–0.19%	56.34%	1.07	–0.47	–0.48	–0.54	71
	0	0.12%	53.52%	0.59	0.18	0.33	0.19	71
	–1, +1	–0.05%	52.11%	0.36	0.19	–0.09	0.20	71
	–2, +2	0.03%	49.30%	–0.12	0.91	0.03	0.99	71

The average cumulative abnormal returns associated with the announcement of CalPERS targeting a firm are reported in this table. The targetings occur over the period from 1990 to 2003. The event dates for the Wahal (1996) 1990–1993 sample reported in Panel A were obtained directly from Sunil Wahal. The event dates used in Panels B and C are determined by searching for the first available news story in the Wall Street Journal using the ProQuest online databases. The full sample analysis reported in Panel D uses the earliest date available when combining Wahal's (1996) sample with the official CalPERS focus list release dates for the 1990–2003 period. The market model is used to calculate the cumulative abnormal returns using an estimation period beginning +21 trading days and ending +275 trading days relative to the announcement date using the CRSP equally weighted index. Patell's (1976) *t*-statistic standardizes the event period abnormal returns using the estimation period standard deviation of the estimation period abnormal returns in order to reduce the effect of high return variance stocks on the test. The ordinary cross sectional *t*-statistic allows for event-induced variance changes, but assumes no cross-sectional dependence in abnormal returns. *t*-statistics of Boehmer et al (1991) uses a standardized residual method as in Patell (1976), but then adds a correction for event-induced variance. No repeats refers to no "repeat offenders," which are firms that were targeted by CalPERS the previous year. Contaminating events were identified in those firms where a significant news event was found by searching the full text of the Wall Street Journal using the Proquest online databases during the five-day window surrounding the announcement of the firm's appearance on the CalPERS list. The "clean" sample eliminates repeat offenders and firms with contaminating news events. All firms were required to have valid returns available on the CRSP database for at least 100 trading days of the market model estimation period. One firm had a missing return on the event day and is therefore excluded from this analysis.

Table 5
Analysis of the market model parameters estimated both pre- and post-event

Sample examined	Pre-event Estimation				Post-event estimation				Differences in parameters			
	Alpha		Beta		Alpha		Beta		Alpha		Beta	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
<i>Panel A — Wahal's (1996) 1990–1993 sample</i>												
CalPERS	–0.00209	–0.00214	1.28669	1.26717	–0.00113	–0.00104	0.90789	0.88365	–0.00096	–0.00085	0.37880	0.39724
targetings	(0.0000)	(0.0000)	(0.0102)	(0.0082)	(0.0000)	(0.0000)	(0.2979)	(0.2566)	(0.0034)	(0.0024)	(0.0000)	(0.0000)
CalPERS	–0.00216	–0.00260	1.38906	1.35347	–0.00134	–0.00129	1.01180	0.97146	–0.00082	–0.00119	0.37727	0.39724
no repeats	(0.0002)	(0.0005)	(0.0168)	(0.0215)	(0.0000)	(0.0005)	(0.9167)	(0.8926)	(0.0744)	(0.0942)	(0.0003)	(0.0012)
CalPERS	–0.00250	–0.00261	1.38189	1.57420	–0.00131	–0.00129	1.01984	1.02636	–0.00119	–0.00142	0.36206	0.39447
clean sample	(0.0004)	(0.0039)	(0.0692)	(0.0977)	(0.0015)	(0.0078)	(0.8790)	(1.0000)	(0.0465)	(0.0391)	(0.0060)	(0.0117)
<i>Panel B — PostWahal (1996) 1994–2003 sample</i>												
Full sample	–0.00215	–0.00141	1.37596	1.13728	–0.00098	–0.00062	1.36245	1.18875	–0.00102	–0.00067	–0.02060	–0.00459
	(0.0000)	(0.0000)	(0.0001)	(0.0005)	0.0008	(0.0022)	(0.0001)	(0.0001)	(0.0062)	(0.0023)	(0.7778)	(0.9318)
No repeats	–0.00242	–0.00177	1.39133	1.11963	–0.00115	–0.00072	1.37473	1.19683	–0.00106	–0.00067	–0.02727	–0.02651
	(0.0000)	(0.0000)	(0.0002)	(0.0020)	(0.0007)	(0.0011)	(0.0003)	(0.0011)	(0.0134)	(0.0047)	(0.7442)	(0.8919)
Clean sample	–0.00210	–0.00147	1.36474	1.10709	–0.00118	–0.00066	1.33993	1.17219	–0.00066	–0.00063	–0.02960	–0.05704
	(0.0000)	(0.0000)	(0.0016)	(0.0092)	(0.0024)	(0.0036)	(0.0037)	(0.0118)	(0.1408)	(0.0575)	(0.7341)	(0.7850)
<i>Panel C — English, Smythe, and McNeils' (2004) 1992–1997 sample</i>												
Full sample	–0.00206	–0.00156	1.26355	1.13450	–0.00090	–0.00078	1.23116	1.14975	–0.00120	–0.00088	0.03447	0.01944
	(0.0000)	(0.0000)	(0.0026)	(0.0141)	(0.0000)	(0.0000)	(0.0007)	(0.0014)	(0.0001)	(0.0001)	(0.6431)	(0.8057)
No repeats	–0.00259	–0.00195	1.30071	1.08077	–0.00102	–0.00085	1.30071	1.18067	–0.00157	–0.00094	0.03998	0.02154
	(0.0000)	(0.0000)	(0.0065)	(0.0301)	(0.0000)	(0.0000)	(0.0065)	(0.0049)	(0.0001)	(0.0000)	(0.6739)	(0.7771)
Clean sample	–0.00219	–0.00192	1.12842	1.06144	–0.00079	–0.00066	1.16155	1.11396	–0.00140	–0.00094	–0.03313	–0.05854
	(0.0000)	(0.0000)	(0.1736)	(0.2796)	(0.0038)	(0.0079)	(0.0997)	(0.1678)	(0.0034)	(0.0004)	(0.7468)	(0.4775)
<i>Panel D — full sample from 1990 to 2003</i>												
Full sample	–0.00218	–0.00160	1.37676	1.15900	–0.00100	–0.00076	1.26583	1.11632	–0.00107	–0.00088	0.08614	0.07213
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0001)	(0.0013)	(0.0002)	(0.0000)	(0.1474)	(0.0708)
No repeats	–0.00246	–0.00191	1.40467	1.15212	–0.00115	–0.00092	1.29367	1.14975	–0.00116	–0.00093	0.07863	0.07213
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0003)	(0.0030)	(0.0006)	(0.0001)	(0.2537)	(0.1412)
Clean	–0.00217	–0.00177	1.36557	1.13728	–0.00117	–0.00091	1.26519	1.11144	–0.00080	–0.00067	0.05825	0.05095

Rather, if the market values CalPERS activism, then we should expect to see an immediate reaction surrounding the CalPERS' announcements in the form of significant CARs regardless of whether pre or post event parameter estimation is used.

The second way that I address this concern regarding parameter shifts is to perform an event study on a sample of non-targeted matching firms. I begin this process by identifying all firms with common shares (Share codes 10 and 11 on CRSP) that have a non-missing return for each of the CalPERS event dates. For each CalPERS target, I select as the match the non-targeted firm with the closest pre-event estimated market model alpha. I then repeat the event study analysis as in Tables 3 and 4, but using the non-targeted matching firms in lieu of the actual event firms. Consistent with the hypothesis of biased parameter estimates, I find that these non-targeted matching firms exhibit a CAR of 0.59% for the $(-2, +2)$ window surrounding the "event" when using pre-event estimated parameters, but with the market model parameters estimated post-event, the mean CAR is almost 90 basis points lower (CAR = -0.29%) for the same window. Both the mean and median differences in the pre and post CARs are significantly different from zero with p -values below 1%. Consistent with the results reported in Table 5, I also find the mean and median post-event alphas are significantly larger than their pre-event counterparts for the sample of matched firms. In other words, the market model alphas tend to naturally mean revert toward zero.

3.5. Time-series dummy variable regressions

The evidence presented thus far cast doubts on the results from previous studies that have relied upon a combination of long event horizons and pre-event parameter estimation. I find statistically significant differences in the pre and post estimated alphas from the market model. This clearly points to a violation of a fundamental assumption that the parameters used in the market model are fixed for this sample. For this reason and as an additional robustness check, I use a time-series dummy variable approach to estimate the effects of the CalPERS focus list announcements. The time-series model used is just a simple extension of the model proposed by Jensen (1968). The time-series is estimated

Notes to Table 5:

The mean and median for both the alphas and betas from the numerous market model estimations, using the CRSP equally weighted index, associated with the announcement of CalPERS targeting a firm are reported in this table. The targetings occur over the period from 1990 to 2003. The event dates for the Wahal (1996) 1990–1993 sample reported in Panel A were obtained directly from Sunil Wahal. The event dates used in Panels B and C are determined by searching for the first available news story in the Wall Street Journal using the ProQuest online databases. The full sample analysis reported in Panel D uses the earliest date available when combining Wahal's (1996) sample with the official CalPERS focus list release dates for the 1990–2003 period. The pre-event estimation is performed with the market model using an estimation period beginning -275 trading days and ending -21 trading days relative to the announcement date. The post-event estimation is performed using an estimation period beginning $+21$ trading days and ending $+275$ trading days relative to the announcement date. The differences in parameters column refers to the pair differences between the pre and post event estimated market model parameters. The means are tested using a standard t -test and the medians are tested using a sign-rank test. p -values are reported in parentheses below the reported means and medians. No repeats refers to no "repeat offenders," which are firms that were targeted by CalPERS the previous year. No repeats refers to no "repeat offenders," which are firms that were targeted by CalPERS the previous year. Contaminating events were identified in those firms where a significant news event was found by searching the full text of the *Wall Street Journal* using the Proquest online databases during the five-day window surrounding the announcement of the firm's appearance on the CalPERS list. The "clean" sample eliminates repeat offenders and firms with contaminating news events. All firms were required to have valid returns available on the CRSP database for at least 100 trading days of the market model estimation period.

Table 6
Market adjusted returns associated with the announcement of targeting by CalPERS

Sample	Window	Average abnormal return	% with + abnormal returns	Sign test statistic	Cross sectional <i>t</i> -statistic	<i>N</i>
<i>Panel A — Wahal's (1996) 1990–1993 sample</i>						
CalPERS	–1, 0	–0.47%	39.13%	–1.04	–0.71	23
performance	0	0.07%	43.48%	–0.63	0.17	23
targetings	–1, +1	–0.11%	56.52%	0.63	–0.17	23
	–2, +2	–0.41%	47.83%	–0.21	–0.45	23
	–1, +5	0.83%	52.17%	0.21	0.74	23
No repeat	–1, 0	0.17%	46.15%	–0.28	0.29	13
CalPERS	0	0.31%	46.15%	–0.28	0.63	13
targetings	–1, +1	0.34%	61.54%	0.83	0.44	13
	–2, +2	0.50%	61.54%	0.83	0.67	13
	–1, +5	1.11%	61.54%	0.83	0.99	13
Clean sample	–1, 0	–0.52%	33.33%	–1.00	–0.76	9
CalPERS	0	–0.14%	33.33%	–1.00	–0.29	9
targetings	–1, +1	–0.65%	44.44%	–0.33	–0.77	9
	–2, +2	0.48%	55.56%	0.33	0.45	9
	–1, +5	1.47%	55.56%	0.33	0.91	9
<i>Panel B — Post Wahal's (1996) 1994–2003 sample</i>						
Full sample	–1, 0	–0.05%	53.01%	0.55	–0.12	83
	0	0.30%	49.40%	–0.11	0.79	82
	–1, +1	0.13%	50.60%	0.11	0.24	82
	–2, +2	0.14%	44.58%	–0.99	0.13	82
No repeat sample	–1, 0	–0.14%	50.73%	0.12	–0.29	68
	0	0.28%	49.28%	–0.12	0.65	68
	–1, +1	0.05%	49.28%	–0.12	0.08	68
	–2, +2	0.13%	43.48%	–1.08	0.10	68
Clean sample	–1, 0	–0.53%	49.12%	–0.13	–0.96	56
	0	0.10%	45.61%	–0.66	0.22	56
	–1, +1	–0.66%	43.86%	–0.93	–1.02	56
	–2, +2	–0.37%	40.35%	–1.46	–0.29	56

Panel C—English, Smythe, and McNeils' (2004) 1992–1997 sample

Full sample	–1, 0	0.04%	52.38%	0.38	0.11	63
	0	0.23%	49.21%	–0.13	0.65	63
	–1, +1	0.47%	58.73%	1.39	0.97	63
	–2, +2	–0.04%	52.38%	0.38	–0.05	63
	–1, 0	–0.06%	46.67%	–0.45	–0.12	45
No repeat sample	0	0.20%	46.67%	–0.45	0.45	45
	–1, +1	0.53%	57.78%	1.04	0.95	45
	–2, +2	0.00%	53.33%	0.45	0.00	45
	–1, 0	–0.32%	48.39%	–0.18	–0.63	31
	0	–0.43%	38.71%	–1.26	–1.06	31
Clean sample	–1, +1	0.33%	61.29%	1.26	0.57	31
	–2, +2	–0.73%	51.61%	0.18	–0.72	31

Panel D—Full sample from 1990 to 2003

Full sample	–1, 0	–0.13%	51.33%	0.28	–0.38	112
	0	0.20%	47.79%	–0.47	0.69	112
	–1, +1	0.09%	52.21%	0.47	0.21	112
	–2, +2	0.22%	48.67%	–0.28	0.28	112
	–1, 0	–0.16%	50.00%	0.00	–0.41	91
No repeat sample	0	0.16%	46.74%	–0.63	0.47	91
	–1, +1	0.08%	51.09%	0.21	0.17	91
	–2, +2	0.37%	48.91%	–0.21	0.38	91
	–1, 0	–0.54%	47.95%	–0.35	–1.21	72
	0	–0.02%	42.47%	–1.29	–0.06	72
Clean sample	–1, +1	–0.55%	45.21%	–0.82	–1.05	72
	–2, +2	–0.15%	45.21%	–0.82	–0.15	72

The average cumulative market adjusted abnormal returns, using the CRSP equally weighted index, associated with the announcement of CalPERS targeting a firm are reported in this table. The targetings occur over the period from 1990 to 2003. The event dates for the Wahal (1996) 1990–1993 sample reported in Panel A were obtained directly from Sunil Wahal. The event dates used in Panels B and C are determined by searching for the first available news story in the Wall Street Journal using the ProQuest online databases. The full sample analysis reported in Panel D uses the earliest date available when combining Wahal's (1996) sample with the official CalPERS focus list release dates for the 1990–2003 period. Abnormal returns are calculated using a simple market adjustment by subtracting either the CRSP equally weighted return. No repeats refers to no "repeat offenders," which are firms that were targeted by CalPERS the previous year. Contaminating events were identified in those firms where a significant news event was found by searching the full text of the Wall Street Journal using the Proquest online databases during the five-day window surrounding the announcement of the firm's appearance on the CalPERS list. The "clean" sample eliminates repeat offenders and firms with contaminating news events. One firm has missing returns during the event day.

over 551 trading days, beginning 275 days prior to the announcement through 275 days following the announcement. Specially, the model I estimate is:

$$R_p - R_f = \alpha_0 D_0 + \beta_0 (R_m - R_f) + \alpha_1 D_1 + \beta_1 (R_m - R_f) D_1 + \alpha_2 D_2 + \beta_2 (R_m - R_f) D_2$$

Where:

$R_p - R_f$ is the value-weighted portfolio of CalPERS focus list firms,

$R_m - R_f$ is the excess return on the value weighted CRSP index less the average daily return on the 30 day *t*-bill,

D_0 is a dummy variable that takes on a value of 1 if the trading day is 275 to 3 days before the announcement of inclusion on the CalPERS focus list and 0 otherwise,

D_1 is a dummy variable that takes on a value of 1 if the trading day is within the five-day window surrounding the announcement of inclusion on the CalPERS focus list and 0 otherwise, and

D_2 is a dummy variable that takes on a value of 1 if the trading day is 3 to 275 days beyond the day of inclusion on the CalPERS focus list.

I can better focus on the abnormal returns, reflected in the coefficients, α_0 , α_1 , and α_2 , because any potential change in market risk is controlled for by the interaction variables. To alleviate any potential concerns related to heteroskedasticity, I determine significance using [White's \(1980\)](#) corrected *t*-statistics. Although I don't report the full results of this analysis, I observe significant negative abnormal returns over the pre-announcement period as captured by α_0 , yet no significant abnormal returns immediately surrounding the CalPERS focus list announcements (α_1) or for the period following the announcements (α_2). The results indicate that none of the intercepts from the time-series regressions surrounding the announcements are different from zero, implying that there are no abnormal returns associated with the release of the CalPERS focus list.

4. Summary and conclusions

Several recent studies have identified significant positive abnormal returns in firms surrounding the announcement of targeting by the California Public Employees Retirement System. This result has been popularly dubbed the "CalPERS effect." Whether CalPERS' efforts are really effective is an important research question since CalPERS, and many other institutional investors, continue to commit time, effort, and financial resources toward this form of activism based upon the belief that their efforts will lead to improved stock returns. CalPERS believes its program of targeting poorly performing companies adds value and cites several previous studies on their website as evidence to their effectiveness. In this paper I address whether the positive abnormal returns found in these previous studies can be explained by methodological problems and whether the "CalPERS effect" persists into later years.

While my results are consistent with [Smith \(1996\)](#) and [Wahal \(1996\)](#), I find no evidence to support the persistence of a "CalPERS effect" into later periods. I contend that the

results of Anson, White, and Ho (2003), English, Lie, and Maxwell (2003), and English, Smythe, and McNeil (2004) are driven by inclusion of targetings from 1992 to 1993 and from various problems with the event study methodologies employed. Foremost among the difficulties in the event study methodologies is that all of the prior studies rely on market model parameters estimated over a pre-event window, a period of known underperformance. Using a sample of CalPERS targets from 1990 to 2003, I find that estimating the parameters using pre-event returns results in market model alphas that are significantly negative and their use leads to a positive bias when used to calculate cumulative abnormal returns. I find the alphas estimated using post-event returns are significantly larger and the CARs calculated using post-event parameters are insignificantly different from zero. Fama (1991,1998) argues that event studies are generally clean scientific experiments that are less likely than long horizon studies to be subject to the bad model problem. Like Schwert (2000) who finds biases in estimating bidder returns using pre-event estimated parameters, however, my results demonstrate how pre-event estimation of market model parameters can still impose biases even in the short term.

Appendix A. Wahal's (1996) CalPERS Targets, Letter Dates, and Containing Events

CRSP permno	Letter date	Company name	Contaminating event story
18016	19901019	Hercules	
42024	19901026	Boise Cascade	
12490	19911107	IBM	WSJ 11/07/1991, p. B5, "IBM, Intel Agreement Sets Cooperation in Design of Processors for Future PCs." WSJ 11/08/1991, p. B8, "IBM's Akers Reiterates Positive Outlook for 4th Period; Stock Price Jumps \$3.25."
26438	19911107	Polaroid	
40483	19911126	Time Warner	WSJ 11/27/1991, p. B6, "Time Warner's Ross Beginning Treatment for Prostate Cancer."
21397	19920404	Champion International	
15368	19920915	Westinghouse	WSJ 09/15/1992, p. C, "Westinghouse Gets Contracts." WSJ 09/18/1992, p. A9, "Westinghouse Gets \$220 Million Order For Nuclear Plant in Czech Republic."
35211	19921014	Pennzoil	
61241	19921022	Advanced Micro Devices	
62894	19921022	MacFrugals Bargains	
70835	19921022	Sizzler Int'l	

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Appendix A (continued)

CRSP permno	Letter date	Company name	Contaminating event story
61241	19930122	Advanced Micro Devices	WSJ 01/20/1993, p. B6, "Advanced Micro, Hewlett Plan Collaboration—Effort Aimed at Developing Process to Put More Transistors on Chips." WSJ 01/22/1993, p. B5, "Sematech claims major advance by halving size of chip circuits."
42024	19930122	Boise Cascade	WSJ 01/21/1993, p. B4, "Boise Cascade Corp.: Forest Products Firm Posts Wider Loss for 4th Quarter."
21397	19930122	Champion International	
11260	19930122	Chrysler	WSJ 01/20/1993, p. C1, "Heard on the street: Chrysler stock is racing, but is it going too fast?" WSJ 01/22/1993 p. A3, "GM's Results Could Exceed Expectations—Some Analysts Even Predict Small 4th-Period Profit Before One-Time Items." WSJ 01/26/1993, p. A2, "Car, Truck Sales Spurred by 22% In Mid-January— U. S. Sport Utility Vehicles, Minivans, Trucks Paced Climb in 10-Day Period." WSJ 01/27/1993, p. B4, "Business Brief—Chrysler Corp.: Shipments Rose 22% in '92 Outside North America." WSJ 01/29/1993, p. A3, "Chrysler posts highest profit in 4 years, raises some car prices more than \$100."
12490	19930122	IBM	WSJ 01/20/1993, p. A3, "IBM's 4th-Quarter Deficit Hit a Record \$5.46 Billion— Operating Loss of \$45 Million Is the Company's First; Outlook Remains Poor."
62894	19930122	MacFrugals	
35211	19930122	Bargains	
26438	19930122	Pennzoil	WSJ 01/22/1993, P. B6, "Polaroid to Post Sharply Lower Profit for 1992."
14322	19930122	Polaroid	WSJ 01/22/1993, P. C, "Financing Business: Sears, Roebuck and Co." WSJ 01/26/1993, p. B1, "Retailing: Sears trims operations, ending an era." WSJ 01/27/1993, p. A8, "Sears will re-establish base in malls, target middle-of-the-road merchants."
14322	19930122	Sears	
56354	19930122	Sizzler Int'l	
40483	19930122	Time Warner	
15368	19930122	Westinghouse	WSJ 01/21/1993, p. A2, "Westinghouse posts 4th-quarter loss of \$1.18 billion after big write-downs."

Appendix A (continued)

CRSP permno	Letter date	Company name	Contaminating event story
15368	19930122	Westinghouse	WSJ 01/21/1993, p. A2, “Westinghouse posts Deficit For 4th Quarter.” WSJ 01/22/1993, p. B4, “Business Brief—Westinghouse Electric Corp.: Unit Expects to Lay Off 500 due to Loss of Defense Job.”

Appendix B. CalPERS Focus List Targetings, WSJ Event Dates, and Contaminating Events

CRSP permno	WSJ date	Company name	Contaminating event story
59176	19920323	American Express	
38914	19920323	Control Data Corporation	
11260	19920323	Chrysler Corporation	WSJ 03/24/1992, p. A2, “U. S. Car Sales Dropped 6.9% in Mid March—Weak Results Prompt Rally By Bond Market, Decline in the Price of Stocks.” WSJ 03/25/1992, p. B4, “Business Brief—Chrysler Corp.: Ways to Cut \$650 Million in 1992 Costs are Found.”
19721	19920323	Dial Corporation	
18016	19920323	Hercules Inc	
12570	19920323	ITT Corporation	
12490	19920323	IBM	
26438	19920323	Polaroid	
27633	19920323	Ryder Systems Incorporated	
27596	19920323	Salomon Incorporated	
40483	19920323	Time–Warner	
28847	19920323	USAir Group	WSJ 03.23/1992, p. A1, “World-Wide: A Commuter Plan Crashed.” WSJ 03/24/1992, p. A4, “Authorities Continue to Search for Clues to Cause of USAir Crash at La Guardia.”
61241	19930122	Advanced Micro Devices	WSJ 01/20/1993, p. B6, “Advanced Micro, Hewlett Plan Collaboration— Effort Aimed at Developing Process to Put More Transistors on Chips.” WSJ 1/22/1993, p. B5, “Sematech claims major advance by halving size of chip circuits.”
42024	19930122	Boise Cascade	WSJ 01/21/1993, p. B4, “Boise Cascade Corp.: Forest Products Firm Posts Wider Loss for 4th Quarter.”
21397	19930122	Champion International	

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Appendix B (continued)

CRSP permno	WSJ date	Company name	Contaminating event story
11260	19930122	Chrysler Corporation	WSJ 01/20/1993, p. C1, "Heard on the street: Chrysler stock is racing, but is it going too fast?" WSJ 01/22/1993 p. A3, "GM's Results Could Exceed Expectations—Some Analysts Even Predict Small 4th-Period Profit Before One-Time Items." WSJ 01/26/1993, p. A2, "Car, Truck Sales Spurred by 22% In Mid-January—U. S. Sport Utility Vehicles, Minivans, Trucks Paced Climb in 10-Day Period."
12490	19930122	IBM	WSJ 01/20/1993, p. A3, "IBM's 4th-Quarter Deficit Hit a Record \$5.46 Billion—Operating Loss of \$45 Million Is the Company's First; Outlook Remains Poor."
62894	19930122	MacFrugals	
35211	19930122	Bargains	
26438	19930122	Pennzoil	
14322	19930122	Polaroid	WSJ 01/22/1993, P. B6, "Polaroid to Post Sharply Lower Profit for 1992."
14322	19930122	Sears	WSJ 01/22/1993, P. C, "Financing Business: Sears, Roebuck and Co." WSJ 01/26/1993, p. B1, "Retailing: Sears trims operations, ending an era."
56354	19930122	Sizzler	
40483	19930122	International	
15368	19930122	Time–Warner	
15368	19930122	Westinghouse Electric	WSJ 01/21/1993, p. A2, "Westinghouse posts 4th-quarter loss of \$1.18 billion after big write-downs." WSJ 01/21/1993, p. A2, "Westinghouse posts Deficit For 4th Quarter." WSJ 01/22/1993, p. B4, "Business Brief-Westinghouse Electric Corp.: Unit Expects to Lay Off 500 due to Loss of Defense Job."
42024	19940119	Boise Cascade	WSJ 01/19/1994, p. B2, "Boise Cascade reports 4th-quarter net loss narrowed slightly."
20248	19940119	CPI	
11754	19940119	Corporation	
11754	19940119	Eastman	
58296	19940119	Kodak	
58296	19940119	First	
12490	19940119	Mississippi	
12490	19940119	IBM	
12503	19940119	Navistar	
12503	19940119	International	

Appendix B (continued)

CRSP permno	WSJ date	Company name	Contaminating event story
15069	19940119	USX Corporation	WSJ 01/17/1994, p. B8, "Producers of steel plate increase prices 2% to 4%." WSJ 01/19/1994, p. B5, "USX Corp.: Mining unit idles facility, plans layoff of 500 workers."
25937	19940119	U. S. Shoe Company	
15368	19940119	Westinghouse Electric	
18067	19940119	Zenith Electronics Corporation	
42024	19950203	Boise Cascade	
58296	19950203	First Mississippi	
42104	19950203	Jostens Incorporated	
12749	19950203	Kmart Corporation	WSJ 02/03/1995, p. A6, "Retailers post robust sales for January."
17005	19950203	Melville Corporation	WSJ 02/03/1995, p. A6, "Retailers post robust sales for January."
12503	19950203	Navistar International	
75423	19950203	Oryx Energy Corporation	
25937	19950203	U. S. Shoe Company	WSJ 02/03/1995, p. B2, "U. S. Shoe post sluggish sales."
45970	19950203	Zum Industries	
11211	19960206	Applied Bioscience International	
17137	19960206	Bassett Furniture Industries	
22753	19960206	Charming Shoppes Inc	WSJ 02/05/1996, p. B5, "Charming Shoppes Inc.: Retailer plans \$66 million in fourth-quarter charges."
21039	19960206	Edison Brothers Stores Inc	
17005	19960206	Melville Corporation	
75423	19960206	Oryx Energy Corporation	
64477	19960206	Rollins Environmental Services	SEC 02/02/1996, SC 13G/A— Statement of acquisition of beneficial ownership by individuals

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Appendix B (continued)

CRSP permno	WSJ date	Company name	Contaminating event story
27764	19960206	Stride Rite Corporation	
79250	19960206	U. S. Surgical Corporation	
76498	19960206	Venture Stores Inc	WSJ 02/02/1996, p. B4, "Venture Stores Inc.: Retailer plans to lay off additional 390 employees."
14593	19970211	Apple Computer	
17137	19970211	Bassett Furniture Industries	
47271	19970211	Fleming Cos	
90609	19970211	Novell Inc	
91380	19970211	Reebok International	
64477	19970211	Rollins Environmental Services	
70018	19970211	Sensormatic Electronics Corp	WSJ 02/13/1997, p. C, "Earnings Surprises."
27764	19970211	Stride Rite Corporation	
11522	19970211	Summit Technology Inc	
76792	19970211	Sybase Inc	
69199	19980224	A. Schulman	
61241	19980224	Advanced Micro Devices	
83596	19980224	Electronics Data Systems	
40272	19980224	International Flavors and Fragrances	
56223	19980224	Louisiana Pacific Corporation	
53381	19980224	Michaels Stores	
72961	19980224	Stewart and Stevenson Services	
76792	19980224	Sybase Inc	WSJ 02/24/1998, p. 1, "SYBASE INC.: Work-Force Cut of 10% Is Set by Technology Firm."
74203	19980224	TBC Corporation	

Appendix B (continued)

CRSP permno	WSJ date	Company name	Contaminating event story
65533	19990421	Circus Circus Enterprises	
41080	19990421	Cummins Engine Co	
12511	19990421	Mallinckrodt Inc.	WSJ 04/21/1999, p. 1, "Earnings Surprises."
51377	19990421	National Semiconductor Corp	
16548	19990421	Pacific Century Financial Corp	
75241	19990421	Pioneer Natural Resources Co.	
68591	19990421	St. Jude Medical Inc.	
67723	19990421	Sierra Health Services Inc	
77730	19990421	Tyson Foods Inc	
61241	20000222	Advanced Micro Devices	
18570	20000222	Bob Evans Farms	
17726	20000222	Crown Cork and Seal	
54391	20000222	A. G. Edwards	
36469	20000222	First Union Corporation	
44792	20000222	Intergraph Corporation	
77405	20000222	Lone Star Steakhouse and Saloon	
18403	20000222	J. C. Penney Company	
77276	20000222	Phycor	
46922	20000222	Rite Aid	WSJ 02/24/2000, p. 1, "Rite Aid Says Court Dismissed Suit Saying Chain Overcharged."
47175	20010321	Circuit City	
48531	20010321	Lance	
25961	20010321	Metromedia	
84584	20010321	Ralcorp	
77080	20010321	Warnaco	
23473	20020424	Cincinnati Financial	
79973	20020424	Gateway	

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Appendix B (continued)

CRSP permno	WSJ date	Company name	Contaminating event story
83332	20020424	Lucent Technologies	WSJ 04/23/2002, p. C3, “Telecom Rout: WorldCom Falls 33%, Ericsson 23%.” WSJ 04/23/2002, p. A3, “Leading the News: Telecom Sector’s Crash Shows Signs of Deepening-Ericsson, Seeing No ’02 Profit, To Cut More Jobs, Sell Shares; Lucent Sales Fall by 40%.” WSJ 04/26/2002, p. B1, “Lucent Leaders Reaped Bonuses Amid Cost Cuts.”
76799	20020424	NTL, Inc	
85032	20020424	Qwest Communication	WSJ 04/22/2002, p. B5, “WorldCom Cuts Revenue Forecast.” WSJ 04/22/2002, p. C1, “Stocks Struggle As Forecasts Remain Muted—Investors Worry U. S. Shares May Have Gotten Too Expensive Compared With Future Earnings.” WSJ 04/22/2002, p. B3, “BellSouth Profit Advances 30% With Asset Sale.”
27983	20030328	Xerox	
84005	20030328	Gemstar-TV Guide International;	WSJ 04/01/2003, p. D5, “Media Brief-Gemstar-TV Guide International: Financial Results Are Revised Again as Ex-Officers Sue SEC.”
79879	20030328	JDS UniPhase	
79505	20030328	Manugistics Group	
84031	20030328	Midway Games, Inc.	
75912	20030328	Parametric Technology	

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