Hedge Fund Activism and Dual Ownership of U.S. Multinationals

Roman Bohdan\textsuperscript{a}, Tarun Mukherjee\textsuperscript{b}

Abstract

Harford, Wang & Zhang (2017) conclude that holding high cash balances abroad to avoid US taxes causes internal capital markets and investments distortions. We posit that hedge funds target MNCs with more severe internal capital and agency problems. We demonstrate that upon acquiring dual ownership in these firms, hedge funds reduce internal capital problems and improve investment, especially innovation, efficiencies. To further reduce agency costs of foreign cash holdings, hedge funds engage dual firms in focused acquisitions. These improvements are reflected in superior performances of dual firms relative to non-dual firms.

\textit{JEL Classification:} G23, G32, G34, O31

\textit{Keywords:} Dual holders, Institutional investor activism, Innovation, Product Market Competition, Foreign Cash

\textsuperscript{a} PhD Candidate, Economics and Finance Department, Kirschman Hall 438D, The University of New Orleans, New Orleans, LA 70148, Tel: (914)885-3663, Email: rbohdan@uno.edu

\textsuperscript{b} Professor of Finance, Economics and Finance Department, Kirschman Hall 437, The University of New Orleans, New Orleans, LA 70148, Tel: (504)280-7146, Email: tmukherj@uno.edu