

# The Role of Shareholder Proposals in Corporate Governance

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## Abstract

This paper shows evidence for the corporate governance role of shareholder-initiated proxy proposals. Despite claims to the contrary, the proponent activists show little indication of self-serving behavior, as they target firms that underperform and have generally poor governance structures. Moreover, the market and the voting shareholders also observe the target firm's governance quality, and clearly attribute meaningful control benefits to proposal submissions. Proposal implementation is largely a function of voting success, but is affected by managerial entrenchment and rent-seeking. We conclude that shareholder proposals are a relevant device of external control, countering recent arguments that they should be restricted by the SEC.

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## 1. Introduction

Shareholder activism through the proxy process has been subject to intense academic debate in recent years. Bebchuk (2005) advocates shareholder participation in corporate governance, and argues that shareholder-initiated proxy proposals are a useful and relevant means of countering managerial agency problems. This assertion is supported by Harris and Raviv's (2008) theoretical model, which shows that in firms with exacerbated agency concerns, it is always optimal that shareholders seek control over corporate decisions. Other studies are nonetheless very vocal in questioning the control benefits of shareholder proposals. Prevost and Rao (2000) point out that they often signal previously failed private negotiations with management, and may exert no discipline anyhow due to their nonbinding nature. Legal scholars add that the proposal sponsors themselves are likely to pursue their self-serving agendas or be simply too uninformed to make effective governance decisions, with Bainbridge (2006) going as far as inferring that proposal submissions should be restricted by the SEC.

The recent empirical literature provides some evidence that shareholder proposals play a meaningful role in corporate governance. Thomas and Cotter (2007) and Ertimur et al. (2010) find that due to negative publicity and other reputational penalties, proposals that win a majority vote are now likely to be implemented. Ertimur et al. (2010) also show that the voting shareholders observe the target firm's governance quality and are more likely to support proposals against entrenched management. Nonetheless, it remains unclear whether proposal sponsors themselves have the "correct" objective of disciplining management, or otherwise use the proxy process effectively. On one hand, while the target firms have been shown to be poorly performing, there is no evidence that they have poor governance structures such as heavily entrenched managers (Akyol and Carroll, 2006) or ineffective boards (Choi, 2001). On the other, the literature provides no evidence that shareholder proposals have positive valuation effects, with some papers reporting outright negative stock price reactions to the takeover-related proposals that typically attract the most voting support (Bizjak and Marquette, 1998; Del Guercio and Hawkins, 1999).

This paper offers evidence on the corporate governance role of shareholder proposals by simultaneously investigating the selection of target firms and the proposal outcomes in terms of voting success, implementation, and stock price effects. Using 2,436 proposals submitted between 1996 and 2005, a sample of 1,961 target and nontarget firms, as well as extensive

controls for governance quality, we make several contributions to the literature. First, we find that shareholder proposals tend to be targeted at firms that both underperform and have generally poor governance structures. The results show that regardless of the proposal objectives, submissions are more likely to be made against firms that (i) use antitakeover provisions to entrench management, (ii) have ineffective boards, and (iii) have ill-incentivized CEOs. More detailed analysis reveals that target selection is largely driven by governance concerns irrespective of the sponsor type. Overall, these findings provide very limited basis to the claim that activists such as union pension funds pursue self-serving agendas.

Second, we use sample selection models to test whether the target firm's governance structures are observed by the voting shareholders, notwithstanding the careful target selection process. The results confirm that while voting success is largely determined by the proposal characteristics, it strongly increases in governance concerns over both managerial entrenchment and board quality. Therefore, the proposals that ultimately pass the shareholder vote are likely to have significant control benefits. We also confirm the finding of Ertimur et al. (2010) that voting success is the most fundamental determinant of whether a proposal is adopted by the board of directors. However, we provide evidence for the first time that probability of implementation is adversely affected by managerial entrenchment and rent-seeking behavior.

Finally, the paper provides clear evidence that the market views shareholder proposals as a relevant device of external control. The stock price effects are most fundamentally driven by the target firm's prior performance and governance quality. At the same time, they are strongest for proposals that win a majority vote as well as pass, which indicates that the market anticipates voting success reasonably well. Nonetheless, while voting outcomes and implementation rates have improved dramatically over time, the market returns are strongest during stock market peaks when there is a high premium for good governance. We also find evidence that the stock price effects are higher for firms that are targeted for the first time. This implies that the control benefits of shareholder proposals at least partly stem from the activist effort of the proposal sponsor and the resulting pressure imposed by the voting shareholders, rather than the implementation of the proposals themselves.

The remainder of this paper is outlined as follows. Section 2 reviews the theoretical and empirical literature on the corporate governance role of shareholder proposals. Our sample is described in Section 3 with a detailed discussion of recent trends in shareholders' use of the

proxy process. The results of the sample selection models are presented in Section 4. Section 5 finally allows for some concluding remarks.

## **2. The literature on shareholder proposals**

### *2.1. Theoretical background*

Gillan and Starks (2007) place shareholder activism on a continuum of responses that dissatisfied investors can give to corporate governance concerns. At one extreme of the continuum, shareholders can simply vote with their feet by selling their shares (Parrino et al., 2003). At the other extreme is the market for corporate control, where investors initiate takeovers and buyouts to bring about fundamental corporate changes (Fama and Jensen, 1983). The role of shareholder activism arises when shareholders continue to hold their shares and seek to induce changes within the firm without a change in control. These investors may then press for corporate reforms by negotiating with management behind the scenes, or – especially when management is unresponsive – by submitting proxy proposals for shareholder vote.

While shareholder proposals are generally considered to be relatively weak as a disciplinary mechanism, it has been widely debated whether they have any control benefits at all. Bebchuk (2005) advocates shareholder participation in corporate governance, and attributes shareholder proposals a meaningful role in mitigating the agency problems associated with managerial decisions. This assertion is supported by Harris and Raviv's (2008) theoretical model. The model shows that in firms where managerial agency concerns are exacerbated, it is optimal that activist shareholders seek control over corporate decisions, whether or not they are at an informational disadvantage vis-à-vis management, or they are motivated by personal agendas rather than the maximization of firm value.

Other studies conversely argue that proposal submissions have little use as an agency control device, and may actually have negative implications from a corporate governance perspective. Prevost and Rao (2000) point out that institutional activists often try to first negotiate with management behind the scenes, and only submit proposals as a last resort. In their interpretation, the market may respond negatively to proposal submissions, to the extent that they signal management's reluctance to negotiate even with significant shareholders who can build strong

voting coalitions. The authors add that shareholder proposals may well be ineffective anyhow in disciplining management, because they are nonbinding under the SEC's Rule 14a-8.

The main argument offered against shareholder proposals, which Harris and Raviv (2008) seek to address, is that the proposal sponsors themselves can be beset with conflict of interest motivations, or be simply too uninformed to make effective decisions on corporate governance. Public pension funds are often praised for their advocacy of shareholder interests, but Woitke (2002) argues that political and social influences may divert their focus from disciplining management and maximizing firm value. More explicit are Prevost et al. (2009) in pointing out that union pension funds may use the proxy process to achieve their self-serving agendas, pointing to their role in the collective bargaining process and their other political interests. In the legal literature, Lipton (2002), Bainbridge (2006) and Stout (2007) use similar lines of reasoning to challenge Bebchuk's (2005) advocacy of shareholder participation. Bainbridge (2006) goes as far as claiming that shareholders' use of the proxy process can outright damage the firm by disrupting the decision-making authority of the board of directors, and infers that the SEC should consider raising the hurdles for proposal submissions.

## *2.2. Empirical evidence*

Whether shareholder proposals have meaningful control benefits is unclear from the empirical literature summarized in the surveys of Black (1998), Karpoff (2001), and Gillan and Starks (2007). However, more recent studies provide some evidence in this regard. Thomas and Cotter (2007) and Ertimur et al. (2010) find that despite their nonbinding nature, as much as 40% of proposals that pass the majority vote now end up being implemented. The target firms that ignore passed proposals have been shown to draw negative press, receive downgrades by governance rating firms, or end up on CalPERS's "focus list" of poor financial and governance performers. Ertimur et al. (2010) add that their directors also become less likely to be reelected and more likely to lose other directorships, in many cases due to dissatisfied activists targeting director elections with "just vote no" campaigns (Del Guercio et al., 2008).

Despite these key results, the literature is inconclusive on whether the proposal sponsors themselves have the "correct" incentive of disciplining management. Previous studies report that large, poorly performing firms are more likely to be targeted (Karpoff et al., 1996; Martin and Thomas, 1999). Smith (1996) argues that the proposal sponsors also consider the voting

shareholders, and tend to target firms with high institutional and low insider ownership. There is no evidence, however, that agency concerns in these firms are otherwise exacerbated by poor governance structures, with Choi (2001) and Akyol and Carroll (2006) respectively finding that they have neither inefficient boards nor heavily entrenched managers.

Ertimur et al. (2010) recently find that the voting shareholders observe the target firm's governance quality, and are more likely to support proposals submitted against entrenched managers<sup>1</sup>. Otherwise, Gillan and Starks (2007) argue that the voting success of shareholder proposals is fundamentally driven by the proposal objective and the type of the proposal sponsor, and has historically been strongest for proposals targeting antitakeover devices and sponsored by institutional investors<sup>2</sup>. Cremers and Romano (2007) additionally note the relevance of the voting shareholders. On one hand, voting success increases in institutional and decreases in insider ownership. On the other, it increases to a lesser extent in ownership by insurance firms and banks' trust departments, which Brickley et al. (1988) and Pound (1988) call pressure-sensitive institutions due to their existing or potential business ties with the firms they invest in<sup>3</sup>. The authors regard pension funds, investment funds, and independent investment advisors as being pressure-insensitive because they are less likely to have such business ties<sup>4</sup>.

Previous studies argue that the stock price effects of shareholder proposals should be examined around the dates the proxy statements are mailed, because the market should have reasonable expectations on the eventual outcome (Bhagat, 1983; Bhagat and Brickley, 1984), and there is otherwise no systematic market response to proxies that do not contain shareholder proposals (Brickley, 1986). Nonetheless, Gillan and Starks (2000) note that the stock price reactions to proposal announcements are difficult to ascertain. First, proxies often contain

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<sup>1</sup> Gordon and Pound (1993) and Bizjak and Marquette (1998) detect no evidence that voting success is affected by the target's use of antitakeover devices or board effectiveness.

<sup>2</sup> McCahery et al. (2009) find that corporate governance is an important factor in the investment decisions of institutional investors, and many of them are prepared to go as far as engaging in shareholder activism.

<sup>3</sup> Conflicted voting by institutional investors has long been challenged by activist investors and prompted the SEC's mutual fund proxy vote disclosure rule in June 2003. However, Cremers and Romano (2007) suggest that the extent of conflicted voting may actually have been exaggerated in the first place.

<sup>4</sup> Greater ownership by pressure-insensitive investors has been associated with greater emphasis on pay for performance (Almazan et al., 2005), better acquisition decisions (Chen et al., 2007), and better overall financial performance (Cornett et al., 2007).

multiple proposals submitted by both shareholders and management, as well as disclose other important information. And second, information leakages may occur, for example when institutional proposal sponsors announce their projected targets for the impending proxy season.

Previous event studies indeed show little evidence that the market recognizes shareholder proposals as a relevant control device. Most papers find insignificant abnormal stock returns around proposal announcements (Karpoff et al., 1996; Smith, 1996; Wahal, 1996; Thomas and Cotter, 2007), while others report outright negative returns for proposals targeting poison pills (Bizjak and Marquette, 1998; Del Guercio and Hawkins, 1999; Prevost and Rao, 2000). Moreover, Gillan and Starks (2000) find some evidence for Prevost and Rao's (2000) signaling hypothesis. The authors compare submissions made by institutional activists and by individual investors who are less likely to negotiate privately with management, and find that the abnormal returns for the former group are lower and mostly negative. Other results nonetheless suggest that the market attributes at least some control benefits to the shareholder proposals that are the most likely to pass. The literature reports no evidence that the market responds better to submissions made against firms with poor governance structures. However, Gillan and Starks (2000) find that like the voting outcomes, the abnormal returns are higher for poorly performing targets with high institutional ownership. Borokhovich et al. (2006) analyze this latter result for takeover-related proposals, and find that the returns are only related positively to ownership by pressure-insensitive institutions. Finally, Prevost et al. (2009) examine proposals sponsored by unions, and find positive market reactions to those submitted against firms with one or more unions present.

### **3. Sample description**

The shareholder proposals examined in this paper are all related to corporate governance and were submitted between 1996 and 2005. We compile accounting, market performance, ownership, and governance data on 1,961 NYSE, AMEX and NASDAQ-listed firms with single class common stock across 10,590 firm-years, using the Compustat, CRSP, Thomson Financial CDA/Spectrum, RiskMetrics and ExecuComp databases<sup>5</sup>. We then collect shareholder proposals submitted against these firms from the RiskMetrics proxy voting database, the annual corporate

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<sup>5</sup>We omitted dual class firms because their governance structures are difficult to compare with those of single class firms due to extensive voting and ownership differences.

governance reviews of the proxy firm Georgeson Shareholder Communications, and proxy statements available through the SEC's EDGAR database. The final sample contains 2,436 proposals submitted at 548 firms across 1,494 firm-years<sup>6</sup>.

We categorize the objectives of the sample proposals by whether they were directed at (i) antitakeover devices, (ii) the board of directors, (ii) voting rules, (iv) executive compensation, (v) the sale of the target firm (vi) auditors, (vii) routine issues related to the annual meeting, or (viii) other miscellaneous issues. The proposal sponsors are classified into (i) union pension funds, (ii) public pension funds, (iii) investment funds, (iv) coordinated investor groups, (v) socially responsible and religious investors, (vi) non-financial firms, and (vii) individual investors.

The sample contains 847 proposals targeted at antitakeover devices, directed primarily at classified boards (384), poison pills (264), golden parachutes (113), and supermajority provisions (60). More than half of these proposals were submitted after 2001, coinciding with corporate governance concerns after the Enron and subsequent accounting scandals. The number of submissions on board and voting-related issues remained comparatively stable with a respective 437 and 303 proposals, but the number of proposals calling for the independence of the board chairman and the election of directors by majority vote rose considerably in the 2000s. There were 551 proposals on executive compensation, more than double the 247 reported for 1987-1994 by Gillian and Starks (2000). Two thirds of these were submitted after 2002, reflecting concerns over the size, performance sensitivity, and expensing of pay packages. Arthur Andersen's involvement in the collapse of Enron also prompted a surge in audit-related submissions, with 57 of the 63 such proposals submitted after 2001. Submissions seeking the sale of the target firm increased during the stock market runup of the late 1990s but fell thereafter, with 80 of the 91 proposals submitted before 2002.

Of the institutional proposal sponsors, union pension funds were by far the most prolific with 810 submissions including 506 between 2003 and 2005. Schwab and Thomas (1998) and Prevost et al. (2009) point out that at the same time, union pension funds became increasingly innovative in using the proxy process and the media to target management. Gillan and Starks (2000) report

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<sup>6</sup> RiskMetrics and Georgeson do not report withdrawn proposals. Proposals are sometimes withdrawn because the sponsor has negotiated a satisfactory resolution, or the SEC has allowed the firm to reject the submission due to the improper subject matter or technical reasons. Several proposals that went to shareholder vote were also not reported by either RiskMetrics or Georgeson. The proxy statements were used to collect missing data and correct any errors.

only 119 union proposals for 1987-1994. Public pension funds and investment funds submitted 116 and 39 proposals, respectively. Public pension funds were active proposal sponsors until the early 1990s, when they shifted their strategy to private negotiations with management (Carleton et al., 1998; English et al., 2004; Wu, 2004; Nelson, 2006)<sup>7</sup>. Hedge funds and other investment funds have also been better known to rely on more controversial activist strategies, whereby they take positions in underperforming firms and target management directly (Brav et al., 2008; Becht et al., 2009; Greenwood and Schor, 2009; Klein and Zur, 2009; Bradley et al., 2010). Coordinated investor groups such as the now-defunct Investor Rights Association of America (IRAA)<sup>8</sup>, and socially responsible and religious investors submitted 170 and 112 proposals, respectively. Only two proposals were sponsored by a non-financial firm, WHX Corp against Global Industrial Technologies in 1999, preceded by a failed takeover bid and accompanied by a proxy contest. The remaining 1,189 proposals were submitted by individuals, who dominated the proxy process almost entirely until the mid-1980s. The most prominent “gadfly” investors have been active for many years, and include Evelyn Y. Davis and the Chevedden, Rossi and Gilbert families, who together submitted 516 proposals.

Public pension funds, investment funds and coordinated investors mostly targeted antitakeover devices and board quality, and the latter two groups also submitted 59 of the 91 proposals to sell the target firm. Overall, the submissions of these activist groups generally sought to strengthen internal and external control, although investment funds sponsored two proposals as part of failed short-slate proxy contests, and four firms were sold in friendly deals after being unsuccessfully targeted. Union pension funds engaged firms over a broader range of issues and were largely responsible for the increase in voting, compensation and audit-related submissions. While not necessarily as relevant for shareholder value, unions often targeted legitimate concerns over managerial rent-seeking and shareholder democracy, such as golden parachutes, performance-based pay, stock option expensing, majority director elections, and

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<sup>7</sup> Public pension funds began having more direct dialogue with management after the SEC passed new rules allowing shareholders to directly communicate with each other in 1992. This reduced the cost of creating shareholder coalitions and made the sponsoring of proxy proposals comparatively more expensive.

<sup>8</sup> The Investor Rights Association of America (IRAA) was a spin-off of the United Shareholders Association (USA), active until the early 1990s. The IRAA disbanded in 1998, but its founding members continued to make proposal submissions (Strickland et al., 1996).

reincorporation in a less management-friendly state<sup>9</sup>. Unions waged proxy contests to support 21 submissions against 12 firms, in each case without contesting board seats. Only 11 union proposals were directly related to labor welfare, seeking employee representation on the board or executive pay based on social criteria. In contrast, while socially responsible and religious investors sponsored proposals on classified boards and board quality, they mainly pursued softer objectives such as board inclusiveness and the review or restriction of executive pay.

The proposals sponsored by individual investors were by far the most diverse in terms of their policy objectives. The sample contains 36 individual proposals supported by proxy contests, but these were submitted against five firms, with directorships contested in three. The most prominent investors tended to concentrate on a few select issues. For example, Evelyn Y. Davis sponsored 38 of the 40 proposals on compensation disclosure, 37 of the 43 proposals on director tenure, and 26 of the 32 routine proposals on the date and location of the annual meeting. Davis and the Gilbert brothers sponsored 136 of the 186 submissions on cumulative voting, while 137 of the 264 poison pill proposals were submitted by the Chevedden and Rossi families.

### *3.1. Voting outcomes*

Table 1 stratifies the voting outcomes on the sample proposals by the issue addressed and the year of submission, the type of the proposal sponsor, the number of times the proposal had been submitted, and whether the sponsor waged a proxy contest supporting the proposal.

(Insert Table 1 about here)

Panel A shows that the voting support attracted by shareholder proposals was 33.8% on average, but rose significantly from 29.4% in 1996 to 37.9% in 2005. Gillan and Starks (2007) point out that proposal success had been improving since the mid-1980s, largely due to the rise of institutional equity ownership. Nonetheless, an improvement was apparent after 2001, coinciding with the corporate scandals of the early 2000s, and the introduction of the SEC's mutual fund proxy vote disclosure rule in June 2003.

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<sup>9</sup> The sample contains six proposals seeking reincorporation, from Bermuda or Maryland to Delaware, or from Delaware to Idaho or Minnesota. In each case the proposal sponsor argued that the existing jurisdiction was too management-friendly, citing the difficulty to hold management legally accountable (Bermuda), antitakeover devices not available elsewhere (Maryland), or race-to-the-bottom competition among states for incorporations (Delaware).

The proposals targeting antitakeover devices attracted by far the biggest share of the votes at an average 55.1%. The results were strong for each provision targeted, ranging from 42.7% for golden parachutes to 61.7% for supermajority provisions, except for the six proposals calling for reincorporation, which averaged 14.7%. The board-related proposals received only 20.1% of the votes on average. The submissions targeting the independence of the board and the board chairman were the most successful with 26.8% and 27.7% support, respectively. The proposals targeting voting rules and executive compensation respectively received an average 33.1% and 22.4% of the votes cast. The proposals seeking confidential voting and majority voting for directors won 47.2% and 37.3% support on average. The more successful compensation-related proposals called for shareholder approval of pay packages, or concerned the pay-performance sensitivity and accounting treatment of stock-based compensation. Standing out were the proposals seeking the expensing of stock options, which won an average 50.3% of the votes. The submissions targeting auditors, the sale of the target firm, and routine issues received 22.3%, 14.5%, and 5.5% of the votes, respectively.

Panel B of Table 1 shows that the takeover-related proposals performed well irrespective of the proposal sponsor. Otherwise, public pension funds and investment funds were the most successful in building voting coalitions, with an average 44.1% and 42.6% of the votes, respectively. Union pension funds won a lower share of the votes at 35.6%, which can reflect shareholder concerns over their political or social agendas, but is also consistent with the greater diversity of their proposal objectives. The percentage votes achieved by coordinated investor groups and socially responsible and religious investors were 29.7% and 20.4%, respectively. Finally, individual activists attracted an average 33.1% of votes cast. Indeed, several “gadfly” investors popular in the business media were very successful in gathering voting support, with the Chevedden and Rossi families achieving particularly strong voting outcomes.

Panel C of Table 1 indicates that consecutive resubmissions of the same proposal drew significantly more voting support. First-time submissions received 31.2% of the votes on average, while sixth-time submissions received 46.7%. Gillan and Starks (2000) argue that some of this improvement is likely to be due to selection bias. On one hand, activists may only resubmit the proposals they expect to achieve better outcomes. On the other, under SEC rules if a proposal has received less than a specified percentage of the votes, the target firm can refuse to take proposals

of the same subject matter for three years<sup>10</sup>. Panel D of Table 3 finally shows that the 68 proposals supported by proxy contests won considerably more voting support. The submissions without proxy solicitation by the proposal sponsor achieved an average 33.4% of the votes cast. In contrast, the average percentage votes were 43.1% when the sponsor waged a contest without making director nominations, and 52.0% when it also contested board seats.

### *3.2. Implementation*

Table 2 summarizes the proposals that won a majority of the votes, passed the shareholder vote based on the applicable voting rule, and were implemented by the board within one year of the submission. The implementation data, not reported by either RiskMetrics or Georgeson, were collected from company filings. As before, the results are categorized by issue addressed and the year of submission, the type of the proposal sponsor, the number of times the proposal had been submitted, and whether the sponsor waged a proxy contest.

(Insert Table 2 about here)

Panel A confirms the finding of Thomas and Cotter (2007) and Ertimur et al. (2010) that passed proposals are now very likely to be implemented. Between 1996 and 2000, only 17.1% of passed proposals were adopted. However, the rate of implementation grew dramatically in the latter part of the sample period, from 23.6% in 2002 to 70.1% in 2005. There is also evidence that firms increasingly abandon supermajority provisions and other voting rules that violate shareholder democracy. On one hand, the number of majority vote proposals that also passed the shareholder vote increased from 64.7% in 1996 to 91.6% in 2005. On the other, nine majority vote proposals that did not pass the shareholder vote were still adopted, mostly after 2002.

There is some indication in Panel B that the implementation of passed proposals depends on the type of the proposal sponsor. Public pension funds and investment funds respectively had 42.5% and 66.7% of their passed proposals adopted, even though the majority of these were submitted before 2003. The rate of implementation was 35.0% for passed proposals sponsored by

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<sup>10</sup> To avoid exclusion, a proposal must have received 3% of the votes on its first submission, 6% on the second, and 10% on the third. In 1997, the SEC proposed to increase these hurdles to 6%, 15%, and 30%, amid complaints that firms were becoming inundated with proposal submissions. These changes have yet to be implemented, however.

unions, including a comparatively low 56.1% for 2005<sup>11</sup>. A respective 34.5%, 41.2%, and 36.6% of passed proposals were implemented for coordinated investor groups, socially responsible and religious investors, and individuals.

Panels C and D of Table 2 finally provide evidence on the board's response to consecutive resubmissions of the same proposal and proxy solicitation by the proposal sponsor. The results show no indication that firms are more likely to adopt proposals that were previously rejected. In the sample, the rate of implementation declined from 39.1% for first-time proposals to 26.6% for fourth-time proposals, and while it increased thereafter, these resubmissions were made mostly after 2002. The panel shows that 57.1% of passed proposals were implemented when the sponsor waged a proxy contest without seeking board representation. However, only 36.8% were adopted when the sponsor also contested board seats, and therefore threatened the position of the existing directors.

### *3.3. Stock price effects*

We measure the valuation effects of the shareholder proposals by calculating cumulative abnormal returns (CARs) around the dates the proposals were first announced. These were typically the mailing dates of definitive proxy statements, but 383 proposals were announced earlier, either in a preliminary statement released by the target firm, or proxy materials filed by the proposal sponsor in the event of a proxy contest. The CARs are calculated using the market model methodology. The model parameters are estimated over the 200-day period ending 21 days before the announcement dates, using the CRSP equal-weighted index. Of the 1521 initial announcement dates, these parameters are available for 1510 events. The significance of the CARs is tested using Boehmer et al.'s (1991) standardized cross-sectional Z-test and Cowan's (1992) nonparametric generalized sign test.

Table 3 reports the CARs across a number of event windows. Remarkably, the results show evidence that the proposal announcements were met with statistically significant positive stock price reactions. The [-1,+1] CARs are small with the mean and median at 0.25% and 0.01%, respectively, and are only significant using the parametric Z-test, at the 5% level. However, the

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<sup>11</sup> Of the 75 union proposals that passed but were not adopted between 2003 and 2005, 42 sought the expensing of stock options. The board typically argued that they were waiting for, or preparing to adopt, the December 2004 revision of the Statement of Financial Accounting Standards (SFAS) No. 123 on stock-based compensation.

CARs in the [-1,+3], [-1,+5], and [-1,+7] time windows are both larger and significant both parametrically and nonparametrically. These results are robust to alternative specifications of the market model, implying that the market attributes at least some control benefits to shareholder proposals<sup>12</sup>. The modest size of the CARs is not surprising. On one hand, Section 2.2 discussed that we measure the market reactions to the proxy statements rather than the individual proposals, which leads to a considerable downward bias in the size and significance of the results. On the other, Gillan and Starks (2000) point out that shareholder proposals induce smaller and more specific improvements in corporate governance than do other, more drastic external governance mechanisms such as takeovers.

(Insert Table 3 about here)

Table 4 partitions the mean [-1,+1] CARs by the issue addressed and the year of submission, the type of the proposal sponsor, whether the firm had been previously targeted, and whether the sponsor waged a proxy contest. Consistent with the voting outcomes, the proposals targeting antitakeover devices had by far the strongest stock price effects. The CARs induced by the proxies containing these proposals have a mean and median of 0.44% and 0.10%, respectively, and are highly significant both parametrically and nonparametrically. There is also evidence that the market reacted positively to the board-related proposals, with a mean and median CAR of 0.27% and 0.10%, respectively.

(Insert Table 4 about here)

Panel A of Table 4 shows that the stock price effects did not improve over time, but were significantly positive during the stock market peaks and heightened takeover activity of 1999, 2000, and 2004, and turned negative in 1996 and 2003. This is a surprising result given the continuous improvement in the voting outcomes and implementation rates, and has two

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<sup>12</sup> The CARs are robust to the use of postevent estimation periods in the market model. We estimated the model parameters over the 200-day period beginning 21 and 42 days after the proxy mailing date. In each case the [-1,+1] CARs had a mean of 0.27% and median of 0.01%, and the Z-test was significant at the 5% level. The results are also robust to the use of the CRSP value-weighted index and the Standard and Poor's 500 Index, with the mean [-1,+1] CAR at 0.25% and 0.22%, respectively. In line with Brickley (1986), we find no systematic stock price reactions to proxy statement releases by nontarget firms.

implications. First, the marginal control benefits of shareholder proposals are most valuable when there is a high market premium for good governance, including a high premium paid in the event of a takeover bid (Cremers et al., 2009). Second, at least some of these control benefits are realized whether or not the proposals are implemented, through the costly activist effort of the proposal sponsors and the resulting public pressure exerted on management.

Panel B of Table 4 reports positive stock price reactions to the proxies containing proposals by investment funds, public pension funds, as well as union pension funds. The CARs for the first two groups are significant both statistically and economically, with a mean of 1.34% and 0.68%, respectively. The union proposals induced smaller price gains of 0.21%, but these are also significant at the 5% level using the parametric Z-test. The CARs are insignificantly positive for the remaining sponsor types. These findings are broadly in line with the superior bargaining power of these proposal sponsors. At the same time, they are inconsistent with Prevost and Rao's (2000) hypothesis that the market responds less positively to institutional submissions that are likely to signal failed private negotiations with management.

Panels C and D of Table 4 stratify the stock price effects of the proposal announcements by whether the firm had already been targeted, and proxy solicitation by the proposal sponsor. Importantly, for firms targeted for the first time the CARs have a mean of 0.47% and are significant at the 1% level. In contrast, they are insignificant for firms previously targeted with a mean of 0.06%. These results imply that the control benefits of shareholder proposals are largely realized when the market first observes an activist intervention through the proxy process. There is no evidence that the proposals supported by proxy contests induced more positive stock price reactions. The CARs are 0.85% and 1.05% on average for contests without and with contested board seats, respectively, but they are statistically insignificant.

Table 5 finally stratifies the stock price reactions by the subsequent proposal outcomes. The table confirms that market has reasonable expectations on voting success. The CARs are insignificant for the proposals that failed to achieve a majority of the votes, and the majority vote proposals that did not pass the shareholder vote. In contrast, for the majority vote proposals that also passed, the CARs have a mean and median of 0.42% and 0.18%, respectively, and are highly significant using both the parametric and nonparametric tests. It is surprising, however, that the CARs are only significant for the passed majority vote proposals that the target firms refused to implement. This may indicate that the market incorrectly anticipates which proposals end up

being adopted. However, it is also consistent with the argument that the control benefits of shareholder proposals stem from the activist effort of the proposal sponsor and the resulting pressure imposed by the voting shareholders, rather than the implementation of the proposals themselves.

(Insert Table 5 about here)

#### **4. Multivariate analysis of target selection and proposal success**

To further investigate the corporate governance role of shareholder proposals, we now perform a multivariate analysis of the target selection process and proposal success in terms of the voting outcomes, implementation rates, and stock price effects.

##### *4.1. Descriptive statistics of target versus nontarget firms*

Table 6 compares the descriptive statistics of the target versus nontarget firms using Compustat, CRSP, Thomson Financial CDA/Spectrum, RiskMetrics, and ExecuComp data. The variable descriptions provided in Appendix A. The difference-in-means t-tests assume unequal variances between the groups when the tests of equal variances are rejected at the 10% level. The significance of the differences in the medians is based on Wilcoxon ranksum tests.

(Insert Table 6 about here)

Panel A shows how the targets and nontargets compared in terms of their financial characteristics, market performance, and institutional ownership. Fama and French's (2001) agency proxies show mixed evidence that governance concerns in the targets were exacerbated. The targets tended to be larger than the nontargets, with assets of \$46.5 billion versus \$7.3 billion, respectively. However, there is no evidence that they had lower debt-to-equity or higher book-to-market ratios. The performance data confirm that the targets performed poorly in the year up to two months before the proxy mailing dates. Their stocks delivered an average raw return of 14.5%, and underperformed the CRSP equal-weighted index by 17.8%. The raw return

on the nontarget stocks was 20.6%, and these underperformed the CRSP index by only 11.2%<sup>13</sup>. The panel shows that the targets had lower institutional ownership, with the mean equity share of institutional investors at 62.8% and 63.9%, respectively. Furthermore, pressure-sensitive investors were overrepresented and pressure-insensitive investors underrepresented in the targets.

Panel B of Table 6 compares the governance structures of the target and nontarget firms in terms of their use of antitakeover devices, board effectiveness, and CEO pay and ownership. Gompers et al.'s (2003) Governance Index, which tracks 24 antitakeover provisions, confirms that the targets were subject to greater managerial entrenchment concerns, with an average 9.9 and 9.4 provisions in place, respectively. The statistics show no discernible difference based on Bebchuk et al.'s (2009) alternative Entrenchment Index, however. The targets and nontargets both employed an average 2.3 of what the authors regard as the six most important antitakeover devices: classified boards, poison pills, golden parachutes, limits to bylaw and charter amendments, and supermajority provisions for mergers<sup>14</sup>.

We measure board quality by (i) size, (ii) the proportion of independent directors, and (iii) the independence of the board chairman. The data show mixed evidence on how the targets and nontargets compared in terms of board governance. The targets had 11.3 directors on average, considerably more than the 9.6 directors nontargets had and the optimal board size of six to eight directors (Jensen, 1993; Yermack, 1996). Furthermore, only 12% of the targets separated the posts of CEO and board chairman, compared with 21% of the nontargets. However, the target had more independent directors, at 70.9% and 66.7%, respectively.

Finally, we consider two aspects of CEO wealth and compensation: (i) the CEO's equity ownership and pay-performance sensitivity, which are viewed as a remedy for agency concerns (Jensen and Murphy, 1990), and (ii) the actual level of compensation, which can reflect agency problems of managerial rent-seeking (Bebchuk and Fried, 2003). Panel B of Table 6 shows that CEOs had lower equity stakes in the targets than in the nontargets, at 1.2% versus 2.5%. However, CEO pay was relatively high-powered in the targets, with options and restricted shares comprising an average 45% and 42% of total pay, respectively. As the targets tended to be larger,

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<sup>13</sup> While the literature customarily uses the CRSP equal-weighted index to price stock returns, this is a highly diversified index which encompasses even the smallest NYSE-, AMEX- and NASDAQ-traded stocks. This size effect explains why the large firms tracked by the various databases consistently underperform the index.

<sup>14</sup> The authors find that these six provisions are by far the most correlated with firm value and stock returns.

more prominent firms, it is unsurprising that they granted more cash compensation at \$8.7 million versus \$4.1 million. However, Cremer and Romano's (2007) measure of abnormal compensation shows that they underpaid their CEOs relative to their size and industry peers. The dollar sensitivity of the option holdings of the target CEOs was also lower, with the value of the options increasing by \$6.56 versus \$10.73 for every \$1,000 increase in firm value.

#### 4.2. Methodology

We investigate the target selection process at the firm level and the probability of implementation at the proposal level using probit models that control for year and industry effects and adjust for the clustering of observations on each firm. The voting outcomes and stock price effects are analyzed using Heckman's (1979) sample selection model, often referred to as a type-2 tobit model. Previous studies perform separate regressions to determine why firms are targeted by shareholder proposals, and what drives proposal success in terms of the voting results and stock price effects. The two are likely to be endogenous, however. On one hand, an activist is likely to consider the potential outcome before deciding whether or not to submit a proposal, given the nontrivial costs involved. On the other, the market and the voting shareholders may respond to the act of the submission beyond the objective of the proposal itself, to the extent that this reveals a negative signal of governance concerns, or in fact a positive signal of the proposal sponsor's activist effort.

The sample selection model is specified as follows:

$$y_{1it}^* = X'_{1it} \beta_1 + \varepsilon_{1it} , \quad (1)$$

$$y_{1it} = \begin{cases} 1 & \text{if } y_{1it}^* > 0 \\ 0 & \text{if } y_{1it}^* \leq 0 \end{cases} ,$$

$$y_{2it}^* = X'_{2it} \beta_2 + \varepsilon_{2it} , \quad (2)$$

$$y_{2it} = \begin{cases} y_{2it}^* & \text{if } y_{1it}^* > 0 \\ 0 & \text{if } y_{1it}^* \leq 0 \end{cases} ,$$

where  $\{\varepsilon_{1it}, \varepsilon_{2it}\}$  are drawn from a normal distribution with mean 0, variances  $\sigma_1^2$  and  $\sigma_2^2$ , and correlation  $\rho_{12}$  (Amemiya, 1984). The variable  $y_{1it}^*$  is a dummy variable showing whether firm  $i$  is

targeted in year  $t$ , while the variable  $y_{2it}^*$  is the outcome of interest i.e. (i) the voting outcome observed at the proposal level, or (ii) the CAR observed at the firm level around the proxy filing date. It is assumed that only the sign of  $y_{1it}^*$  is observed, and that  $y_{2it}^*$  is observed only when  $y_{1it}^* > 0$ . The  $X$  variables correspond to the explanatory variables.  $X_{1it}$  and  $X_{2it}$  are not disjoint but do differ.  $X_{1it}$  is observed for all  $i$ , and includes firm-level variables as well as year and industry dummies.  $X_{2it}$  additionally includes proposal-related variables not observed when no proposal is submitted i.e.  $y_{1it}^* \leq 0$ .  $\beta_1$  and  $\beta_2$  are vectors of the model coefficients. In a standard setting, the error terms are assumed to be i.i.d. drawings. As with the probit models, we relax this assumption by allowing the clustering of observations corresponding to a given firm  $i$ .

Throughout the paper we call Equation (1) the selection equation and Equation (2) the outcome equation. As has been discussed, estimating the outcome equation independently may not be a valid alternative, because the OLS estimator of  $\beta_2$  is biased when the selection of the outcome sample is endogenous i.e.  $\rho_{12} \neq 0$ . The sample selection model addresses the endogeneity of selection, and thus renders reliable parameter estimates for the outcome equation.

### 4.3. Target selection

The probit models investigating the target selection process are shown in Table 7. The first model analyzes the probability of proposal submissions for the sample as a whole. To remaining regressions separately examine the submissions made by each sponsor type, except nonfinancial firms, to detect evidence of any self-serving behavior. The models control for proposals submitted in the previous year, as well as for proposals that previously won a voting majority but were not adopted by the board. We also include the firm characteristics discussed in Section 4.1 and described in Appendix A. Fama and French's (2001) agency argument dictates that the probability of proposal submissions is related positively to firm size and the book-to-market ratio, and negatively to the debt-to-equity ratio. Proposal probability should also be negatively related to the firm's prior stock performance. We control for ownership by both pressure-sensitive and pressure-insensitive institutional investors, and conjecture, in line with their strong monitoring skills and incentives, that proposal probability decreases in the latter.

(Insert Table 7 about here)

We use Bebchuk et al.'s (2009) Entrenchment Index to account for the use of antitakeover devices, and expect the sign on the index to be positive in the regressions. Board quality is proxied by (i) size, (ii) the square of size, (iii) the proportion of independent directors, and (iv) a dummy equal to one if the board chairman is independent and zero otherwise. We expect the sign on size to be negative and on squared size to be positive, to the extent that boards should be neither too small nor too large. The signs should be negative on the independence of directors and the board chairman. The variables pertaining to CEO wealth and compensation are (i) ownership, (ii) stock-based to total pay; (iii) abnormal cash compensation relative to size and industry peers, and (iv) the dollar sensitivity of the CEO's total option holdings to firm value. The signs should be negative on variables (i) and (ii) due to the incentive effects of wealth-performance sensitivity, and positive on (iii) and (iv) to the extent that high CEO pay reflects managerial rent-seeking.

Table 7 shows that the probit models described above are very effective in explaining why firms are targeted by shareholder proposals. The first model, also summarized in Appendix B, confirms that the target firms tend to be large and poorly performing with low book-to-market ratios and low ownership by pressure-insensitive institutional investors. Submissions are also more likely to be made against firms that have already been targeted.

The main contribution of the model is that the selection of target firms is fundamentally affected by governance considerations. Regardless of the proposal objectives, submissions are more likely to be made against firms that (i) use antitakeover provisions to entrench management, (ii) have ineffective boards, and (iii) have ill-incentivized CEOs. The Entrenchment Index is significant at the 5% level, and shows that the probability of proposal submissions increases by 5.4% for every antitakeover device the firm has in place. This result is fully robust to Gompers et al.'s (2003) broader Governance Index. In terms of board quality, we find no evidence for the relevance of board size, but proposal probability is negatively related to both director independence and the independence of the board chairman. Finally, we confirm the relevance of CEO wealth and compensation. Proposal probability decreases in both CEO ownership and the proportion of stock-based to total pay. At the same time, it increases in the dollar sensitivity of the CEO's option holdings, which implies that activists associate excessive option grants with managerial rent-seeking.

The regressions corresponding to the sponsor types indicate that investment funds and public pension funds have the "correct" incentive of disciplining management, and as do union pension

funds despite Prevost et al.'s (2009) argument to the contrary. The targets of all three groups are subject to concerns of managerial entrenchment and rent-seeking, with the union targets also performing poorly. Similarly, there is no clear evidence that coordinated investor groups, socially responsible and religious investors, or individual proposal sponsors pursue self-serving agendas. Surprisingly, coordinated investors tend to select relatively small firms with high leverage, but their targets are poor performers with high book-to-market ratios and entrenched and ill-incentivized managers. There is no indication of managerial entrenchment in the targets of the latter two activist groups. Nonetheless, they are subject to concerns about board quality and managerial incentives, with individual investors also seeking out firms with low pressure-insensitive institutional ownership.

#### *4.4. Voting outcomes*

The sample selection models analyzing the voting outcomes are provided in Table 8. The selection equations in Panel A are configured identically to the probit models in Table 7, but as the voting results are observed at the proposal rather than the firm level, they overweight the target firms with multiple proposals in a given year<sup>15</sup>. The results of the selection equations are nonetheless comparable to those of the probit regressions.

(Insert Table 8 about here)

The outcome equations analyzing voting success are depicted in Panel B of Table 8 and summarized in Appendix B. The models incorporate the firm-level variables included in the selection equations. We expect that these variables affect proposal probability and voting success in a similar way, with the exception of firm size and pressure-insensitive institutional ownership. First, the voting results should be negatively related to the log of assets, because the dispersed ownership structures of large targets make voting coalitions difficult to build. And second, we expect voting success to be positively related to ownership by pressure-insensitive institutions, because these investors are likely to support shareholder proposals.

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<sup>15</sup> Firm-level specifications would yield unbiased results for the selection equations but lead to considerable loss of information on the individual proposals. For robustness, we performed the analysis at the firm level by excluding firms targeted by multiple proposals in a given year, as well as by using the average voting outcomes. The results of the outcome equations were similar to those presented in Section 4.3, but the information loss was significant.

In addition to the firm-level variables, the outcome equations include a number of variables capturing the proposal characteristics. The regressions include two dummy variables that show whether the same proposal has been submitted in consecutive years, and whether the board has previously refused to adopt a majority vote proposal. We also control for the number of proposals announced in the same proxy statement. While it is not immediate how this should affect voting success, we conjecture that the more proposals submitted, the greater the voting support due to the stronger signal conveyed over governance concerns. The models include separate dummies for proxy contests without and with contested board seats, as well as control for the board's recommendation to the voting shareholders. Finally, we use twelve dummies to control for the proposal objective and the type of the proposal sponsor, such that the intercept represents proposals addressing miscellaneous issues and sponsored by individuals. We expect that proposals that are takeover-related or sponsored by three main institutional activist groups attract the most voting support. The two proposals submitted by a non-financial firm are excluded from the analysis.

The model statistics in Table 8 show some evidence that target selection and the voting outcomes are endogenous, with  $\rho$  sensitive to the model specification but significant in three out of five cases. Results not reported here show that independent analysis of the voting outcomes has lower explanatory power and produces somewhat different parameter estimates, although the inferences do not change materially.

The outcome equations in Panel B confirm that the voting success of shareholder proposals is largely driven by the proposal characteristics. In Model 5, the intercept shows that miscellaneous proposals sponsored by individuals receive 13.2% of the votes cast. In comparison, proposals directed at antitakeover devices win 37.7% more voting support. Of the institutional proposal sponsors, investment funds and public pension funds collect 8.3% and 7.4% more votes than do individual activists, while union pension funds achieve 3.8% additional support. Surprisingly, the models do not confirm that consecutive resubmissions increase voting success, whether or not we control for year effects. However, if the board has previously rejected a majority vote proposal, new proposals win 11.5% more votes. The results also show that voting success is increased by proxy contests only if the proposal sponsor also contests board seats. Unexpectedly, a positive or neutral recommendation by the board increases the voting results by 53.1% and 19.4%, respectively.

The results confirm that despite the careful target selection process, the voting shareholders also respond to firm characteristics. Voting success is related negatively to firm size and positively to pressure-insensitive institutional ownership. More importantly, there is evidence that the voting shareholders observe the target firm's governance quality. The Entrenchment Index is significant at the 1% level irrespective of the model specification, with voting success increasing by 1.0% for each antitakeover provision in place in the final Model 5. This result is consistent with Ertimur et al. (2010) and, as before, robust to the broader Governance Index. The voting outcomes also show the expected nonlinear relation with board size. Interestingly, the proportion of stock-based in total pay is related positively to voting success, which implies that the voting shareholders regard the structure of executive pay as evidence for managerial rent-seeking.

#### *4.5. Implementation*

The probit models investigating the probability of implementation are shown in Table 9. The regressions include the same firm and proposal-level variables as the outcome equations analyzing the voting results. In addition, we control for voting success itself, using the percentage votes cast in favor or, alternatively, two dummies capturing whether a proposal passed or won a majority vote but failed to pass due to a voting rule. A positive board recommendation predicts implementation perfectly, thus the corresponding dummy is omitted. We expect that the proposal-level variables affect the probability of implementation and the voting outcomes in the same way. However, we conjecture that the firm-level variables have the opposite signs as in the target selection models, to the extent that agency issues reduce the probability that the board implements passed proposals.

(Insert Table 9 about here)

Consistent with Ertimur et al. (2010), Table 9 shows that the higher the percentage votes cast in favor, the higher the probability that a proposal is adopted. Indeed, when controlling for passed proposals and majority vote proposals that did not pass, the explanatory power of the model is lower. The results additionally confirm that probability of implementation depends on the proposal objective and the type of the proposal sponsor. On one hand, proposals targeting antitakeover devices and the firm's auditors are more likely to be adopted. On the other, firms are more inclined to implement submissions made by investment funds, public pension funds, as well

as union pension funds. Finally, the probability of implementation decreases in the number of proposals presented in the same proxy statement. This implies that firms are reluctant to succumb to multiple activist demands at the same time.

Table 9 finally confirms that whether or not a proposal is adopted is heavily influenced by the severity of agency concerns. First, the Entrenchment Index is significant at the 1% level across all model specifications, which shows that entrenched managers are more likely to ignore activist demands. Second, implementation is negatively related to the level of managerial rent-seeking as proxied by abnormal CEO pay. And third, there is some evidence that in the presence of pressure-insensitive investors, passed proposals are less likely to be rejected.

#### *4.6. Stock price effects*

The final Table 10 shows the sample selection models analyzing the stock price effects. As before, the selection equations in Panel A are configured identically to the probit models in Table 7, but unlike the voting outcomes, the CARs are observed at the firm level. Consequently, the results of the selection equations are very similar to those of the probit models, although they now show some evidence that proposal probability is related negatively to ownership by both pressure-insensitive and pressure-sensitive institutional investors. This may indicate that at least some monitoring function is also attributed to pressure-sensitive institutions, but it is also consistent with activist concerns that these investors are less likely support shareholder proposals.

(Insert Table 10 about here)

The outcome equations of the sample selection models are shown in Panel B and summarized in Appendix B. The proposal characteristics are now captured by a set of firm-level variables. The dummies pertaining to the proposal objectives and the proposal sponsors are equal to one if the proxy statement includes at least one corresponding proposal and zero otherwise. We expect that proposals that are takeover-related or sponsored by the three main institutional activist groups induce stronger stock price effects. The models now control for proposal history with a dummy equal to one if the target firm was previously targeted and zero otherwise. In line with the univariate results, we conjecture that this variable is related negatively to the CARs. The variables controlling for proxy solicitation by the proposal sponsor are also at the firm rather than the proposal level.

The statistics in Table 10 show that the models have strong explanatory power, even though we can only measure the market reactions to the proxy releases, and therefore there is a potentially strong downward bias in the size and significance of the results. The results show limited evidence that the stock price effects are endogenous to target selection, with  $\rho$  significant in just one of five models. Nonetheless, independent regressions of the CARs are again less powerful and produce slightly different, albeit materially unchanged, parameter estimates.

Remarkably, the results in Panel B show no robust evidence that the CARs are affected by either the objectives or the sponsors of the proposals announced. There is also little indication that the CARs are affected by size, debt-to-equity, book-to-market, or institutional ownership, despite findings on the latter to the contrary by Gillan and Starks (2000) and Borokhovich et al. (2006). However, the models confirm the univariate finding in Table 4 that first-time submissions generate significantly more positive stock price effects, indicating that the control benefits of shareholder proposals are largely realized when the market first observes an intervention by activist shareholders.

The models reveal that the stock price reactions to proposal announcements are fundamentally driven by the target firm's past performance and governance quality, even as the proposal sponsors tend to target underperforming firms with poor governance structures. The CARs are highly sensitive to the target's one-year abnormal stock return across all specifications. However, they are most sensitive to the target's use of antitakeover devices, as well as show a relation to board quality through board size and the incentive effects of managerial compensation through stock-based to total CEO pay. The Entrenchment Index is consistently significant at the 1% level, with Model 5 showing that the CARs increase by 0.21% for every antitakeover provision the target has in place. Overall, these results confirm our earlier conclusion that the market views shareholder proposals as a relevant device of external control. However, it appears that the control benefits of proposal submissions at least partly stem from the activist effort of the proposal sponsor and the resulting pressure imposed on management by the voting shareholders, rather than the implementation of the proposals themselves.

## **5. Conclusion**

This paper has contributed to the academic debate on whether shareholder-initiated proxy proposals are a useful and relevant agency control device. Recent research has shown that proposals winning a majority vote are now likely to be implemented despite their nonbinding nature, because the board of directors risks suffering reputational penalties otherwise. However, it has been heavily debated whether activists use shareholder proposals to discipline firms or to simply advance their self-serving agendas, and whether proposal submissions are effective at all in addressing corporate governance concerns.

Using the large sample of proposals and extensive controls for governance quality, we have made several contributions to the literature. We have shown that claims of agenda-seeking by the proposal sponsors are likely to be exaggerated, because they tend to target firms that underperform and have generally poor governance structures, including inefficient boards and entrenched and ill-incentivized management. Moreover, the voting shareholders also respond to the target firm's governance quality despite the careful target selection process, which implies that the proposals that ultimately pass the shareholder vote are likely to have significant control benefits. The implementation of passed proposals is most fundamentally driven by voting success, although it is strongly affected by managerial entrenchment and rent-seeking behavior.

Importantly, the analysis provides clear evidence that the market attributes meaningful control benefits to passed proposals in particular. Otherwise, the stock price effects of proposal announcements are most fundamentally driven by the target firm's governance quality, and are stronger for firms targeted for the first time and during stock market peaks when there is a high market premium for good governance.

Overall, we conclude that shareholder proposals should be regarded as a useful governance mechanism. Our empirical results complement Harris and Raviv's (2008) recent theoretical finding that in firms where agency concerns are exacerbated, it is optimal that shareholders exercise control over corporate decisions. At the same time, they lend support to Bebchuk's (2005) advocacy of shareholder participation, against the argument of Bainbridge (2006) and other legal scholars that shareholder proposals disrupt the decision-making authority of the board of directors and should be restricted by the SEC. Whether and how this translates into long-term improvements in operating and market performance is left for future research.

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Table 1  
Percentage of votes for shareholder proposals by issue addressed

	Antitakeover		Board		Voting		Executive compensation		Study sale of company		Audit		Routine		Other		Total	
	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)
Total	55.1	(847)	20.1	(437)	33.1	(303)	22.4	(551)	14.5	(91)	22.3	(63)	5.5	(32)	14.2	(112)	33.8	(2436)
<i>Panel A: Year of submission</i>																		
1996	43.8	(72)	20.8	(54)	25.7	(25)	12.5	(20)	17.6	(3)	11.2	(1)	5.4	(2)	18.6	(4)	29.4	(181)
1997	46.8	(51)	14.6	(50)	27.5	(32)	11.5	(31)	22.5	(13)	3.9	(1)	5.9	(5)	9.7	(10)	24.7	(193)
1998	49.7	(58)	20.1	(35)	29.4	(39)	7.9	(23)	10.3	(17)	18.9	(1)	5.4	(9)	9.7	(6)	27.7	(188)
1999	50.6	(82)	21.3	(36)	28.2	(31)	10.8	(34)	13.2	(13)	23.7	(1)	4.1	(3)	6.0	(6)	31.1	(206)
2000	52.7	(77)	20.2	(35)	35.1	(20)	10.6	(18)	17.0	(21)	21.3	(1)	4.2	(1)	10.0	(12)	33.3	(185)
2001	51.9	(80)	13.9	(39)	36.0	(20)	16.5	(27)	11.2	(13)	29.7	(1)	5.0	(5)	20.5	(9)	32.2	(194)
2002	57.9	(98)	19.1	(36)	35.7	(23)	18.1	(23)			26.0	(19)	4.9	(3)	12.3	(12)	38.6	(214)
2003	60.7	(141)	22.0	(59)	33.9	(16)	30.1	(155)	3.2	(2)	15.7	(15)	4.5	(2)	20.6	(14)	38.6	(404)
2004	61.4	(105)	23.7	(54)	28.8	(31)	25.2	(129)	20.8	(5)	25.4	(16)	11.4	(2)	14.4	(20)	35.0	(362)
2005	63.2	(83)	24.2	(39)	42.7	(66)	24.7	(91)	2.8	(4)	23.5	(7)			15.6	(19)	37.9	(309)
<i>Panel B: Sponsor type</i>																		
Union pension funds	52.8	(241)	22.5	(124)	38.4	(80)	30.1	(289)			23.3	(51)			13.2	(25)	35.6	(810)
Public pension funds	58.9	(55)	32.6	(34)	36.6	(8)	31.0	(9)							20.0	(10)	44.1	(116)
Investment funds	57.5	(17)	23.7	(5)			5.9	(2)	32.8	(11)					48.3	(4)	42.6	(39)
Coordinated investors	49.9	(68)	22.8	(33)			13.4	(19)	12.3	(48)							29.7	(168)
Socially responsible/religious	70.2	(10)	22.2	(48)	44.7	(2)	8.4	(44)			10.3	(2)			7.0	(6)	20.4	(112)
Non-financial firms	68.4	(2)															68.4	(2)
Individuals	56.2	(454)	15.2	(193)	30.9	(213)	14.7	(188)	11.4	(32)	19.7	(10)	5.5	(32)	12.3	(67)	33.1	(1189)
<i>Panel C: Times submitted</i>																		
1	54.2	(472)	20.6	(308)	33.2	(148)	21.8	(435)	14.4	(71)	22.8	(56)	5.3	(23)	15.1	(93)	31.2	(1606)
2	53.7	(177)	18.6	(86)	33.5	(57)	26.5	(85)	15.6	(17)	15.5	(4)	6.1	(9)	10.8	(11)	35.3	(446)
3	57.4	(84)	18.1	(25)	31.1	(32)	22.5	(18)	10.9	(3)	18.7	(2)			9.0	(6)	40.0	(170)
4	57.4	(48)	19.0	(11)	32.6	(22)	18.3	(6)			29.7	(1)			8.8	(2)	42.7	(90)
5	60.8	(30)	23.3	(3)	34.0	(11)	13.6	(2)									49.9	(46)
6	60.8	(17)	25.9	(2)	30.4	(10)	12.2	(1)									46.7	(30)
<i>Panel D: Proxy contests</i>																		
No proxy contest	54.8	(813)	19.9	(428)	32.9	(293)	22.3	(544)	14.6	(90)	22.3	(63)	5.5	(32)	13.2	(105)	33.4	(2368)
Contest without contested board seats	56.4	(16)	17.9	(4)	34.3	(4)	33.1	(4)							5.0	(1)	43.1	(29)
Contest with contested board seats	70.4	(18)	35.4	(5)	43.9	(6)	38.9	(3)	2.3	(1)					33.7	(6)	52.0	(39)

Table 2  
Majority vote, passed, and implemented shareholder proposals by issue addressed

	Antitakeover		Board		Voting		Executive compensation		Study sale of company		Audit		Routine		Other		Total		
	M/P/I	(N)	M/P/I	(N)	M/P/I	(N)	M/P/I	(N)	M/P/I	(N)	M/P/I	(N)	M/P/I	(N)	M/P/I	(N)	M/P/I	(N)	
Total	548/484/181	(847)	8/8/4	(437)	29/21/11	(303)	67/60/13	(551)	1/1/1	(91)	3/3/3	(63)		(32)	2/2/1	(112)	658/579/214	(2436)	
<i>Panel A: Year of submission</i>																			
1996	17/11/3	(72)		(54)		(25)		(20)		(3)		(1)		(2)		(4)	17/11/3	(181)	
1997	23/19/2	(51)		(50)	1/0/1	(32)		(31)		(13)		(1)		(5)		(10)	24/19/3	(193)	
1998	26/23/4	(58)		(35)	2/1/1	(39)		(23)		(17)		(1)		(9)		(6)	28/24/5	(188)	
1999	42/32/6	(82)	1/1/1	(36)	1/0/0	(31)		(34)		(13)		(1)		(3)		(6)	44/33/7	(206)	
2000	48/38/2	(77)	2/2/1	(35)	2/2/1	(20)		(18)		(21)		(1)		(1)		(12)	52/42/4	(185)	
2001	53/48/5	(80)		(39)	3/2/1	(20)		(27)		(13)		(1)		(5)	1/1/1	(9)	57/51/7	(194)	
2002	74/67/15	(98)	1/1/0	(36)	4/3/1	(23)	1/1/1	(23)				(19)		(3)		(12)	80/72/17	(214)	
2003	112/104/51	(141)		(59)		(16)	33/29/4	(155)		(2)		(15)		(2)	1/1/0	(14)	146/134/55	(404)	
2004	83/76/43	(105)	3/3/2	(54)	2/2/1	(31)	24/22/3	(129)	1/1/1	(5)	2/2/2	(16)		(2)		(20)	115/106/52	(362)	
2005	70/66/50	(83)	1/1/0	(39)	14/11/5	(66)	9/8/5	(91)		(4)	1/1/1	(7)				(19)	95/87/61	(309)	
<i>Panel B: Sponsor type</i>																			
Union pension funds	148/125/48	(241)	2/2/1	(124)	15/12/6	(80)	61/55/11	(289)			3/3/3	(51)				(25)	229/197/69	(810)	
Public pension funds	41/35/12	(55)	4/4/3	(34)	1/0/1	(8)	1/1/1	(9)								(10)	47/40/17	(116)	
Investment funds	11/10/6	(17)		(5)				(2)	1/1/1	(11)					1/1/1	(4)	13/12/8	(39)	
Coordinated investors	32/29/10	(68)		(33)				(19)		(48)							32/29/10	(168)	
Socially responsible/religious	10/10/5	(10)	2/2/0	(48)		(2)		(44)				(2)				(6)	12/12/5	(112)	
Non-financial firms	2/2/0	(2)															2/2/0	(2)	
Individuals	304/273/100	(454)		(193)	13/9/4	(213)	5/4/1	(188)		(32)		(10)		(32)	1/1/0	(67)	323/287/105	(1189)	
<i>Panel C: Times submitted</i>																			
1	291/263/107	(472)	8/8/4	(308)	22/18/8	(148)	49/43/8	(435)	1/1/1	(71)	3/3/3	(56)		(23)	2/2/1	(93)	376/338/132	(1606)	
2	106/95/29	(177)		(86)	6/2/3	(57)	16/15/4	(85)		(17)		(4)		(9)		(11)	128/112/36	(446)	
3	59/47/14	(84)		(25)		(32)	2/2/1	(18)		(3)		(2)				(6)	61/49/15	(170)	
4	35/28/8	(48)		(11)		(22)		(6)				(1)				(2)	35/28/8	(90)	
5	25/21/7	(30)		(3)	1/1/0	(11)		(2)									26/22/7	(46)	
6	15/14/8	(17)		(2)		(10)		(1)									15/14/8	(30)	
<i>Panel D: Proxy contests</i>																			
No proxy contest	520/463/171	(813)	8/8/4	(428)	25/19/10	(293)	65/58/13	(544)	1/1/1	(90)	3/3/3	(63)		(32)	1/1/1	(105)	623/553/203	(2368)	
Contest without contested board seats	10/6/4	(16)		(4)	1/0/0	(4)	1/1/0	(4)									(1)	12/7/4	(29)
Contest with contested board seats	18/15/6	(18)		(5)	3/2/1	(6)	1/1/0	(3)		(1)					1/1/0	(6)	23/19/7	(39)	

Table 3  
Cumulative abnormal returns around proposal announcements

Event window	N	Mean	Median	Positive: negative	Z test	Sign test
[-1,+1]	1510	0.25	0.01	755:755	2.19**	1.16
[-1,0]	1510	0.14	-0.02	747:763	1.04	0.75
[0,+1]	1510	0.18	0.01	757:753	2.18**	1.27
[-1,+3]	1510	0.36	0.08	768:742	2.41***	1.84**
[-1,+5]	1510	0.46	0.18	785:725	2.35***	2.71***
[-1,+7]	1510	0.58	0.05	760:750	2.40***	1.42*

This table shows percent cumulative abnormal returns around proposal announcements. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The significance of the means and medians is tested using Boehmer et al.'s (1991) standardized cross-sectional Z-test and Cowan's (1992) generalized sign test, respectively. \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% level, respectively.

Table 4  
Cumulative abnormal returns by issue addressed

	Antitakeover		Board		Voting		Executive compensation		Study sale of company		Audit		Routine		Other		Total	
	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)
Total	0.44 <sup>***</sup>	(698)	0.27 <sup>*</sup>	(363)	0.09	(281)	0.05	(449)	0.39	(92)	0.21	(62)	0.10	(33)	-0.09	(107)	0.25 <sup>**</sup>	(1510)
<i>Panel A: Year of submission</i>																		
1996	-0.26	(61)	-0.20	(46)	-0.18	(23)	-1.10 <sup>**</sup>	(17)	3.92	(3)	1.80	(1)	0.25	(2)	-2.27 <sup>***</sup>	(4)	-0.31 <sup>*</sup>	(119)
1997	-0.10	(43)	-0.34	(40)	-1.17 <sup>***</sup>	(32)	0.64	(28)	-0.91	(13)	-2.48	(1)	0.27	(5)	-0.12	(10)	-0.08	(123)
1998	0.69	(53)	0.37	(28)	-0.01	(39)	-0.10	(18)	-0.06	(17)	0.66	(1)	-0.81	(9)	0.86	(6)	0.25	(127)
1999	1.17 <sup>*</sup>	(69)	0.11	(32)	0.87	(26)	1.90 <sup>**</sup>	(32)	1.58	(13)	-1.55	(1)	0.68	(3)	-0.72	(6)	0.95 <sup>**</sup>	(135)
2000	1.60 <sup>***</sup>	(65)	2.50 <sup>***</sup>	(28)	1.01	(18)	2.22 <sup>**</sup>	(17)	0.26	(20)	1.60	(1)	0.50	(1)	1.42	(12)	1.55 <sup>***</sup>	(130)
2001	0.65	(60)	-1.20 <sup>**</sup>	(33)	0.68	(17)	0.31	(24)	0.74	(14)	-0.14	(1)	0.28	(6)	-1.24 <sup>*</sup>	(8)	0.16	(129)
2002	0.30	(80)	1.29 <sup>*</sup>	(28)	-0.45	(15)	-1.15	(22)			0.91	(19)	1.31	(3)	0.60	(11)	0.22	(138)
2003	-0.20	(117)	-0.14	(53)	-0.45	(15)	-0.76 <sup>***</sup>	(117)	-1.71	(2)	0.03	(14)	2.67	(2)	-1.08	(13)	-0.36 <sup>*</sup>	(226)
2004	0.30	(82)	1.09 <sup>**</sup>	(43)	0.54 <sup>**</sup>	(28)	0.34 <sup>*</sup>	(105)	-0.37	(5)	-0.26	(16)	-2.31	(2)	0.16	(18)	0.38 <sup>**</sup>	(213)
2005	0.62 <sup>**</sup>	(68)	0.03	(33)	0.54 <sup>**</sup>	(61)	-0.06	(69)	1.12	(5)	-0.05	(7)			-0.12	(19)	0.10	(170)
<i>Panel B: Sponsor type</i>																		
Union pension funds	0.43	(228)	0.27	(117)	0.82 <sup>***</sup>	(80)	-0.19	(246)			0.32	(49)			0.33	(25)	0.21 <sup>**</sup>	(618)
Public pension funds	1.10	(53)	1.09	(34)	0.20	(8)	-2.58	(9)							0.18	(11)	0.68 <sup>**</sup>	(114)
Investment funds	1.61	(17)	0.79	(5)			-0.80	(2)	1.89	(11)					-0.20	(4)	1.34 <sup>*</sup>	(38)
Coordinated investors	-0.03	(61)	-0.22	(32)			0.25	(18)	0.19	(49)							0.22	(119)
Socially responsible/religious	2.98	(10)	-0.29	(44)	0.99	(2)	0.30	(43)			0.70	(2)			-0.75	(6)	0.28	(104)
Non-financial firms	7.37	(1)							7.37	(1)								
Individuals	0.19	(379)	0.30	(167)	-0.16	(197)	0.34	(170)	0.17	(32)	-0.38	(11)	0.10	(33)	-0.24	(66)	0.06	(831)
<i>Panel C: History of target firm</i>																		
First targeted	0.69 <sup>**</sup>	(306)	0.47	(172)	0.42	(86)	-0.04	(186)	0.78	(64)	0.31	(27)	1.16	(10)	0.28	(45)	0.47 <sup>***</sup>	(730)
Targeted in previous year	0.24	(392)	0.09	(191)	-0.05	(195)	0.10	(263)	-0.53	(28)	0.13	(35)	-0.35	(23)	-0.36	(62)	0.06	(780)
<i>Panel D: Proxy contests</i>																		
No proxy contest	0.41 <sup>***</sup>	(677)	0.26 <sup>*</sup>	(356)	0.07	(274)	0.05	(442)	0.36	(89)	0.21	(62)	0.10	(33)	-0.03	(101)	0.24 <sup>**</sup>	(1482)
Contest without contested board seats	0.87	(10)	2.21 <sup>***</sup>	(3)	0.49	(4)	2.23 <sup>***</sup>	(3)							-2.15	(1)	0.85	(14)
Contest with contested board seats	1.85 <sup>**</sup>	(11)	0.07	(4)	1.49	(3)	-2.27 <sup>**</sup>	(4)	1.01	(3)					-0.87 <sup>*</sup>	(5)	1.05	(14)

This table shows percent cumulative abnormal returns in the days [-1,+1] around proposal announcements. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The significance of the means is tested using Boehmer et al.'s (1991) standardized cross-sectional Z-test. \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% level, respectively.

Table 5  
 Cumulative abnormal returns by proposal outcome

	Yes			No			<i>Difference in means</i>	<i>Difference in medians</i>
	N	Mean	Median	N	Mean	Median		
Proposal won majority vote	522	0.42**	0.18**	988	0.17	-0.13	0.25	0.31*
Majority vote proposal passed	464	0.49***	0.20**	58	-0.14	0.08	0.63	0.12
Majority vote proposal implemented	187	0.21	0.17	335	0.53**	0.19*	-0.32	-0.02
Passed proposal implemented	181	0.17	0.17	283	0.69***	0.23**	-0.52	-0.06

This table shows percent cumulative abnormal returns in the days [-1,+1] around proposal announcements. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The significance of the means and medians is tested using Boehmer et al.'s (1991) standardized cross-sectional Z-test and Cowan's (1992) generalized sign test, respectively. \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% level, respectively.

Table 6  
Descriptive statistics of target and nontarget firms

	Targets				Nontargets				<i>Difference in means</i>	<i>Difference in medians</i>
	N	Mean	Median	St. dev.	N	Mean	Median	St. dev.		
<i>Panel A: Financial, performance and ownership characteristics</i>										
Assets (\$ millions)	1494	46,549	10,538	129,968	9093	7,252	1,459	28,421	39,298***	9,079***
Sales (\$ millions)	1494	15,773	7,139	14,456	9093	3,291	1,208	7,459	12,482***	5,931***
Debt-to-equity ratio	1494	1.45	0.91	11.20	9093	1.35	0.55	34.82	0.11	0.37***
Book-to-market ratio	1494	0.49	0.42	0.41	9093	0.50	0.43	0.47	-0.01	-0.01
Prior one-year raw stock return (%)	1494	14.48	11.57	46.17	9093	20.56	13.61	72.32	-6.08***	-2.04***
Prior one-year abnormal stock return (%)	1494	-17.75	-18.80	46.24	9093	-11.22	-16.51	71.59	-6.54***	-2.29***
Institutional ownership (%)	1494	62.72	63.23	16.54	9093	63.88	65.01	20.90	-1.16**	-1.78***
Institutions – pressure sensitive (%)	1494	13.56	12.95	5.93	9093	11.48	10.39	6.48	2.08***	2.56***
Institutions – pressure insensitive (%)	1494	49.16	48.86	15.98	9093	52.40	52.61	20.08	-3.24***	-3.75***
<i>Panel B: Governance characteristics</i>										
Governance Index (max=24)	1494	9.91	10	2.48	9093	9.40	9	2.67	0.51***	1***
Entrenchment Index (max=6)	1494	2.34	2	1.31	9093	2.30	2	1.27	0.04	0
Board size	1494	11.31	11	3.01	9093	9.55	9	2.90	1.76***	2***
Independent directors (%)	1494	70.92	75.00	15.70	9093	65.83	66.67	17.01	5.10***	8.33***
Separate chair and CEO (binary)	1494	0.12	0	0.32	9093	0.21	0	0.41	-0.10***	0***
CEO ownership (%)	1494	1.19	0.12	4.36	9093	2.45	3.58	5.96	-1.27***	-3.46***
Stock-based to total CEO pay (%)	1494	45.03	48.02	28.26	9093	42.18	43.45	28.67	2.85***	4.57***
CEO pay excluding option grants	1494	8,658	3,302	26,670	9093	4,117	1,620	10,307	4,541***	1,682***
Abnormal CEO compensation	1494	-0.09	-0.20	0.94	9093	0.01	-0.11	1.04	-0.10***	-0.09***
Dollar sensitivity of CEO options	1494	6.56	3.19	10.66	9093	10.73	7.05	12.38	-4.17***	-3.86***

This table compares the characteristics of firms that are targeted versus those that are not targeted by shareholder proposals in a given year. The variables are described in Appendix A. The difference in means t-test assumes unequal variances when the test of equal variances is rejected at the 10% level. The significance of the difference in medians is based on Wilcoxon ranksum tests. \*, \*\* and \*\*\* denote significance at the 10%, 5% and 1% level, respectively.

Table 7

Probit models explaining the probability of proposal submissions

	All		Union pension funds		Public pension funds		Investment funds		Coordinated investors		Soc. responsible/religious		Individuals	
	Coefficient	Z-stat	Coefficient	Z-stat	Coefficient	Z-stat	Coefficient	Z-stat	Coefficient	Z-stat	Coefficient	Z-stat	Coefficient	Z-stat
Intercept	-0.954**	-2.47	-3.373***	-6.68	-2.350***	-3.40	-3.561***	-2.90	-0.584	-0.84	-1.372*	-1.71	-1.909***	-3.81
Targeted in previous year	1.370***	16.80	1.121***	11.55	1.045***	6.96	0.817***	4.02	1.076***	5.62	1.390***	9.96	1.558***	16.80
Majority vote proposal not implemented	0.096	0.84	0.221	1.53	0.517**	2.48	0.442	1.07	0.209	0.73	-0.107	-0.45	0.253*	1.95
Log of assets	0.173***	6.53	0.263***	7.39	0.088	1.61	-0.128	-1.22	-0.110**	-2.10	0.264***	4.07	0.225***	6.81
Debt-to-equity	-0.000	-0.01	-0.004	-0.49	-0.009	-0.92	0.007***	2.75	0.006**	2.35	0.002	-1.49	0.000	0.05
Book-to-market	0.143**	2.40	-0.099	-0.86	0.189	1.49	0.335***	3.34	0.215**	2.29	-0.425*	-1.77	0.220***	3.35
Prior one-year abnormal stock return	-0.110**	-2.20	-0.204**	-2.31	0.025	0.29	-0.330	-1.48	-0.398***	-2.83	-0.326**	-2.31	-0.039	-0.66
Institutions – pressure sensitive	-0.656	-1.39	0.277	0.50	-1.125	-1.15	-1.924	-1.23	-0.494	-0.53	0.844	1.17	-0.745	-1.27
Institutions – pressure insensitive	-0.463***	-2.35	0.031	0.12	0.262	0.93	0.357	0.82	-0.023	-0.07	-0.672	-1.62	-0.764***	-3.02
Entrenchment index	0.054**	2.12	0.079**	2.38	0.198***	3.88	0.220***	2.59	0.120**	2.14	0.015	0.25	0.014	0.41
Board size	0.028	0.57	0.113	1.55	0.108	1.04	0.341*	1.73	0.139	1.55	-0.125	-1.29	-0.003	-0.04
Board size squared	-0.001	-0.76	-0.006*	-1.94	-0.005	-1.11	-0.011	-1.25	-0.003	-1.05	0.002	0.50	0.000	0.11
Independent directors	-0.699***	-3.25	-0.274	-0.97	-0.450	-1.10	0.091	0.14	-0.561	-1.42	-2.046***	-4.38	-0.143	-0.52
Separate chair and CEO	-0.266***	-3.43	-0.168	-1.53	-0.338*	-1.84	-0.599**	-2.13	-0.209	-1.39	-0.053	-0.29	-0.339***	-3.20
CEO ownership	-1452.7***	-7.15	-1930.3***	-6.08	-2051.6***	-5.02	-2704.4**	-2.55	-2144.5**	-2.11	-981.5***	-2.68	-1470.4***	-4.38
Stock-based to total CEO pay	-0.372***	-3.42	-0.233	-1.55	-0.497**	-2.50	-0.477*	-1.72	-0.491**	-2.55	-0.314	-1.32	-0.482***	-3.41
Abnormal CEO pay	-0.006	-0.18	0.060	1.50	-0.045	-0.92	-0.059	-0.87	0.079	1.18	0.098	1.42	-0.045	-1.04
Dollar sensitivity of CEO options	0.020***	3.31	0.017***	3.80	0.025***	3.73	0.010	1.42	0.000	0.06	0.008	1.32	0.025***	3.20
Number of observations	10587		9697		9203		9131		9210		9195		9924	
Number of uncensored observations	1494		604		110		38		117		102		831	
Year dummies	Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Wald $\chi^2$	993.85***		547.35***		216.62***		181.02***		232.08***		325.45***		1021.32***	
Log pseudolikelihood	-1659.6		-827.1		-304.2		-127.2		-293.8		-263.6		-976.0	
Pseudo R <sup>2</sup>	0.615		0.634		0.490		0.483		0.532		0.530		0.658	

The dependent variable is a dummy equal to one if a shareholder proposal is submitted and zero otherwise. The firm-level independent variables are described in Appendix A. Log of assets is the natural logarithm of the book value of assets. Z-statistics use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% level, respectively.

Table 8  
Sample selection models explaining voting outcomes

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	Z-stat								
<i>Panel A: Selection equations</i>										
Intercept	-4.756***	-20.11	-2.075***	-4.29	-1.678***	-4.07	-1.679***	-4.03	-1.694***	-4.05
Targeted in previous year	3.253***	11.74			3.047***	5.07	3.034***	5.07	3.047***	5.07
Majority vote proposal not implemented	7.769***	42.60			6.605***	28.71	6.780***	29.31	6.605***	28.53
Log of assets	0.472***	21.06	0.327***	8.69	0.312***	10.37	0.312***	10.30	0.312***	10.34
Debt-to-equity	-0.002	-1.62	-0.001	-0.04	-0.001	-0.19	-0.001	-0.30	-0.001	-0.20
Book-to-market	0.084**	2.19	0.137*	1.83	0.160***	3.06	0.162***	3.13	0.160***	3.07
Prior one-year abnormal stock return	-0.143**	-2.49	-0.135**	-2.48	-0.159***	-2.75	-0.157***	-2.71	-0.159***	-2.74
Institutions – pressure sensitive	-0.029	-0.06	-0.306	-0.50	-0.631	-1.34	-0.623	-1.32	-0.632	-1.35
Institutions – pressure insensitive	-0.229	-1.40	-0.678***	-2.67	-0.638***	-3.56	-0.644***	-3.60	-0.635***	-3.56
Entrenchment index			0.053*	1.71	0.056**	2.22	0.059**	2.37	0.057**	2.27
Board size			0.014	0.25	-0.003	-0.06	-0.007	-0.13	-0.003	-0.07
Board size squared			-0.001	-0.62	-0.001	-0.55	-0.001	-0.49	-0.001	-0.54
Independent directors			-0.492*	-1.79	-0.514**	-2.27	-0.512**	-2.27	-0.514**	-2.27
Separate chair and CEO			-0.363***	-4.17	-0.317***	-4.35	-0.319***	-4.39	-0.317***	-4.35
CEO ownership			-1612.9***	-6.30	-1543.4***	-6.53	-1545.9***	-6.53	-1544.5***	-6.52
Stock-based to total CEO pay			-0.465***	-3.92	-0.406***	-3.95	-0.397***	-3.84	-0.405***	-3.91
Abnormal CEO pay			-0.024	-0.63	-0.004	-0.15	-0.004	-0.14	-0.004	-0.15
Dollar sensitivity of CEO options			0.026***	3.55	0.021***	4.99	0.021***	4.93	0.021***	4.96

Table 8 (continued)

Sample selection models explaining voting outcomes

	Model 1		Model 2		Model 3		Model 4		Model 5		
	CoefficientZ-stat		CoefficientZ-stat		CoefficientZ-stat		CoefficientZ-stat		CoefficientZ-stat		
<i>Panel B: Outcome equations</i>											
Intercept	-1.163	-0.42	27.901***	3.13	2.939	1.10	11.501**	2.43	13.242**	2.43	
Proposal submitted in previous year	2.480***	2.60			-0.885	-1.18	-1.280*	-1.69	-0.368	-0.44	
Majority vote proposal not implemented	12.679***	10.84			12.409***	10.73	11.832***	10.82	11.503***	10.54	
Number of proposals in proxy	-0.176	-0.82			-0.386*	1.81	0.104	0.48	0.193	0.87	
Proxy contest without contested board seats	-1.899	-0.53			-0.870	-0.22	-2.338	-0.72	-3.636	-1.21	
Proxy contest with contested board seats	12.324***	5.02			13.817***	5.95	7.420*	1.92	8.704**	2.34	
Board in favor	53.811***	11.61			54.224***	12.45	52.831***	10.80	53.101***	11.02	
Board indifferent	20.690***	3.09			20.478***	2.96	19.50***	3.03	19.418***	3.09	
Proposal - Antitakeover	38.410***	26.02			38.779***	26.47	38.300***	24.84	37.725***	24.26	
Proposal - Board	8.597***	6.15			8.751***	6.28	9.028***	6.23	8.940***	6.05	
Proposal - Voting	21.710**	14.50			21.994***	14.71	21.631***	14.16	21.533***	14.02	
Proposal - Compensation	7.130*	4.90			7.204***	4.96	7.362**	4.87	7.126**	4.68	
Proposal - Sale of company	3.152*	1.80			4.100**	2.32	2.519	1.33	2.233	1.20	
Proposal - Audit	5.005**	2.10			5.244**	2.18	5.346**	2.24	5.117**	2.17	
Proposal - Routine	-1.224	-0.93			-1.319	-0.97	-0.728	-0.47	-0.866	-0.52	
Sponsor - Union pension fund	4.948***	5.48			5.028***	5.46	4.146***	4.63	3.822***	4.35	
Sponsor - Public pension fund	9.118***	5.34			9.631***	5.46	7.767***	4.59	7.417***	4.41	
Sponsor - Investment fund	9.367***	2.71			10.127***	2.90	8.490**	2.47	8.294***	2.57	
Sponsor - Coordinated investors	1.353	1.03			2.238*	1.71	0.804	0.58	0.584	0.44	
Sponsor - Socially responsible/religious	-0.269	-0.18			-0.164	-0.11	-0.654	-0.42	-0.752	-0.46	
Log of assets			-2.597***	-3.93			-1.371***	-3.81	-0.779*	-1.90	
Debt-to-equity			-0.035	-1.25			-0.033	-1.01	-0.037	-1.14	
Book-to-market			0.365	0.21			0.209	0.20	0.297	0.27	
Prior one-year abnormal stock return			-0.205	-0.17			-0.091	-0.12	-0.161	-0.21	
Institutions – pressure sensitive			29.529*	1.80			-5.002	-0.55	-2.835	-0.36	
Institutions – pressure insensitive			21.082***	4.40			11.253***	3.82	8.697***	3.01	
Entrenchment index			3.091***	6.47					0.993***	3.11	
Board size			-0.453	-0.64					-1.352***	-2.89	
Board size squared			0.013	0.51					0.043***	2.64	
Independent directors			9.232**	2.14					-0.088	-0.03	
Separate chair and CEO			-1.214	-0.69					-0.408	-0.35	
CEO ownership			43.917**	1.17					-14.210	-1.02	
Stock-based to total CEO pay			3.754*	1.86					2.115*	1.70	
Abnormal CEO pay			-0.615	-1.13					0.297	0.79	
Dollar sensitivity of CEO options			-0.082	-1.16					0.047	0.90	

Table 8 (continued)

Sample selection models explaining voting outcomes

	Model 1	Model 2	Model 3	Model 4	Model 5
Number of observations	11502	11502	11502	11502	11502
Number of uncensored observations	2392	2392	2392	2392	2392
Year dummies	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Wald $\chi^2$	5917.7***	550.07***	5429.3***	4724.6***	4862.2***
Log likelihood	-1982.7	-1871.5	-519.8	-480.0	-462.8
$\rho$	0.230***	-0.252**	0.015	-0.090**	0.002

In the selection equations of Panel A, the dependent variable is a dummy equal to one if a shareholder proposal is submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the two-way voting outcome. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The firm-level independent variables are described in Appendix A. Log of assets is the natural logarithm of the book value of assets. Wald  $\chi^2$  tests the joint significance of the outcome and selection equation pairs.  $\rho = 0$  tests the independence of the outcome and selection equation pairs using a Wald  $\chi^2$  test. T-statistics use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% level, respectively.

Table 9

Probit models explaining proposal implementation

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	Z-stat								
Intercept	-6.984***	-10.64	-5.637***	-5.99	-7.672***	-8.62	-5.102***	-4.60	-7.327***	-6.71
Percentage votes in favor	6.473***	15.09	7.519***	16.38	6.788***	14.55			7.015***	14.45
Proposal passed							2.554***	11.06		
Majority vote proposal did not pass							0.990***	3.27		
Proposal submitted in previous year	-0.057	-0.39	-0.092	-0.65	-0.083	-0.57	-0.053	-0.33	-0.090	-0.59
Majority vote proposal not implemented	-0.158	-0.89	-0.116	-0.66	-0.145	-0.82	-0.014	-0.08	-0.098	-0.55
Number of proposals in proxy	-0.036	-0.83	-0.099**	-2.12	-0.066	-1.45	-0.087*	-1.76	-0.092**	-1.98
Proxy contest without contested board seats	0.211	0.35	0.607	1.19	0.381	0.70	1.049**	2.04	0.720	1.40
Proxy contest with contested board seats	-0.451	-1.07	-0.475	-0.99	-0.203	-0.46	-0.896*	-1.82	-0.478	-1.01
Board indifferent	-0.738	-1.10	-0.692	-0.97	-0.749	-1.12	0.140	0.22	-0.902	-1.23
Proposal - Antitakeover	1.035***	2.84			0.955**	2.23	0.548	1.37	0.958**	2.32
Proposal - Board	0.757*	1.79			0.709	1.44	0.123	0.30	0.634	1.33
Proposal - Voting	0.692*	1.68			0.663	1.43	0.513	1.26	0.581	1.30
Proposal - Compensation	0.285	0.70			0.217	0.47	-0.437	-1.07	0.170	0.37
Proposal - Sale of company	0.902*	1.72			0.792	1.24	0.015	0.03	0.785	1.21
Proposal - Audit	1.249***	2.74			1.243**	2.42	0.785*	1.85	1.198**	2.37
Sponsor - Union pension fund	0.212	1.41			0.243	1.60	0.037	0.26	0.290*	1.95
Sponsor - Public pension fund	0.470*	1.65			0.629**	2.10	0.756**	2.37	0.631**	2.06
Sponsor - Investment fund	0.828**	2.43			1.096***	2.97	1.276***	3.52	1.158***	3.13
Sponsor - Coordinated investors	0.314	1.13			0.399	1.43	0.346	1.29	0.470	1.61
Sponsor - Socially responsible/religious	0.092	0.30			0.083	0.25	0.182	0.59	0.146	0.41
Log of assets			0.008	0.13	0.093*	1.73	0.033	0.53	0.058	0.91
Debt-to-equity			0.006	0.81	0.004	0.59	0.001	0.68	0.007	0.70
Book-to-market			-0.137	-0.89	-0.178	-1.09	-0.124	-0.79	-0.197	-1.21
Prior one-year abnormal stock return			-0.133	-0.94	-0.130	-0.90	-0.105	-0.72	-0.128	-0.91
Institutions – pressure sensitive			-0.324	-0.26	-0.195	-0.15	-0.244	-0.20	-0.230	-0.18
Institutions – pressure insensitive			-0.090*	-0.19	-0.073	-0.15	0.762*	1.65	0.081*	0.17
Entrenchment index			-0.208***	-4.02			-0.248***	-4.79	-0.234***	-4.41
Board size			0.008	0.08			0.162	1.32	0.034	0.33
Board size squared			0.000	0.03			-0.006	-1.20	-0.001	-0.25
Independent directors			0.071*	0.14			1.171	0.37	0.195	0.41
Separate chair and CEO			-0.124	-0.59			-0.161	-0.80	-0.065	-0.30
CEO ownership			61.738	0.27			-423.53	-1.32	-101.9	-0.38
Stock-based to total CEO pay			-0.237	-1.14			-0.053	-0.25	-0.134	-0.65
Abnormal CEO pay			-0.111*	-1.69			-0.162**	-2.19	-0.116*	-1.73
Dollar sensitivity of CEO options			0.001	0.09			0.008	1.02	0.005	0.58

Table 9 (continued)

Probit models explaining proposal implementation

	Model 1	Model 2	Model 3	Model 4	Model 5
Number of observations	2320	2320	2320	2320	2320
Year dummies	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Wald $\chi^2$	428.00***	369.83***	437.54***	421.54***	448.64***
Log pseudolikelihood	-343.9	-343.6	-340.4	-335.7	-329.8
Pseudo R <sup>2</sup>	0.515	0.516	0.520	0.527	0.535

The dependent variable is a dummy equal to one if the shareholder proposal is implemented within one year of the shareholder vote and zero otherwise. The firm-level independent variables are described in Appendix A. Log of assets is the natural logarithm of the book value of assets. Z-statistics use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% level, respectively.

Table 10  
Sample selection models explaining cumulative abnormal returns

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	Z-stat								
<i>Panel A: Selection equations</i>										
Intercept	-3.788***	-20.67	-1.794***	-3.66	-0.841*	-1.89	-0.837*	-1.88	-0.845*	-1.90
Targeted in previous year	1.367***	22.02			1.333***	16.23	1.333***	16.23	1.333***	16.26
Majority vote proposal not implemented	0.344***	3.59			0.116	1.00	0.117	1.00	0.118	1.01
Log of assets	0.332***	18.41	0.274***	7.89	0.178***	5.96	0.178***	5.95	0.178***	5.95
Debt-to-equity	-0.002*	-1.75	-0.003	-0.80	-0.004	-0.61	-0.004	-0.63	-0.004	-0.64
Book-to-market	0.086**	2.33	0.124*	1.77	0.150**	2.42	0.148**	2.40	0.146**	2.35
Prior one-year abnormal stock return	-0.096**	-2.07	-0.099**	-2.10	-0.115**	-2.22	-0.110**	-2.14	-0.108**	-2.12
Institutions – pressure sensitive	-0.024	-0.06	-0.648	-1.11	-0.860*	-1.76	-0.855*	-1.74	-0.855*	-1.74
Institutions – pressure insensitive	-0.192	-1.53	-0.738***	-3.09	-0.580***	-2.84	-0.583***	-2.85	-0.586***	-2.86
Entrenchment index			0.055*	1.83	0.054**	2.08	0.053**	2.05	0.052**	2.00
Board size			0.017	0.32	0.000	0.01	0.001	0.02	0.002	0.04
Board size squared			-0.001	-0.66	-0.001	-0.34	-0.001	-0.35	-0.001	-0.38
Independent directors			-0.366	-1.51	-0.508**	-2.26	-0.507**	-2.25	-0.499**	-2.22
Separate chair and CEO			-0.332***	-3.99	-0.274***	-3.52	-0.274***	-3.52	-0.273***	-3.49
CEO ownership			-1524.6***	-6.81	-1462.1***	-7.22	-1462.7***	-7.22	-1462.8***	-7.22
Stock-based to total CEO pay			-0.403***	-3.53	-0.371***	-3.31	-0.370***	-3.29	-0.366***	-3.26
Abnormal CEO pay			-0.011	-0.29	-0.004	-0.13	-0.004	-0.14	-0.005	-0.15
Dollar sensitivity of CEO options			0.026***	3.46	0.021***	3.57	0.021***	3.57	0.021***	3.60

Table 12 (continued)  
Sample selection models explaining cumulative abnormal returns

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	Z-stat								
<i>Panel B: Outcome equations</i>										
Intercept	-0.361	-0.45	-0.340	-0.22	-0.369	-0.54	-1.334	-1.17	-1.188	-0.74
Targeted in previous year	-0.825**	-2.47			-0.825***	-3.22	-0.751***	-2.96	-0.475*	-1.67
Majority vote proposal not implemented	0.103	0.32			0.108	0.34	0.083	0.26	0.010	0.03
Number of proposals in proxy	-0.103	-0.69			-0.101	-0.68	-0.136	-0.91	-0.112	-0.78
Proxy contest without contested board seats	0.812	1.20			0.799	1.17	0.713	1.02	0.594	0.87
Proxy contest with contested board seats	0.486	0.47			0.452	0.44	0.235	0.21	0.301	0.27
Proposal - Antitakeover	0.549**	1.96			0.530*	1.89	0.562**	1.96	0.455	1.56
Proposal - Board	0.376	1.24			0.374	1.23	0.410	1.33	0.370	1.19
Proposal - Voting	0.183	0.67			0.180	0.66	0.222	0.82	0.282	1.04
Proposal - Compensation	0.196	0.67			0.177	0.61	0.223	0.74	0.226	0.75
Proposal - Sale of company	-0.187	-0.31			-0.210	-0.35	-0.280	-0.46	-0.310	-0.51
Proposal - Audit	0.230	0.45			0.251	0.48	0.319	0.64	0.455	0.88
Proposal - Routine	0.158	0.29			0.306	0.54	0.329	0.60	0.160	0.26
Sponsor - Union pension fund	0.063	0.28			0.059	0.26	0.030	0.13	0.027	0.12
Sponsor - Public pension fund	0.299	0.53			0.284	0.50	0.315	0.55	0.296	0.51
Sponsor - Investment fund	0.897	1.38			0.870	1.36	0.773	1.19	0.667	1.02
Sponsor - Coordinated investors	0.131	0.35			0.124	0.33	0.074	0.20	-0.003	-0.01
Sponsor - Socially responsible/religious	0.056	0.12			0.091	0.20	0.086	0.19	0.155	0.34
Log of assets			0.068	0.61			0.071	0.73	0.103	0.85
Debt-to-equity			0.004	1.25			0.007*	1.85	0.005	1.46
Book-to-market			0.451	1.31			0.328	0.97	0.413	1.18
Prior one-year abnormal stock return			-0.770***	-2.72			-0.719**	-2.51	-0.772***	-2.70
Institutions – pressure sensitive			-0.692	-0.36			-0.697	-0.36	-0.665	-0.35
Institutions – pressure insensitive			0.628	0.81			0.477	0.62	0.471	0.60
Entrenchment index			0.227***	2.89					0.214***	2.75
Board size			-0.241	-1.36					-0.224	-1.22
Board size squared			0.012*	1.81					0.011*	1.65
Independent directors			-0.105	-0.14					0.072	0.09
Separate chair and CEO			0.012	0.04					0.000	0.00
CEO ownership			-2.725	-0.84					-3.773	-1.14
Stock-based to total CEO pay			-0.695	-1.62					-0.755*	-1.73
Abnormal CEO pay			0.131	0.98					0.124	0.93
Dollar sensitivity of CEO options			-0.003	-0.26					-0.001	-0.07

Table 12 (continued)

Sample selection models explaining cumulative abnormal returns

	Model 1	Model 2	Model 3	Model 4	Model 5
Number of observations	10587	10587	10587	10587	10587
Number of uncensored observations	1488	1488	1488	1488	1488
Year dummies	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Wald $\chi^2$	57.37***	78.15***	57.65***	71.39***	109.58***
Log likelihood	-102.6	796.4	1043.7	1049.8	1057.8
$\rho$	-0.042	0.013	-0.065*	-0.049	0.045

In the selection equations of Panel A, the dependent variable is a dummy equal to one if a shareholder proposal is submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the cumulative abnormal return in the days [-1,+1] around the proposal announcement. Market model parameters are estimated over the 200-day period ending 20 days before the proxy mailing date, using the CRSP equal-weighted index. The firm-level independent variables are described in Appendix A. Log of assets is the natural logarithm of the book value of assets. Wald  $\chi^2$  tests the joint significance of the outcome and selection equation pairs.  $\rho = 0$  tests the independence of the outcome and selection equation pairs using a Wald  $\chi^2$  test. T-statistics use standard errors with White (1980) correction for heteroskedasticity and adjusted for clustering of observations on each firm. \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% level, respectively.

## Appendix A. Variable descriptions

Variable name	Description and source
<i>Panel A: Financial, performance and ownership characteristics</i>	
Assets (\$ millions)	The book value of total assets. Source: <i>Compustat</i> .
Sales (\$ millions)	The value of total net sales. Source: <i>Compustat</i> .
Debt-to-equity ratio	Total debt divided by the book value of equity. Source: <i>Compustat</i> .
Book-to-market ratio	The book value of equity divided by the market value of equity. Source: <i>Compustat</i> .
Prior one-year raw stock return	The dividend-adjusted stock price return in the year up to two months before the proxy mailing date. Source: <i>CRSP</i> .
Prior one-year abnormal stock return	The dividend-adjusted stock price return minus the return on the CRSP equal-weighted index, in the year up to two months before the proxy mailing date. Source: <i>CRSP</i> .
Institutional ownership	The number of shares held by institutions, divided by the total number of shares outstanding. Source: <i>Thomson Financial CDA/Spectrum</i> .
Institutions – pressure sensitive	The number of shares held by banks and insurance companies, divided by the total number of shares outstanding. Source: <i>Thomson Financial CDA/Spectrum</i> .
Institutions – pressure insensitive	The number of shares held by private and public pension and labor union funds, investment funds and their managers, independent investment advisors, and university endowments, divided by the total number of shares outstanding. Source: <i>Thomson Financial CDA/Spectrum</i> .
<i>Panel B: Governance characteristics</i>	
Governance Index (Max=24)	Gompers et al. (2003) index of 24 governance-related charter and bylaw provisions. Source: <i>RiskMetrics</i> .
Entrenchment Index (Max=6)	Bebchuk et al. (2009) index of six governance-related charter and bylaw provisions. Source: <i>RiskMetrics</i> .
Board size	The number of directors on the board. Source: <i>RiskMetrics</i> .
Independent directors	The number of independent directors divided by board size. Source: <i>RiskMetrics</i> .
Separate chair and CEO	A dummy variable equal to one if the chairman of the board and the CEO are different persons, and 0 otherwise. Source: <i>RiskMetrics</i> .
CEO ownership	The number of shares held by the CEO divided by total shares outstanding. Source: <i>ExecuComp</i> .
Stock-based to total CEO pay	The value of stock options and restricted stock grants, divided by total CEO compensation for the individual year. Source: <i>ExecuComp</i> .
CEO pay excluding stock option grants (\$000s)	Total CEO compensation for the individual year, including salary, bonus, restricted stock, long-term incentive payouts, and other compensation. Source: <i>ExecuComp</i> .
Abnormal CEO pay	The natural logarithm of the residual from an annual regression, which regresses the log of total CEO compensation excluding stock option grants on the book value of assets and industry dummies. Source: <i>ExecuComp</i> .
Dollar sensitivity of CEO options	The dollar value change in the CEO's total option holdings for a \$1,000 change in the firm's market value of equity. Source: <i>ExecuComp</i> .

## Appendix B. Economic effects

	Proposal probability		Voting outcomes		Implementation		Cumulative abnormal returns	
	Exp. sign	Economic effect	Exp. sign	Economic effect	Exp. sign	Economic effect	Exp. sign	Economic effect
<i>Panel A: Proposal characteristics</i>								
Targeted in previous year	+	1.370 <sup>***</sup>					-	-0.475 <sup>*</sup>
Proposal submitted in previous year			+	nss	+	nss		
Majority vote proposal not implemented	+	nss	+	11.503 <sup>***</sup>	+	nss	-	nss
Number of proposals in proxy			+	nss	+	-0.092 <sup>*</sup>	+	nss
Proxy contest without contested board seats			+	nss	+	nss	+	nss
Proxy contest with contested board seats			+	8.704 <sup>**</sup>	+	nss	+	nss
Board in favour			+	53.101 <sup>***</sup>				
Board indifferent			+	19.418 <sup>***</sup>	+	nss		
Percentage votes in favor					+	7.015 <sup>***</sup>		
Proposal - Antitakeover			+	37.725 <sup>***</sup>	+	0.958 <sup>**</sup>	+	nss
Proposal - Board				8.94 <sup>***</sup>		nss		nss
Proposal - Voting				21.533 <sup>***</sup>		nss		nss
Proposal - Compensation				7.126 <sup>***</sup>		nss		nss
Proposal - Sale of company				nss		nss		nss
Proposal - Audit				5.117 <sup>**</sup>		1.198 <sup>***</sup>		nss
Proposal - Routine				nss		nss		nss
Sponsor - Union pension fund			+	3.822 <sup>***</sup>	+	0.29 <sup>*</sup>	+	nss
Sponsor - Public pension fund			+	7.417 <sup>***</sup>	+	0.631 <sup>**</sup>	+	nss
Sponsor - Investment fund			+	8.294 <sup>***</sup>	+	1.158 <sup>***</sup>	+	nss
Sponsor - Coordinated investors				nss		nss		nss
Sponsor - Socially responsible/religious				nss		nss		nss
<i>Panel B: Financial, performance and ownership characteristics</i>								
Log of assets	+	0.173 <sup>***</sup>	-	-0.779 <sup>*</sup>	-	nss	+	nss
Debt-to-equity	-	nss	-	nss	+	nss	-	nss
Book-to-market	+	0.143 <sup>**</sup>	+	nss	-	nss	+	nss
Prior one-year abnormal stock return	-	-0.110 <sup>**</sup>	-	nss	+	nss	-	-0.772 <sup>***</sup>
Institutions – pressure sensitive				nss		nss		nss
Institutions – pressure insensitive	-	-0.463 <sup>***</sup>	+	8.697 <sup>***</sup>	+	0.081 <sup>*</sup>	+	nss
<i>Panel C: Governance characteristics</i>								
Entrenchment index	+	0.054 <sup>**</sup>	+	0.993 <sup>***</sup>	-	-0.234 <sup>***</sup>	+	0.214 <sup>***</sup>
Board size	-	nss	-	-1.352 <sup>***</sup>	+	nss	-	nss
Board size squared	+	nss	+	0.043 <sup>***</sup>	-	nss	+	0.011 <sup>*</sup>
Independent directors	-	-0.699 <sup>**</sup>	-	nss	-	nss	-	nss
Separate chair and CEO	-	-0.266 <sup>***</sup>	-	nss	+	nss	-	nss
CEO ownership	-	-1452.7 <sup>***</sup>	-	nss	+	nss	-	nss
Stock-based to total CEO pay	-	-0.372 <sup>***</sup>	-	2.115 <sup>*</sup>	+	nss	-	-0.755 <sup>*</sup>
Abnormal CEO pay	+	nss	+	nss	-	-0.116 <sup>*</sup>	+	nss
Dollar sensitivity of CEO options	+	0.020 <sup>***</sup>	+	nss	-	nss	+	nss