The Success and Relevance of Shareholder Activism through Proxy Proposals

Luc Renneboog
Tilburg University, European Corporate Governance Institute

Peter G. Szilagyi
Judge Business School – University of Cambridge

This version: October 30, 2008

Abstract – This paper shows evidence for the corporate governance role of shareholder proposals using the largest sample yet examined. Claims of agenda-seeking by the sponsoring shareholders are exaggerated, because proposals are targeted at firms with generally poor governance structures. Moreover, proposal announcements have positive valuation effects, which match the subsequent voting otucomes in depending on both proposal characteristics and the target's governance quality. We analyze proposal success using sample selection models to control for the endogeneity of target selection. We conclude that shareholder proposals are a relevant control mechanism, countering recent arguments that they should be restricted by the SEC.

Keywords: Shareholder activism, shareholder proposals, corporate governance, sample selection.

JEL Classification: G34.

We are grateful for valuable suggestions from Jonathan Batten, Bernard Black, Fabio Braggion, Brian Cheffins, Hans Degryse, Diane Del Guercio, Stuart Gillan, Jeffrey Gordon, Jennifer Hill, Ronald Masulis, Colin Mayer, Joe McCahery, Marco Pagano, Maria Fabiana Penas, Andrew Prevost, Randall Thomas, Paolo Volpin, and seminar participants at the University of Cambridge, Tilburg University, the 2008 ECGI/Review of Finance/SNS Corporate Governance Best Paper Competition Conference in Oxford, and the 2008 Amsterdam/Cagliari/Vanderbilt Conference on Shareholder Rights, Shareholder Voting and Corporate Performance in Cagliari. Luc Renneboog is grateful for funding from the Netherlands Organization for Scientific Research under the 'Shifts in Governance' programme, and from the European Commission via the 'New Modes of Governance'-project (NEWGOV) led by the European University Institute in Florence; contract no. CIT1-CT-2004-506392. Peter Szilagyi is grateful for funding from the European Commission through the European Corporate Governance Training Network; contract no. MRTM-CT-2004-504799. Renneboog: +31 (0) 13 4668210, luc.renneboog@uvt.nl; Szilagyi: +44 (0) 1223 764026, p.szilagyi@jbs.cam.ac.uk.

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 means of countering managerial agency problems. This assertion is supported by Harris and Raviv's (2008) recent theoretical model, which shows that in firms where agency concerns are exacerbated, it is optimal that shareholders seek control over corporate decisions. Other studies nonetheless dispute the actual control benefits of shareholder proposals. Prevost and Rao (2000) suggest that they are often preceded by failed behind-the-scenes negotiations with management, and may exert no discipline anyhow due to their nonbinding nature. Legal scholars argue 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 empirical literature, summarized by Black (1998), Karpoff (2001), and Gillan and Starks (2007), is indeed inconclusive about whether shareholder proposals play a meaningful role in addressing corporate governance concerns. Recent research shows that the negative publicity and other reputational penalties do wield pressure on the target firms, because proposals that win a majority vote are quite likely to be implemented (Thomas and Cotter, 2007; Ertimur, Ferri, and Stubben, 2008). However, it remains unclear whether the proponent shareholders have the "correct" objective of disciplining management, or otherwise use the proxy process effectively. On one hand, the target firms tend to be poorly performing, but 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, there is no indication that proposal submissions 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 new evidence on the corporate governance role of shareholder proposals by simultaneously investigating (i) the selection of target firms, (ii) the stock price effects of proposal announcements, and (iii) the subsequent voting outcomes. Using 2,800 proposals submitted between 1996 and 2005, as well as a sample of 2,000 target and nontarget firms, we make several contributions to the literature. First, we show compelling evidence that shareholder

proposals tend to be carefully targeted at firms that both underperform and have generally poor governance structures. We find that regardless of the issue addressed, proposals are more likely to be submitted against firms that (i) use antitakeover provisions to entrench management, (ii) have ineffective boards, and (iii) do not make CEO wealth and compensation sufficiently performance-sensitive. It is notable that the probability of proposal submissions also decreases in leverage, which Jensen (1986) views as a remedy to free cash flow concerns. These results imply that activist shareholders tend to use the proxy process as a disciplinary mechanism, and previous claims on their agenda-seeking are likely to be exaggerated.

Second, we find that proposal announcements in the proxy statements are actually met with significantly positive stock price reactions. While the voting outcomes improve persistently over time, the abnormal stock returns are highest during stock market runups and heightened takeover activity. Nonetheless, the two measures of proposal success coincide in two key aspects. On one hand, they are sensitive to the issue addressed and the identity of the proposal sponsor, and are highest for proposals that are takeover-related or sponsored by public pension funds. On the other, they strongly depend on the target firm's governance quality, and especially its use of antitakeover devices. These findings show that shareholder proposals are attributed meaningful control benefits by both the market and the voting shareholders, especially as an alternative agency mechanism when the market for corporate control can no longer exert discipline.

And third, this is the first study in the literature to analyze the success of shareholder proposals using sample selection models. It is conceivable that activists consider the potential voting outcomes and stock price effects before deciding whether or not to sponsor proxy proposals. In turn, the voting shareholders and the market may respond to the act of activists confronting management beyond the actual objectives of the proposals they sponsor. The sample selection framework confirms that target selection and voting success are endogenous, with independent analysis of the latter producing somewhat biased parameter estimates. Evidence for the endogeneity of the abnormal stock returns is marginal.

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 activism

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, Sias, and Starks, 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 not sufficiently responsive – by submitting proxy proposals for shareholder vote.

While shareholder proposals are generally considered to be relatively weak as a disciplinary mechanism, the academic literature is divided over 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) recent 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 shareholder proposals have little use as an agency control device, and may actually carry negative implications from a corporate governance perspective. Prevost and Rao (2000) point out that many institutional activists first try to negotiate with management behind the scenes, and only submit proxy 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 may 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 Woidtke (2002) argues that political and social influences may divert their focus from disciplining management and maximizing firm value. More explicit are Prevost, Rao, and Williams (2008) 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 indeed unclear from the empirical literature, summarized by the surveys of Black (1998), Karpoff (2001), and Gillan and Starks (2007). Recent studies confirm that they do exert pressure on the target firms despite their nonbinding nature, because as much as 40% of the proposals that win a majority vote end up being implemented (Bizjak and Marquette, 1998; Martin and Thomas, 1999; Thomas and Cotter, 2007; Ertimur, Ferri, and Stubben, 2008). Targets that ignore the shareholder vote 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, Ferri, and Stubben (2008) also show that their directors 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, Seery, and Woidtke, 2008).

Despite these key results, the literature remains inconclusive on whether the activists sponsoring proxy proposals actually have the "correct" incentive of disciplining management. Previous studies report that proposal sponsors are more likely to target large, poorly performing firms (Karpoff, Malatesta, and Walkling, 1996; Martin and Thomas, 1999). Smith (1996) finds that they also observe the identity of the voting shareholders, to the extent that targets tend to have high institutional and low insider ownership. There is no evidence however that agency concerns in the target firms are otherwise exacerbated by poor governance structures. Choi (2001) and Akyol and Carroll (2006) examine whether the selection of target firms is affected by

governance considerations, and respectively find that the targets have neither inefficient boards nor managers heavily entrenched by antitakeover provisions.

The literature also offers mixed results on whether the target firm's governance quality is observed by the voting shareholders. Ertimur, Ferri, and Stubben (2008) recently find that proposals are more likely to win majority support if the target management is entrenched. However, 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.

Gillan and Starks (2007) point out that the voting outcomes on shareholder proposals are largely driven by the issue addressed and the identity of the proposal sponsor, and have historically been strongest for proposals targeting antitakeover devices and sponsored by institutional investors. Cremers and Romano (2007) show that the identity of the voting shareholders is also relevant. On one hand, voting support increases in institutional ownership but decreases in ownership by managers, directors, and Employee Stock Ownership Plans (ESOP). On the other, ownership by insurance companies and banks' trust departments increases voting support to a lesser extent than that by other institutional investors. These institutions are notably absent from the activist arena as well, and Brickley, Lease and Smith (1988) and Pound (1988) regard them as being pressure-sensitive due to their existing or potential business relationships with the firms they invest in[1]. Pension funds, investment funds, and independent investment advisors are deemed to be pressure-insensitive in comparison, because they are less likely to have such business ties and should be more willing to challenge management over agency concerns[2].

Previous studies argue that the valuation effects of shareholder proposals should be examined around the date the proxies are mailed, because the market should have reasonable expectations on whether a proposal passes or later becomes implemented (Bhagat, 1983; Bhagat and Brickley, 1984), and there is otherwise no systematic market response to proxy releases that do not contain shareholder proposals (Brickley, 1986). Gillan and Starks (2000) nonetheless note that the stock

[1] That such conflicts of interest may affect the shareholder vote on proxy proposals has long been voiced by activist investors, and eventually prompted the SEC's mutual fund proxy vote disclosure rule in June 2003. Whether the rule has reduced conflicted voting remains debated (Rothberg and Lilien, 2005; Davis and Kim, 2007). Cremers and Romano (2007) suggest that the extent of conflicted voting may actually have been exaggerated in the first place.

[2] Accordingly, greater ownership by pressure-insensitive investors has been associated with greater emphasis on pay for performance (Almazan, Hartzell, and Starks, 2005), better acquisition decisions (Chen, Harford, and Li, 2007), and better overall financial performance (Cornett, Marcus, Saunders, and Tehranian, 2007).

price reactions to proposal announcements may not be significant because they are difficult to ascertain. First, the proxies often contain multiple proposals submitted by both shareholders and management, as well as disclose other information. Second, information leakages can occur, for example if institutional activists announce their projected targets for the impending proxy season.

The existing event studies indeed do little in the way of showing that the market recognizes shareholder proposals as a useful control device. Most papers find insignificant market reactions to proposal announcements (Karpoff, Malatesta, and Walkling, 1996; Smith, 1996; Wahal, 1996; Thomas and Cotter, 2007), while others report outright negative abnormal stock returns for proposals targeting poison pills (Bizjak and Marquette, 1998; Del Guercio and Hawkins, 1999; Prevost and Rao, 2000). Gillan and Starks (2000) find some evidence however 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 first negotiate with management, and find that the abnormal returns in the former case 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, Brunarski, Harman, and Parrino (2006) further 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, Rao, and Williams (2008) examine union-sponsored proxy proposals, and find positive market reactions to those submitted against firms with one or more unions present.

3. Sample description and trends in shareholders' use of the proxy process

The shareholder proposals examined in this paper are all related to corporate governance and were submitted in the period between 1996 and 2005. Our data set contains 2,792 proposals submitted at 646 firms with single class common stock[3]. Of these, 2,651 were taken from the

[3] Dual class firms were omitted because their governance structures are difficult to compare with those of single class firms due to extensive voting and ownership differences. We omitted a total of 269 proposals submitted at 65 dual class firms, representing about 9% of the initial sample.

RiskMetrics' (formerly IRRC) database of proxy voting, which tracks over 1,900 firms including the Standard & Poor's 1500. The remaining proposals were obtained from the proxy firm Georgeson Shareholder Communications, or hand-collected from the proxy statements of the firms tracked by RiskMetrics.

We used the proxy statements, available through the SEC's EDGAR database, to collect missing data and correct any errors in the RiskMetrics-reported data items pertaining to each proposal. For about half of the proposals RiskMetrics did not report the detailed three-way voting outcomes, and there were a number of inconsistencies in the treatment of broker nonvotes. In some cases, the proposal type and the identity of the proposal sponsor were also missing or classified incorrectly. As the proxy mailing dates were not included in the RiskMetrics database, these were also collected from EDGAR.

3.1. The identity of the proposal sponsors

Table 1 provides an overview of the sample proposals by the year of submission and the identity of the sponsoring shareholder. The proposal sponsors are classified into six mutually exclusive categories: (i) union pension funds, (ii) public pension funds, (iii) investment funds, (iv) coordinated investor groups, (v) socially responsible and religious investors, and (vi) individual investors.

(Insert Table 1 about here)

Table 1 shows that institutional activism through the proxy process has been dominated by union pensions funds, with 926 proposals submitted over the sample period, and as many as 559 between 2003 and 2005. In comparison, Gillan and Starks (2000) report only 119 union-sponsored submissions for the entire period between 1987 and 1994. Unions have also been known to be very innovative in using the proxy process, as well as the media, to target management (Schwab and Thomas, 1998; Prevost, Rao, and Williams, 2008). The most prolific proposal sponsors have been the United Brotherhood of Carpenters and Joiners of America (UBCJA), the International Brotherhood of Teamsters, and the Longview Collective Investment Fund. Of these, Longview is viewed as being the least likely to seek social or political interests,

because it has strong fiduciary duties to its depositors despite being ultimately owned – through the Amalgamated Bank of New York – by the UNITE HERE union.

Public pension funds sponsored 136 proposals, considerably fewer than the 344 submissions reported by Gillan and Starks (2000). These institutions were active users of the proxy process until the early 1990s, when they shifted their strategy to negotiating with management behind the scenes and targeting firms through the media (Carleton, Nelson, and Weisbach, 1998; English, Smythe, and McNeil, 2004; Wu, 2004; Nelson, 2006)[4]. It is notable that the California Public Employees' Retirement System (CalPERS) and the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) sponsored only 35 proposals between them. The various funds of New York City public employees submitted 84 proposals.

Hedge funds and other investment funds submitted 62 proposals over the sample period. These investors are otherwise well-known to develop often controversial activist strategies, whereby they take large positions in underperforming firms and target management directly as per the agendas presented in their purpose statements (Bradley, Brav, Goldstein, and Jiang, 2005; Brav, Jiang, Partnoy, and Thomas, 2008; Greenwood and Schor, 2008; Klein and Zur, 2008)[5]. GAMCO Investors (formerly Gabelli Asset Management) was the most significant proposal sponsor, with 17 submissions in total.

Coordinated investor groups sponsored 197 of the sample proposals. The most prolific advocacy group was the Investor Rights Association of America (IRAA), a spinoff of the now-defunct United Shareholders Association (USA), which was active until the early 1990s (Strickland, Wiles, and Zenner, 1996). The IRAA also disbanded in 1998, but its founding members continued to make proposal submissions. Another active investor group was the Association of BellTel Retirees and its members, acting mostly as a de facto union for the former employees of Verizon Communications and its predecessors.

Socially responsible investors and religious organizations submitted 121 proposals targeting corporate governance issues, many of which were cosponsored by multiple institutions. These

[4] 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.

[5] Becht, Franks, Mayer, and Rossi (2008) are the first to provide non-US evidence on hedge fund activism, by examining the activities of the Hermes Focus Fund in the UK.

activists are better known for making submissions pertaining to social, ethical, and environmental issues. The most significant sponsors of governance-related proposals were the Interfaith Center on Corporate Responsibility (ICCR), and the United for a Fair Economy (UFE) movement through its Responsible Wealth project.

The remaining 1350 proxy proposals were submitted by individual investors, who dominated the proxy process almost entirely until the emergence of institutional activists in the mid-1980s. The most prominent proposal sponsors, often referred to as "gadfly" investors, have been active for many years, and include Evelyn Y. Davis and the Chevedden, Rossi and Gilbert families, who submitted a total of 681 proposals over the sample period. The Gilbert brothers sponsored proxy proposals until 2003 and had been well-known for their presence in the activist arena since the 1930s. Prominent individuals involved in proxy contests have also been known to sponsor proxy proposals, including Steve Bostic, Patrick Jorstad, and Selim Zilka.

3.2. The issues addressed

Table 2 groups the sample proposals by the year of submission and the issue addressed. The issues are categorized by whether the proposal concerns (i) antitakeover devices, (ii) the board of directors, (ii) voting rules, (iv) executive compensation, (v) the sale of the target firm (vi) audit services, (vii) routine issues related to the annual meeting, or (viii) other miscellaneous issues.

(Insert Table 2 about here)

The table shows that, as has been the case historically, antitakeover devices were the most frequent targets of the sample proposals. A total of 981 proposals were takeover-related, directed primarily at the removal of classified boards (440), poison pills (312), and golden parachutes (129). Activists targeted poison pills particularly intensely after 2000, coinciding with the stock market downturn and the exacerbation of corporate governance concerns as a result of the Enron and subsequent accounting scandals. The incidence of submissions on board and voting-related issues remained relatively stable over the sample period, with a total of 495 and 354 proposals, respectively. Nonetheless, the number of proposals calling for the independence of the board chairman and the election of board members by majority vote rose considerably in the 2000s.

Between 1996 and 2005, shareholders sponsored 608 proposals on managerial compensation, more than double the 247 reported for 1987-1994 by Gillian and Starks (2000). Two thirds of these proposals were submitted after 2002, reflecting exacerbated concerns over the size, performance sensitivity, and expensing of pay packages. The crisis of confidence triggered by the Enron scandal also prompted a surge in the number of proposals targeted at audit issues, with 64 of the 70 audit-related proposals submitted after 2001. Submissions seeking the sale of the target firm soared during the stock market runup of the late 1990s, but fell significantly thereafter.

Though not reported in Table 2, the surge in the number of takeover- and compensation-related proposal submissions was largely driven by union pension funds. Antitakeover devices and board-related issues were targeted by most institutional proposal sponsors. However, unions also engaged firms over managerial compensation, with strong emphasis on stock option expensing and the granting of performance-based options and restricted shares. Public pension funds, investment funds, and coordinated investor groups remained comparatively focused on targeting antitakeover devices. In addition, public pension funds often used the proxy process to seek greater board independence and confidential voting, while hedge funds and coordinated investors submitted most proposals calling for the sale of the target firm.

The proposals sponsored by individual investors were by far the most diverse in terms of their policy objectives. Nonetheless, many individual activists tended to concentrate on a few select issues. For example, Evelyn Y. Davis sponsored 39 of the 47 proposals on director tenure, 42 of the 45 proposals on compensation disclosure, and 28 of the 35 routine proposals on the date and location of the annual meeting. Davis and the Gilbert brothers also sponsored 161 of the 221 submissions on cumulative voting, while 151 of the 312 poison pill proposals were submitted by the Chevedden and Rossi families.

3.3. The voting success of shareholder proposals

Table 3 summarizes the voting outcomes on the sample proposals by the issue addressed, the year of submission, and the identity of the proposal sponsor. The three-way voting results are

available for 2726 of the 2792 proposals; the remaining submissions also went to shareholder vote, but the results were not reported in detail by the target firms[6].

(Insert Table 3 about here)

Panel A of Table 3 shows that the voting support attracted by shareholder proposals increased significantly during the sample period. The percentage of votes cast in favor was 32.9% on average, rising from 28.7% in 1996 to 37.1% in 2005. An improvement in the voting outcomes 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. Nonetheless, Gillan and Starks (2007) point out that the voting success of shareholder proposals has grown persistently since the mid-1980s, largely due to the ongoing rise of institutional equity ownership.

The panel shows that the proposals targeting antitakeover devices achieved by far the most voting support at an average 53.4% of the votes cast, with the percentage of favorable votes increasing from 42.4% in 1996 to 61.2% in 2005. In fact, nearly two thirds of these proposals passed the shareholder vote, and as many as 84% received majority support in 2005. The voting results were uniformly strong for each provision targeted, with the most successful proposals seeking to eliminate poison pills, classified boards and supermajority provisions, and restore special meeting and written consent rights. The exception were the mostly union-sponsored submissions calling for the target firm's reincorporation, typically in Delaware, with 16.9% of the votes cast in favor on average.

The proposals targeting voting rules and managerial compensation won an average 32.3% and 21.5% of the votes, respectively, but their voting success also showed considerable improvement in the period between 1996 and 2005. Of the voting-related proposals, the submissions seeking confidential voting achieved the best voting outcomes, receiving 45.5% of the votes and passing in a third of the cases. The most successful compensation-related proposals called for greater shareholder control over the approval of pay packages, or concerned the pay-performance sensitivity and accounting treatment of stock-based compensation. Standing out among these were the mostly union-sponsored proposals calling for the expensing of stock options, which won

[6] Proposals are sometimes withdrawn because the sponsor has negotiated a satisfactory resolution, or the SEC has allowed the firm to exclude it from its ballot due to the improper subject matter or technical reasons. However, RiskMetrics does not actually include withdrawn proposals in its database.

an average 49.0% of the votes and passed in half of the cases. The board-related proposals received 19.3% of the votes on average, without a major increase in the percentage of favorable votes over the sample period. Nonetheless, the various submissions seeking greater board independence were relatively successful. The proposals directed at audit and routine issues, as well as those seeking the sale of the target firm won modest support from the voting shareholders.

Panel B of Table 3 shows how the identity of the proposal sponsor affected the voting outcomes. The proposals targeting antitakeover devices performed well irrespective of the sponsoring shareholder. Otherwise, public pension funds and investment funds were the most successful in building voting coalitions, winning an average 43.0% and 41.0% of the votes, respectively. The voting results were consistently solid across all the major pension funds, while GAMCO Investors was the most successful investment firm with its purely takeover-related proposals receiving 55.7% voting support. Union pension funds achieved an average 34.8% of the votes, which appears to reflect shareholder concerns over their political or social agendas. Indeed, Longview stood out by winning 46.9% of the votes cast on average, although the union-sponsored proposals on voting rules were generally the most successful. The percentage votes achieved by coordinated investor groups and socially responsible and religious investors were 28.6% and 23.7%, respectively. The modest support drawn by the IRAA and its former members is somewhat surprising, given their association with the previously very successful USA. Finally, individual activists attracted an average 32.1% of votes cast, considerably more than the 18.7% reported for 1987-1994 by Gillan and Starks (2000). Indeed, several "gadfly" investors popular in the business media have emerged in recent years as being very successful in building voting coalitions. The outcomes achieved by the Chevedden and Rossi families were particularly strong, with their mostly takeover-related proposals typically winning a majority vote.

3.4. The market response to proposal announcements

To measure the valuation effects of the sample proposals, we now examine the cumulative abnormal returns (CARs) induced by the proposal announcements around the date that the proxy statements were mailed. As was discussed in Section 2.2, we can only measure the stock price reactions to the proxies rather than the individual proposals, which should lead to a downward bias in the significance of the results. We calculate the CARs using the market model methodology. The model parameters are estimated over the 200-day period ending 21 days

before the proxy mailing date, using the CRSP equal-weighted index. Of the 1756 initial proxy mailing dates, these parameters are available for 1739 events. The significance of the CARs is tested using Boehmer, Musumeci, and Poulsen's (1991) standardized cross-sectional Z-test and Cowan's (1992) nonparametric generalized sign test.

Table 4 reports the CARs for the full sample across a number of event windows. Remarkably, we find that the sample proposals were met with significantly positive market reactions upon their disclosure in the proxy statements. The CARs were significant albeit modest in size in each event window, with the mean and median CARs in the days [-1,+1] around the proxy mailing date at 0.25% and 0.02%, respectively. However, Gillan and Starks (2000) point out that the valuation effects of shareholder proposals are likely to be economically small anyhow compared to those of alternative control mechanisms such as takeovers. The size and the significance of the CARs are fully robust to alternative specifications of the market model[7]. Overall, these results imply that the market attributes at least some control benefits to shareholder proposals.

(Insert Table 4 about here)

Table 5 partitions the mean [-1,+1] CARs by the year of submission, the issue addressed, and the identity of the proposal sponsor. Panel A of the table shows that unlike the voting outcomes, the stock price effects of the proposal announcements did not improve steadily during the sample period. Rather, the CARs varied over time and were most significant during the stock market runups and heightened takeover activity of 2000 and 2005.

(Insert Table 5 about here)

The table shows the most positive market response was attracted by the proxies announcing the takeover-related shareholder proposals. The CARs around the release of the proxies had a mean and median of 0.44% and 0.13%, respectively, and were highly significant using both the

[7] The CARs are fully 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 0.07%, and the Z-test and the generalized sign test were significant at the 1% and 5% level, respectively. The results are similarly 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 0.26% and 0.23%, respectively. In line with Brickley (1986), we find no systematic stock price reactions to the proxy releases of nontarget firms.

parametric and nonparametric tests. These results correspond to the subsequent voting outcomes, insofar as the takeover-related proposals won the most voting support and were the most likely to pass. Nonetheless, the CARs were again highest during 2000 and 2005, which suggests that the market pays a premium for the removal of antitakeover devices when the market for corporate control is most active. The valuation effects of the proposals seeking greater board effectiveness were also significant in 2000, with a mean CAR of 3.28%.

Panel B of Table 5 shows that of the sponsoring shareholders, public pension funds achieved by far the strongest stock price reactions with their proxy proposals. The CARs around their proposal announcements were significant both statistically and economically, with a mean and median at 1.08% and 0.53%, respectively. The union-sponsored proposals also induced small stock price gains of an average 0.16%. The stock price effects were statistically insignificant for the remaining sponsor types, but the mean CAR was highest for hedge funds and other investment funds, at 0.53%. These findings are broadly in line with the superior voting outcomes achieved by institutional proposal sponsors. At the same time, they show no support for Prevost and Rao's (2000) hypothesis that the market interprets proposal submissions by institutional activists as a negative signal of failed behind-the-scenes negotiations with management.

4. Multivariate analysis of target selection and proposal success

To investigate further the agency role played by shareholder proposals, we now analyze the sample in a multivariate framework to see (i) how the proposal sponsors select the firms they target through the proxy process, and (ii) what drives proposal success in terms of the voting results and stock price effects. It is important to point out that target selection and proposal success are likely to be endogenous. On one hand, activists should observe the potential outcomes before deciding to make proposal submissions, given the nontrivial costs involved. On the other, the market and the voting shareholders may respond to the signal conveyed by the act of activists targeting management beyond the actual objectives of the proposals they sponsor.

To identify the firm characteristics that drive the probability and later success of proposal submissions, we use a comprehensive set of accounting, market performance, ownership, and governance data collected from Compustat, CRSP, Thomson Financial CDA/Spectrum, RiskMetrics, and ExecuComp. The analysis of target firm selection covers the entire universe of

firms tracked by each of these databases in any given year between 1996 and 2005. In total, this encompasses coverage of 1,961 NYSE, AMEX or NASDAQ-listed firms across 10,590 firm-years, of which 550 firms were targeted by shareholder proposals across 1,494 firm-years.

4.1. Descriptive statistics on the target versus nontarget firms

Table 6 compares the descriptive statistics on the target versus nontarget firms in the sample, with 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 of Table 6 shows how the targets and nontargets compared in terms of their financial characteristics, market performance, and institutional ownership. Fama and French's (2001) three agency proxies show mixed evidence that agency concerns in the target firms were exacerbated. The results confirm that the targets tended to be large, prominent firms with assets of $46.5 billion and sales of $15.8 billion on average. In comparison, the nontargets had only $7.3 billion and $3.3 billion in assets and sales, respectively. However, we find no evidence that the targets had lower debt-to-equity or market-to-book ratios, which Fama and French (2001) regard as being inversely related to agency concerns. The ranksum tests indicate that the targets were actually more levered, though the mean debt-to-equity ratios of 1.45 and 1.35 were insignificantly different. The market-to-book ratios, at 3.02 and 4.32 on average, were not significantly different between the two groups by either statistic.

The market performance data confirm that the targets tended to perform relatively poorly in the year up to two months before their proxy mailing dates. The target stocks delivered an average raw return of 14.5% in this period, and underperformed the CRSP equal-weighted index by 17.8%. The average raw return on the nontarget stocks was considerably higher at 20.6%, and these underperformed the CRSP index by only 11.2%[8]. Turnover was nonetheless lower in the

[8] 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.

target than in the nontarget stocks, averaging 1.37 and 1.73, respectively. This result is surprising to the extent that shareholders voting with their feet should increase turnover.

The table shows no evidence that the target firms had high institutional ownership, as reported by Karpoff, Malatesta, and Walkling (1996) and Smith (1996). In fact, the mean equity stake of institutional investors was 62.8% in the targets and 63.9% in the nontargets. It is also notable that the institutions that Brickley, Lease, and Smith (1988) and Pound (1988) regard as being pressure-insensitive were relatively underrepresented in the targets. In contrast, pressure-sensitive investors were overrepresented, despite these being less likely to support proposal submissions.

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. Based on Gompers, Ishii, and Metrick's (2003) Governance Index, which tracks 24 antitakeover provisions, we confirm that the targets were relatively well-protected from takeover threat with an average 9.9 provisions in place. The nontargets employed 9.4 provisions, with the difference significant at the 1% level. Surprisingly, there was no discernible difference between the two groups based on Bebchuk, Cohen, and Ferrell's (2008) alternative Entrenchment Index. 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[9].

Similar to Prevost, Rao, and Williams (2008), we use four variables to capture board effectiveness in monitoring management: (i) board size, (ii) the proportion of executive directors, (iii) the average age of nonexecutive directors, and (iv) the independence of the board chairman. The descriptives show mixed evidence on how board effectiveness compared in the two groups. The targets had 11.3 board members on average, considerably more than the 9.6 members in the nontargets and the optimal board size of six to eight members proposed by Jensen (1993) and Yermack (1996). At the same time, only 12% of the targets separated the posts of CEO and board chairman, compared with 21% of the nontargets. However, the targets had more independent board members, with executives constituting 16.3% of the board in the targets and 20.4% in the nontargets. The nonexecutive directors of the targets were also older thus more experienced, with an average age of 59.9 years compared with 59.1 years in the nontargets.

[9] The authors find that these six provisions are by far the most correlated with firm value and stock returns.

Finally, Panel B of Table 6 reports five variables on two key aspects of CEO wealth and compensation: (i) the CEO's equity ownership and pay-performance sensitivity, which are viewed as a remedy to agency concerns (Jensen and Murphy, 1990), and (ii) the actual level of CEO pay, which may itself reflect agency problems of managerial rent-seeking (Bebchuk and Fried, 2003). We find that in the target firms, CEO wealth was considerably less sensitive to firm performance. On one hand, the average CEO's equity stake was 1.2% in the targets and 2.5% in the nontargets. On the other, for every $1,000 increase in firm value, the value of the CEO's total stock option holdings increased by $6.56 in the targets and $10.73 in the nontargets. CEO compensation otherwise appeared relatively high-powered in the target firms, with options and restricted shares comprising an average 45% and 42% of total pay, respectively. However, the average target also granted bigger compensation packages, at $8.7 million versus $4.1 million. We use Cremers and Romano's (2007) method to determine whether these packages were excessive relative to those granted by other firms in the ExecuComp database. Surprisingly, the results show that the average target underpaid its CEO compared to its size and industry peers.

4.2 Methodology

We now use the Heckman (1979) sample selection model, often referred to as a type-2 tobit model, to simultaneously analyze (i) the selection of target firms and (ii) the subsequent voting success and valuation effects of proposal submissions. The model is specified as follows:

$$y_{1it}^{*} = X_{1it}^{'}\beta_1 + \varepsilon_{1it} \ , \tag{1}$$

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

$$y_{2it}^{*} = X_{2it}^{'}\beta_2 + \varepsilon_{2it} \ , \tag{2}$$

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

where $\{\varepsilon_{1it}, \varepsilon_{2it}\}$ are drawn from a normal distribution with mean 0, variances σ_1^2 and σ_2^2, and correlation ρ_{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 mailing 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. $y_{1it}^{*} \leq 0$. β_1 and β_2 are vectors of the model coefficients.

In a standard setting, the error terms are assumed to be i.i.d. drawings. We relax this assumption across t as well as allow the clustering of observations corresponding to a given firm *i*, i.e. we assume the error terms to be i.i.d. across firms but not necessarily for different observations within the same firm. This procedure enhances the robustness of our findings and allows us to take the panel data structure of our sample explicitly into account.

Throughout the paper we call Equation (1) the selection equation and Equation (2) the outcome equation. As has been mentioned, estimating the outcome equation independently would not be a valid alternative to the method proposed above, because the OLS estimator of β_2 is biased when the selection of the outcome sample is endogenous i.e. $\rho_{12} \neq 0$. Our sample selection model addresses the endogeneity of selection, and therefore renders reliable parameter estimates for the outcome equation (Greene, 2000).

4.3. Target selection and voting success

4.3.1. Model specification and hypotheses

The sample selection framework is first used to jointly analyze the selection of target firms and the subsequent voting outcomes. This part of the analysis is at the proposal rather than the firm level, therefore the selection equations overweight the targets with multiple proposals in a given year. Alternative firm-level model specifications would yield unbiased results for the selection equations but lead to considerable loss of information on the individual proposals[10].

[10] As a robustness check, 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 were considerably weaker due to the information loss.

The outcome equations analyzing the voting outcomes include 14 explanatory variables capturing the various proposal characteristics. *Times submitted* shows the number of times a proposal has been submitted in consecutive years. Gillan and Starks (2000) find, and our univariate results confirm, that resubmissions of previously unimplemented proposals tend to improve the voting outcomes[11]. *Number of proposals in proxy* indicates the number of shareholder proposals announced in the same proxy statement. While it is not immediate how this should affect the voting results, we conjecture that the more proposals submitted, the greater the support from the voting shareholders due to the stronger signal conveyed over governance concerns. Finally, we use twelve dummy variables to control for the issue addressed and the identity of the proposal sponsor. All proposals are uniquely allocated to an issue and sponsor type, such that the intercept represents proposals addressing miscellaneous issues and sponsored by individual investors. We expect that proposals that are takeover-related or sponsored by institutional investors attract the most voting support.

In both the selection and outcome equations, we use the variables discussed in Section 4.1 and described in Appendix A to control for firm characteristics. We control for firm size using the log of assets, and expect its sign to be positive in the selection equation, because large, prominent firms should be more likely to be targeted. However, we conjecture that the same sign is negative in the outcome equation, because voting coalitions should be more difficult to build in large firms with dispersed ownership. In both equations the signs on the debt-to-equity ratio should be negative, to the extent that leverage mitigates the agency costs of free cash flow. It is unclear however whether the signs on the market-to-book ratio should also be negative. In addition to being an inverse proxy for agency problems, market-to-book is related positively to the level of informational asymmetries, because there is greater valuation uncertainty about firms with more

[11] In our sample, first-time submissions received 30.4% of the votes on average, while fifth-time submissions received 48.6%. 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 proposals they expect to achieve better outcomes. On the other, the SEC states that 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. To avoid exclusion, a proposal must have received at least 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%, respectively, amid claims that firms were becoming inundated with shareholder proposals (Romano, 2001). However, these changes have yet to be implemented.

growth opportunities. Then, the signs on market-to-book may actually be positive, to the extent that activists use proxy proposals as a signaling device.

Poor stock performance and high stock turnover are likely to be symptomatic of shareholders voting with their feet against underperforming firms. Accordingly, the probability and voting success of proposal submissions should also be related negatively to prior performance and positively to turnover. We control separately for ownership by pressure-sensitive and pressure-insensitive institutional investors. The signs in both the selection and outcome equations should be positive on ownership by pressure-insensitive investors, to the extent that their votes increase proposal success. It is unclear whether the signs should be positive or negative on ownership by pressure-sensitive investors, as their voting decisions may be affected by conflicts of interest.

The models finally include ten explanatory variables to capture governance quality at the firm level. For each variable, the signs are expected to be the same in the selection and outcome equations, because proposals should be more likely to be submitted as well as win more voting support when agency concerns are exacerbated by poor governance structures. We use Bebchuk, Cohen, and Ferrell's (2008) Entrenchment Index to account for the use of antitakeover devices. The signs on the index are expected to be positive, because the agency benefits of shareholder proposals should be greatest when the market for corporate control can no longer exert discipline. Board effectiveness is proxied by (i) board size, (ii) the square of board size, (iii) the proportion of executive directors, (iv) the average age of nonexecutive directors, and (v) a dummy equal to one if the board chairman is independent and zero otherwise. We expect the signs on board size to be negative and on squared board size to be positive, to the extent that boards should be neither too small nor too large. The signs should be positive on the proportion of executive directors and negative on director age and chairman independence, insofar as more experienced and independent boards should be more effective monitors.

Finally, the variables capturing the agency aspects of CEO wealth and compensation are (i) ownership, (ii) the sensitivity of total option holdings to firm value, (iii) the proportion of stock-based to total compensation, and (iv) abnormal compensation relative to the firm's size and industry peers. The signs should be negative on variables (i) to (iii) due to the incentive effects of wealth-performance sensitivity, with the qualification that stocks held by the CEO or in ESOPs are also unlikely to be voted in favor of shareholder proposals. The signs should be positive on variable (iv), to the extent that excessive CEO pay reflects managerial rent-seeking.

4.3.2. Empirical results

Table 7 shows five sample selection models using different combinations of the explanatory variables in both the selection and outcome equations, with the full set of variables included in the final Model 5. The economic effects in Model 5's outcome equation are summarized in Appendix B. The models generally confirm that the selection of target firms and voting success are endogenous, with ρ sensitive to the model specification but significant in all but one case. Results not reported here also show that independent analysis of the voting outcomes produces somewhat different parameter estimates and has lower explanatory power overall.

(Insert Table 7 about here)

As has been mentioned, the selection equations in Table 7 are at the proposal rather than the firm level, and therefore overweight target firms with multiple proposals. Nonetheless, Panel A shows several firm characteristics that affect the probability of proposal submissions. The results confirm that large, prominent firms are more likely to be targeted through the proxy process. More levered firms are also less likely to become targets ceteris paribus, despite the higher debt-to-equity ratios reported for the targets in the descriptive statistics of Table 6. However, we find that proposals are more rather than less likely to be submitted against firms with high market-to-book ratios. This finding is consistent with the signaling rather than the agency argument, in that it implies that activists use proposals as a signaling device under informational asymmetries. Finally, we confirm that activists are more likely to sponsor proposals against poorly performing firms. However, there is only marginal evidence that they observe the target's level of institutional ownership, whether by pressure-sensitive or pressure-insensitive investors.

The selection equations show limited evidence that the selection of target firms is driven by governance considerations. We confirm that firms with high CEO ownership are less likely to be targeted. However, the firm value sensitivity of the CEO's option holdings is related positively rather than negatively to the probability of proposal submissions. This result is inconsistent with the expected incentive effects, and suggests that activists view the buildup of option grants as evidence for managerial rentseeking. We find no evidence that the selection of target firms is related to the use of antitakeover devices or board effectiveness.

The outcome equations analyzing the voting outcomes are shown in Panel B of Table 7. The results confirm that voting success is largely driven by the proposal characteristics. In Model 5,

the intercept shows that miscellaneous proposals sponsored by individuals receive 28.4% of the votes cast. In comparison, submissions directed at antitakeover devices win 39.0% more voting support, while those related to voting issues achieve 20.0%, and board, compensation and audit-related proposals receive 8.0%, 6.6% and 4.6% more votes, respectively. Of the institutional proposal sponsors, investment funds and public pension funds collect 10.2% and 6.3% more votes than do individual activists, while union pension funds achieve 2.6% additional support. We find that each resubmission of the same proposal improves the voting outcome by 0.9%, and that each additional proposal included in the proxy statement contributes 0.4% additional votes.

The variables capturing the characteristics of the target firm add significant explanatory power to the outcome equations. We confirm that voting success is related negatively to the size of the target, but there is no robust evidence that the debt-to-equity or market-to-book ratios have a meaningful impact. Interestingly, while market performance is a key determinant of target selection, the voting outcomes only show a significant relation with the prior stock turnover. The results confirm that voting success depends on the identity of the voting shareholders. In Model 5, a 1% rise in ownership by pressure-insensitive institutions improves the voting outcome by 0.1%. The impact of ownership by pressure-sensitive investors is insignificantly negative rather than positive, which indeed implies that banks and insurance companies are reluctant to support shareholder proposals due to their existing or potential business ties with the target.

The most important contribution of the outcome equations is that the voting shareholders strongly observe the quality of the target firm's governance structures. Voting success is mostly driven by the Entrenchment Index, with Model 5 showing that proposals attract 0.9% more votes for each antitakeover provision the target has in place. While not reported in Table 7, this result is robust to Gompers, Ishii, and Metrick's (2003) broader Governance Index, which confirms that irrespective of the issues addressed, the control benefits attributed to shareholder proposals are greatest against firms protected from takeover threat. Of the board-related variables, the voting outcomes confirm the expected nonlinear relation with board size. The independence and age of board members have no statistical impact. At the same time, we find no robust evidence that the agency aspects of CEO wealth and compensation affect voting success in the way they do the selection of target firms.

4.4. Target selection and stock price effects

4.4.1. Model specification and hypotheses

We now use the sample selection framework to jointly analyze the selection of target firms and the stock price effects of proposal announcements. As was discussed in Section 3.4, the CARs capture the market response to the proxy statements rather than the individual proposals. Therefore, the selection equations are now at the firm level, and are thus unbiased in explaining how activists select the firms they target through the proxy process.

The outcome equations analyzing the CARs again include 14 explanatory variables to control for proposal characteristics. The variables pertaining to the issues addressed and the sponsor identities are now dummies equal to one if the proxy includes a corresponding proposal and zero otherwise. In line with their voting success, we conjecture that proposals that are takeover-related or sponsored by institutional investors induce the most positive stock price reactions. However, signaling effects dictate that the CARs should be related negatively rather than positively to the *Number of proposals in proxy* variable, because multiple submissions achieve only marginally better voting results and convey a particularly strong negative signal of agency issues. The proposal-level *Times submitted* variable is replaced by the firm-level *Targeted in previous year* dummy. This variable is also expected to be inversely related to the CARs, because while consecutive submissions draw more voting support, they signal that previous proposals have been unimplemented or otherwise been unsuccessful in resolving governance concerns.

We conjecture that the CARs are affected by the firm characteristics in line with the agency arguments presented in Section 4.3.1. Notably, proposals submitted against large firms should have stronger stock price effects, because the control benefits of monitoring by activists should be larger despite their greater difficulties to build voting coalitions. Signaling considerations now also imply that the CARs should be related negatively to the market-to-book ratio, because to the extent that informational asymmetries are greater in high market-to-book firms, proposals are more likely to signal agency concerns not yet incorporated into the stock price.

4.4.2. Empirical results

The sample selection models using the CARs in the outcome equations are shown in Table 8. As before, the models include different combinations of the explanatory variables, with the full set of

variables included in the final Model 5. The economic effects in both the selection and outcome equations of Model 5 are summarized in Appendix B. The model statistics now show only limited evidence that target selection and the stock price effects of proposal announcements are endogenous, with ρ significant in just two of the five models.

(Insert Table 8 about here)

The selection equations in Panel A are now very effective in explaining how activists select the firms they target through the proxy process. The regressions confirm that large and poorly performing firms are more likely to be targeted, and that the probability of proposal submissions is inversely related to the debt-to-equity ratio. We now find only marginal evidence that activists tend to target high market-to-book firms to signal agency concerns. However, the results show that they strongly observe the identity of the voting shareholders. On one hand, Model 5 shows that the probability of proposal submissions increases by 1% for every 1% increase in the equity share of pressure-insensitive institutions. On the other, the same probability decreases by 1.8% for a 1% increase in ownership by pressure-sensitive institutions.

The selection equations now confirm that the selection of target firms is most fundamentally driven by corporate governance concerns. Bebchuk, Cohen, and Ferrell's (2008) Entrenchment Index is significant at the 1% level across all specifications, with the probability of proposal submissions increasing by 24.8% in Model 5 for every antitakeover device the firm has in place. As before, this result is robust to the use of Gompers, Ishii, and Metrick's (2003) broader Governance Index. Board effectiveness in monitoring management is similarly important in explaining target selection. First, firms with older thus more experienced nonexecutive directors are less likely to be targeted. Second, we find the expected nonlinear relation between target selection and the number of board members. Finally, the results confirm our earlier finding in Table 7 that activists observe the incentive implications of CEO wealth and compensation. On one hand, firms are less likely to be targeted if their CEOs hold equity or receive mostly stock-based compensation. On the other, the probability of proposal submissions again increases rather than decreases in the firm value sensitivity of the CEO's option holdings, which implies that activists associate high sensitivity in terms of dollar values with managerial rentseeking.

The outcome equations analyzing the stock price effects are shown in Panel B of Table 8. Remarkably, the model statistics show that the CARs are better explained by the characteristics

of the target firm than by the actual proposals announced. Nonetheless, we confirm the univariate findings of Table 4 that the most positive market reactions are attracted by proposals that are takeover-related or sponsored by public pension funds. In Model 5, the CARs induced by takeover-related proposals are 0.57% higher than those pertaining to the miscellaneous proposals represented by the intercept. At the same time, the CARs are higher by as much as 1.09% if the proposal sponsor is a public pension fund rather than an individual. The regressions show only marginal evidence that the CARs are lower if the firm was targeted in the previous year. However, they confirm that the market responds less favorably to multiple proposal submissions, which implies that it indeed views them as a signal on the severity of governance concerns.

Of the firm characteristics, the size of the target shows a strong positive relation with the stock price effects, which confirms that the perceived control benefits of proposal submissions are greater against large, prominent firms. The results also confirm that the CARs decrease in the target stock's prior performance and increase in its turnover. However, we find no evidence that the market observes the target's debt-to-equity and market-to-book ratios, or indeed the identity of the voting shareholders, despite the findings to the contrary of Gillan and Starks (2000) and Borokhovich, Brunarski, Harman, and Parrino (2006).

The model statistics in Table 8 reveal that the governance quality of the target firm is the most relevant in explaining the valuation effects of proposal announcements. The market response depends most fundamentally on the target's use of antitakeover devices. The Entrenchment Index is consistently significant at the 1% level, with Model 5 suggesting that the CARs increase by 0.24% for every antitakeover provision in place. Otherwise, there is evidence that the CARs decrease in the proportion of stock-based pay in CEO compensation, in line with the perceived incentive implications of pay-performance sensitivity.

Overall, these results show that shareholder proposals play a more meaningful role in addressing corporate governance concerns than has been previously assumed in the literature. On one hand, we find that the proposal sponsors typically use the proxy process to discipline management, which implies that claims on their agenda-seeking are likely to be exaggerated. On the other, it is clear that proposal submissions are attributed nontrivial control benefits by both the market and the voting shareholders, especially when management is protected from takeover threat. These finding confirms that as an agency control device, shareholder proposals are a weak but nonetheless relevant alternative to the market for corporate control in particular.

5. Conclusions

This paper has contributed to the academic debate on shareholders' use of the proxy process, by providing evidence that shareholder-initiated proxy proposals are a useful and relevant agency control device. Previous research has shown that proposals winning a majority vote are likely to be implemented despite their nonbinding nature, otherwise the board of directors risks suffering reputation penalties. However, it has been heavily debated whether the proponent shareholders actually have the "correct" objective of disciplining management, and whether the voting shareholders observe the target firm's governance quality. Moreover, there has been no evidence that shareholder proposals have positive valuation effects, with some papers going as far as reporting negative stock price reactions to proposal announcements.

The results presented here 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 both underperform and have generally poor governance structures. We have also found evidence that proposal announcements in the proxy statements have positive stock price effects, which vary over time but are strongest when antitakeover devices shield the target firm's management from takeover threat. Finally, this has been the first study to address the endogeneity of target selection and the subsequent voting outcomes in a sample selection framework, while confirming that voting success also depends on the target firm's governance quality.

Overall, we conclude shareholder proposals should be regarded as a useful means of resolving agency concerns and the proposal sponsors as valuable monitoring agents, especially when the market for corporate control can no longer exert discipline. 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 the operating and market performance of the target firms is left for future research.

References

Akyol, Ali C., and Carolyn A. Carroll, 2006, Removing poison pills: A case of shareholder activism, University of Alabama at Tuscaloosa Working Paper.

Almazan, Andres, Jay C. Hartzell, and Laura T. Starks, 2005, Active institutional shareholders and costs of monitoring: Evidence from executive compensation, *Financial Management* 34, 5-34.

Amemiya, Takeshi, 1984, Tobit models: A survey, *Journal of Econometrics* 24, 3-61.

Bainbridge, Stephen M., 2006, Director primacy and shareholder disempowerment, *Harvard Law Review* 119, 1735-1758.

Bebchuk, Lucian Arye, 2005, The case for increasing shareholder power, *Harvard Law Review* 118, 835-914.

Bebchuk, Lucian Arye, Alma Cohen, and Allen Ferrell, 2008, What matters in corporate governance?, *Review of Financial Studies*, forthcoming.

Bebchuk, Lucian Arye, and Jesse M. Fried, 2003, Executive compensation as an agency problem, *Journal of Economic Perspectives* 17, 71-92.

Becht, Marco, Julian Franks, Colin Mayer, and Stefano Rossi, 2008, Returns to shareholder activism: Evidence from a clinical study of the Hermes U.K. Focus Fund, *Review of Financial Studies*, forthcoming.

Bhagat, Sanjai, 1983, The effect of pre-emptive right amendments on shareholder wealth, *Journal of Financial Economics* 12, 289-310.

Bhagat, Sanjai, and James A. Brickley, 1984, Cumulative voting: The value of minority shareholder voting rights, *Journal of Law and Economics* 27, 339-365.

Bizjak, John M., and Christopher J. Marquette, 1998, Are shareholder proposals all bark and no bite? Evidence from shareholder resolutions to rescind poison pills, *Journal of Financial and Quantitative Analysis* 33, 499-521.

Black, Bernard S., 1998. Shareholder activism and corporate governance in the United States. In: Newman, Peter (ed.), The New Palgrave Dictionary of Economics and the Law, 459-465. New York: Palgrave Macmillan.

Boehmer, Ekkehart, Jim Masumeci, and Annette B. Poulsen, 1991, Event-study methodology under conditions of event-induced variance, *Journal of Financial Economics* 30, 253-272.

Borokhovich, Kenneth A, Kelly Brunarski, Yvette S Harman, and Robert Parrino, 2006, Variation in the monitoring incentives of outside stockholders, *Journal of Law and Economics* 49, 651-680.

Bradley, Michael H., Alon Brav, Itay Goldstein, and Wei Jiang, 2005, Costly communication, shareholder activism, and limits to arbitrage: Evidence from closed-end funds, Duke University Working Paper.

Brav, Alon, Wei Jiang, Frank Partnoy, and Randall S. Thomas, 2008, Hedge fund activism, corporate governance, and firm performance, *Journal of Finance*, 63, 1729-1775.

Brickley, James A., 1986, Interpreting common stock returns around proxy statement disclosures and annual shareholder meetings, *Journal of Financial and Quantitative Analysis* 21, 343-349.

Brickley, James A., Ronald C. Lease, and Clifford Jr. Smith, 1988, Ownership structure and voting on antitakeover amendments, *Journal of Financial Economics* 20, 267-291.

Carleton, William T., James M. Nelson, and Michael S. Weisbach, 1998, The influence of institutions on corporate governance through private negotiations: Evidence from TIAA-CREF, *Journal of Finance* 53, 1335-1362.

Chen, Xia, Jarrad Harford, and Kai Li, 2007, Monitoring: Which institutions matter? *Journal of Financial Economics* 86, 279-305.

Choi, Stephen J., 2000, Proxy issue proposals: Impact of the 1992 SEC proxy reforms, *Journal of Law, Economics and Organization* 16, 233-268.

Cornett, Marcia Millon, Alan J. Marcus, Anthony Saunders, and Hassan Tehranian, 2007, The impact of institutional ownership on corporate operating performance, *Journal of Banking and Finance* 31, 1771-1794.

Cowan, Arnold R., 1992, Nonparametric event study tests, *Review of Quantitative Finance and Accounting* 2, 343-358.

Cremers, K. J. Martijn, and Roberta Romano, 2007, Institutional investors and proxy voting: The impact of the 2003 mutual fund voting disclosure regulation, ECGI Law Working Paper 83.

Davis, Gerald F., and E. Han Kim, 2007, Business ties and proxy voting by mutual funds, *Journal of Financial Economics* 85, 552-570.

Del Guercio, Diane, and Jennifer Hawkins, 1999, The motivation and impact of pension fund activism, *Journal of Financial Economics* 52, 293-340.

Del Guercio, Diane, Laura Seery, and Tracie Woidtke, 2008, Do boards pay attention when institutional investor activists 'just vote no'?, *Journal of Financial Economics*, forthcoming.

Dlugosz, Jennifer, Rudiger Fahlenbrach, Paul A. Gompers, and Andrew Metrick, 2006, Large blocks of stock: Prevalence, size, and measurement, *Journal of Corporate Finance* 12, 594-618.

English, Philip C. II., Thomas I. Smythe, and Chris R. McNeil, 2004, The "CalPERS effect" revisited, *Journal of Corporate Finance* 10, 157-174.

Ertimur, Yonca, Fabrizio Ferri, and Stephen R. Stubben, 2008, Board of directors' responsiveness to shareholders: Evidence from shareholder proposals, Harvard Business School Working Paper.

Fama, Eugene F., and Kenneth R. French, 2001, Disappearing dividends: Changing firm characteristics or lower propensity to pay? *Journal of Financial Economics* 60, 3-43.

Fama, Eugene F., and Michael C. Jensen, 1983, Separation of ownership and control, *Journal of Law and Economics* 26, 301-325.

Gillan, Stuart L., and Laura T. Starks, 2000, Corporate governance proposals and shareholder activism: The role of institutional investors, *Journal of Financial Economics* 57, 275-305.

Gillan, Stuart L., and Laura T. Starks, 2007, The evolution of shareholder activism in the United States, *Journal of Applied Corporate Finance* 19, 55-73.

Gompers, Paul A., Joy L. Ishii, and Andrew Metrick, 2003, Corporate governance and equity prices, *Quarterly Journal of Economics* 118, 107-155.

Gordon, Lilli A., and John Pound, 1993, Information, ownership structure, and shareholder voting: Evidence from shareholder-sponsored corporate governance proposals, *Journal of Finance* 48, 697-718.

Greenwood, Robin, and Michael Schor, 2008, Investor activism and takeovers, *Journal of Financial Economics*, forthcoming.

Harris, Milton, and Artur Raviv, 2008, Control of corporate decisions: Shareholders vs. management, CRSP Working Paper 620.

Heckman, James J., 1979, Sample selection bias as a specification error, *Econometrica* 47, 153-161.

Jensen, Michael C., 1986, Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review* 76, 323-329.

Jensen, Michael C., 1993, The modern industrial revolution, exit, and the failure of internal control systems, *Journal of Finance* 48, 831-880.

Jensen, Michael C., and Kevin J. Murphy, 1990, Performance pay and top-management incentives, *Journal of Political Economy* 98, 225-264.

Karpoff, Jonathan M., Paul H. Malatesta, and Ralph A. Walkling, 1996, Corporate governance and shareholder initiatives: Empirical evidence, *Journal of Financial Economics* 42, 365-395.

Klein, April, and Emanuel Zur, 2008, Entrepreneurial shareholder activism: Hedge funds and other private investors, *Journal of Finance*, forthcoming.

Lipton, Martin, 2002, Pills, polls, and professors redux, *University of Chicago Law Review* 69, 1037-1065.

Martin, Kenneth J., and Randall S. Thomas, 1999, The effect of shareholder proposals on executive compensation, *University of Cincinnati Law Review* 67, 1021-1081.

Nelson, James M., 2006, The "CalPERS effect" revisited again, *Journal of Corporate Finance* 12, 187-213.

Parrino, Robert, Richard W. Sias, and Laura T. Starks, 2003, Voting with their feet: Institutional ownership changes around forced CEO turnover, *Journal of Financial Economics* 68, 3-46.

Pound, John, 1988, Proxy contests and the efficiency of shareholder oversight, *Journal of Financial Economics* 20, 237-265.

Prevost, Andrew K., and Ramesh P. Rao, 2000, Of what value are shareholder proposals sponsored by public pension funds? *Journal of Business* 73, 177-204.

Prevost, Andrew K., Ramesh P. Rao, and Melissa A. Williams, 2008, Labor unions as shareholder activists: Champions or detractors?, Ohio University Working Paper.

Romano, Roberta, 2001, Less is more: Making shareholder activism a valuable mechanism of corporate governance, *Yale Journal of Regulation* 18, 174-252.

Rothberg, Burton G., and Steven B. Lilien, 2005, Mutual fund proxy votes, City University of New York Working Paper.

Schwab, Stewart J., and Randall S. Thomas, 1998, Realigning corporate governance: Shareholder activism by labor unions, *Michigan Law Review* 96, 1018-1094.

Smith, Michael P., 1996, Shareholder activism by institutional investors: Evidence from CalPERS, *Journal of Finance* 51, 227-252.

Stout, Lynn A., 2007, The mythical benefits of shareholder control, *Virginia Law Review* 93, 789-809.

Strickland, Deon, Kenneth W. Wiles, and Marc Zenner, 1996, A requiem for the USA: Is small shareholder monitoring effective? *Journal of Financial Economics* 40, 319-338.

Strine, Leo E. Jr., 2006, Towards a true corporate republic: A traditionalist response to Lucian's solution for improving corporate America, *Harvard Law Review* 119, 1759-1783.

Thomas, Randall S., and James F. Cotter, 2007, Shareholder proposals in the new millennium: Shareholder support, board response, and market reaction, *Journal of Corporate Finance* 13, 368-391.

Wahal, Sunil, 1996, Pension fund activism and firm performance, *Journal of Financial and Quantitative Analysis* 31, 1-23.

White, Halbert, 1980, A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity, *Econometrica* 48, 817-838.

Woidtke, Tracie, 2002, Agents watching agents? Evidence from pension fund ownership and firm value, *Journal of Financial Economics* 63, 99-131.

Wu, YiLin, 2004, The impact of public opinion on board structure changes, director career progression, and CEO turnover: Evidence from CalPERS' corporate governance program, *Journal of Corporate Finance* 10, 199-227.

Yermack, David, 1996, Higher market valuation of companies with a small board of directors, *Journal of Financial Economics* 40, 185-211.

Table 1: Shareholder proposals by sponsor type and year of submission

Year	N	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Union pension funds	926	49	36	44	55	42	60	81	215	178	166
UBCJA	159	8	2	3	-	1	2	13	36	44	50
Teamsters	120	12	12	9	7	6	27	14	18	6	9
Longview	91	7	5	5	6	11	10	11	16	10	10
Sheet Metal Workers	74	-	-	-	-	1	-	2	23	21	27
Plumbers and Pipefitters	70	-	-	-	6	-	1	7	25	24	7
AFL-CIO	67	-	-	1	4	3	3	3	18	15	20
IBEW	67	1	3	3	7	4	6	8	20	8	7
Laborers	65	4	-	2	4	-	3	10	20	14	8
AFSCME	51	-	-	-	-	5	5	5	13	13	10
Public pension funds	136	13	8	18	15	12	10	21	12	11	16
New York City	84	10	6	10	8	7	7	11	7	7	11
CalPERS	19	-	1	4	2	3	2	2	-	2	3
TIAA-CREF	16	1	1	2	3	2	1	3	2	1	-
Connecticut	10	-	-	-	-	-	-	4	3	1	2
Investment funds	62	2	5	3	7	16	6	4	5	7	7
GAMCO Investors	17	-	-	1	-	2	2	3	4	3	2
Jewelcor Management	9	-	-	-	2	5	2	-	-	-	-
Greenway Partners	6	1	3	1	-	-	1	-	-	-	-
Coordinated investors	197	48	35	24	16	16	18	7	2	9	22
IRAA	174	47	34	22	14	14	14	2	-	7	20
BellTel Retirees	20	-	-	2	2	2	4	5	2	2	1
Socially responsible/religious investors	121	5	11	8	16	15	7	7	17	10	25
ICCR	61	5	11	7	8	8	2	1	3	6	10
Catholic Funds	13	-	-	-	-	-	-	-	2	-	11
UFE/Responsible Wealth	13	-	-	-	8	-	1	2	2	-	-
Individuals	1350	88	130	121	132	116	124	140	194	177	128
Evelyn Y. Davis	301	21	35	38	32	29	33	29	32	28	24
Chevedden family	150	2	4	7	11	13	16	17	30	27	23
Rossi family	134	3	3	3	4	4	6	27	44	28	12
Gilbert family	96	22	23	24	11	6	5	5	-	-	-
Gerald R. Armstrong	44	1	4	5	5	4	4	3	7	5	6
Morse family	34	6	3	-	5	4	1	3	-	12	-
Prominent individuals	20	-	-	-	-	1	3	2	8	2	4
Total proposals	2792	205	225	218	241	217	225	260	445	392	364

Note to Table 1: Abbreviations: UBCJA – United Brotherhood of Carpenters and Joiners of America; AFL-CIO – American Federation of Labor and Congress of Industrial Organizations; IBEW – International Brotherhood of Electrical Workers; AFSCME – American Federation of State, County and Municipal Employees; CalPERS – California Public Employees' Retirement System; TIAA-CREF – Teachers Insurance and Annuity Association - College Retirement Equities Fund; IRAA – Investor Rights Association of America; ICCR – Interfaith Center on Corporate Responsibility; UFE – United for a Fair Economy.

Table 2: Shareholder proposals by issue addressed and year of submission

Year	N	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Antitakeover issues	981	83	59	66	96	89	91	119	159	120	99
Repeal classified board	440	55	35	44	57	48	43	40	46	34	38
Redeem or vote on poison pill	312	13	18	12	24	25	20	48	82	49	21
Remove golden parachutes	129	11	4	4	9	6	12	18	17	26	22
Eliminate/reduce supermajority provision	66	1	-	2	3	7	12	10	9	7	15
Restore right to special meeting/written consent	9	-	-	3	1	1	1	-	2	-	1
Reincorporate in a different state	10	1	1	-	1	-	-	2	2	3	-
Remove all antitakeover provisions	6	-	-	-	1	2	3	-	-	-	-
Prohibit targeted share placement	4	1	1	1	-	-	-	-	-	-	1
Opt out of state takeover statute	3	-	-	-	-	-	-	1	1	1	-
Adopt antigreenmail provision	1	-	-	-	-	-	-	-	-	-	1
Repeal fair price provision	1	1	-	-	-	-	-	-	-	-	-
Board issues	495	56	58	43	43	38	44	47	62	59	45
Independent board chairman	102	1	3	6	3	2	4	2	27	31	23
Increase board independence	73	4	9	7	11	8	5	11	6	9	3
Increase key committee independence	52	5	5	7	4	4	6	13	3	2	3
Independent lead director	6	-	1	1	2	1	-	-	-	1	-
Director tenure/retirement age	47	3	7	5	4	3	5	5	6	6	3
Limit number of directorships	8	2	-	-	1	2	-	-	-	1	2
Director liability	5	2	1	-	-	-	-	-	-	-	2
Double board nominees	46	-	-	-	2	5	16	8	10	4	1
Equal access to the proxy	7	-	1	1	-	1	1	-	-	1	2
Eliminate advance notice requirement	2	-	-	-	-	-	-	1	1	-	-
Create key committee	11	2	1	4	2	-	-	1	-	1	-
Board inclusiveness	44	4	5	4	6	5	5	4	6	2	3
Board size	2	-	-	-	-	-	1	-	1	-	-
Board attendance	2	1	1	-	-	-	-	-	-	-	-
Union/employee representation	8	1	2	1	3	-	-	1	-	-	-
Director ownership	10	2	4	-	1	3	-	-	-	-	-
Pay directors in stock	31	11	11	3	-	2	1	1	-	-	2
Restrict director compensation	11	2	2	1	2	-	-	-	2	1	1
Restrict director pensions	28	16	5	3	2	2	-	-	-	-	-
Voting issues	354	31	38	46	36	27	25	25	17	32	77
Adopt cumulative voting	221	21	31	37	26	20	17	17	17	19	16
Adopt majority vote to elect directors	69	-	1	-	-	-	-	-	-	11	57
Adopt confidential voting	45	8	3	6	5	5	7	5	-	1	3
Allow vote against directors	5	-	-	1	1	-	-	3	-	-	-
No discretionary voting	9	2	3	-	4	-	-	-	-	-	-
Counting shareholder votes	7	-	-	2	-	2	1	-	-	1	1
Executive compensation issues	608	22	33	26	39	22	29	26	170	137	104
Implement compensation plan	27	-	-	-	-	-	-	-	-	25	2
Approval of deferred compensation plan	15	-	-	-	-	-	-	-	5	7	3
Approve compensation	7	1	1	1	-	-	-	1	2	-	1
Restrict compensation	78	4	6	7	13	4	1	2	7	6	28
Abolish/suspend stock options/stock grants	64	6	4	-	7	5	3	4	10	18	7
Performance-based stock options/stock grants	96	1	-	-	4	1	8	4	56	3	19
Performance/time-based restricted shares	44	-	-	-	-	-	-	-	-	25	19
Link pay to performance	29	3	4	4	2	1	6	1	2	4	2
Link pay to dividends	11	2	5	2	2	-	-	-	-	-	-
Link pay to social criteria	17	-	1	-	2	3	4	4	1	1	1
Disclose compensation	45	5	8	9	6	4	2	2	3	3	3
Review/report on executive compensation	24	-	4	1	1	2	2	-	10	1	3
Expense stock options	115	-	-	-	-	-	-	2	68	34	11
Require option shares to be held	16	-	-	-	-	1	-	-	2	9	4
No repricing of underwater stock options	7	-	-	2	2	1	1	1	-	-	-
Pension fund surplus	13	-	-	-	-	-	2	5	4	1	1
Study sale of company	116	5	17	19	17	26	18	1	2	5	6
Audit issues	70	1	1	1	1	1	1	25	16	16	7
Routine issues	35	2	6	10	3		6	3	2	2	-
Other	139	8	13	8	6	13	11	15	17	22	26
Total proposals	2792	205	225	218	241	217	225	260	445	392	364

Table 3: Percentage of votes FOR shareholder proposals by issue addressed, year of submission, and sponsor type

	Antitakeover issues		Board issues		Voting issues		Executive compensation issues		Study sale of company		Audit issues		Routine issues		Other		Total	
	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)
Total	53.4	(969)	19.3	(484)	32.3	(341)	21.5	(591)	14.2	(112)	21.7	(69)	5.4	(32)	13.2	(128)	32.9	(2726)
Panel A: Issue addressed and year of submission																		
1996	42.4	(81)	20.2	(53)	24.8	(29)	12.0	(20)	14.2	(5)	10.8	(1)	5.2	(2)	14.2	(5)	28.7	(196)
1997	45.5	(59)	13.6	(57)	25.9	(35)	10.8	(33)	19.2	(17)	3.8	(1)	6.0	(5)	8.4	(13)	23.6	(220)
1998	47.2	(66)	19.1	(42)	28.9	(43)	9.1	(23)	10.3	(19)	18.6	(1)	5.2	(10)	8.8	(7)	27.0	(211)
1999	48.0	(93)	20.2	(42)	27.9	(34)	10.8	(37)	12.5	(17)	23.3	(1)	3.8	(3)	5.9	(6)	29.8	(233)
2000	51.2	(88)	20.9	(37)	31.7	(26)	10.6	(21)	18.6	(24)	20.9	(1)	4.2	(1)	9.7	(12)	32.9	(210)
2001	50.6	(91)	13.8	(44)	34.8	(24)	15.3	(29)	11.8	(17)	29.5	(1)	4.9	(5)	18.4	(11)	31.3	(222)
2002	54.9	(118)	18.6	(47)	35.5	(24)	18.4	(25)	13.8	(1)	25.4	(24)	4.8	(3)	11.4	(14)	36.9	(256)
2003	59.8	(155)	21.2	(58)	33.1	(17)	28.7	(162)	3.2	(2)	14.4	(16)	3.8	(1)	18.3	(17)	38.0	(428)
2004	60.0	(120)	23.1	(59)	26.3	(32)	23.8	(137)	20.4	(5)	24.2	(16)	11.4	(2)	14.1	(21)	34.4	(392)
2005	61.2	(98)	22.6	(45)	42.7	(77)	29.9	(104)	2.5	(5)	23.1	(7)			14.7	(22)	37.1	(358)
Panel B: Issue addressed and sponsor type																		
Union pension funds	51.6	(286)	21.7	(141)	38.0	(93)	28.7	(309)	12.3	(1)	22.6	(57)			12.3	(27)	34.8	(914)
Public pension funds	57.6	(63)	31.1	(38)	33.1	(10)	32.6	(12)							19.7	(10)	43.0	(133)
Investment funds	54.7	(26)	24.9	(5)	25.3	(1)	5.5	(2)	29.1	(18)					46.8	(4)	41.0	(56)
Coordinated investors	48.5	(79)	20.8	(39)			12.6	(20)	11.7	(56)							28.6	(194)
Socially responsible/religious investors	72.0	(5)	25.7	(10)	43.5	(2)	9.0	(16)							8.9	(2)	23.7	(35)
Individuals	54.3	(505)	14.6	(208)	30.0	(235)	13.9	(200)	10.7	(37)	19.1	(10)	5.4	(32)	11.5	(81)	32.1	(1308)

Table 4: Cumulative abnormal returns around proxy mailing dates

Event window	N	Mean	Median	Positive: negative	Z test	Sign test
[-1,+1]	1739	0.25	0.02	877:862	2.59***	1.65*
[-1,0]	1739	0.16	0.00	868:871	1.66*	1.20
[0,+1]	1739	0.16	0.06	883:856	2.47**	1.92*
[-2,+2]	1739	0.37	0.01	871:868	2.39**	1.34
[-1,+5]	1739	0.39	0.07	880:859	1.71*	1.77*
[-1,+7]	1739	0.48	0.07	880:859	1.92*	1.77*

Note to Table 4: This table shows percent cumulative abnormal returns surrounding the date that the proxy statements are mailed. 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, Musumeci, and Poulsen'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 5: Cumulative abnormal returns by issue addressed, year of submission, and sponsor type

	Antitakeover issues		Board issues		Voting issues		Executive compensation issues		Study sale of company		Audit issues		Routine issues		Other		Total	
	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)	Mean	(N)
Total	0.44***	(805)	0.30	(414)	-0.03	(322)	0.02	(493)	0.59	(115)	-0.06	(68)	0.16	(35)	-0.35	(51)	0.25***	(1739)
Panel A: Issue addressed and year of submission																		
1996	0.12	(69)	-0.19	(48)	0.23	(29)	-0.33	(19)	3.54	(5)	-2.04	(1)	0.25	(2)	-0.19	(5)	-0.28	(130)
1997	0.12	(50)	-0.06	(48)	-0.91**	(37)	0.06	(30)	-0.52	(17)	-2.34	(1)	0.30	(6)	-0.20	(13)	0.08	(142)
1998	0.44	(60)	-0.11	(36)	-0.54	(44)	-0.38	(21)	-0.32	(18)	1.12	(1)	-0.19	(10)	1.55	(7)	0.13	(150)
1999	0.76	(82)	0.23	(39)	0.28	(31)	1.18	(37)	2.10	(17)	-1.55	(1)	-0.52	(3)	-0.74	(6)	0.45	(162)
2000	1.69***	(76)	3.28***	(31)	0.78	(22)	1.38	(20)	0.92	(26)	1.60	(1)	0.50	(1)	2.40	(13)	2.00***	(150)
2001	0.64	(69)	-0.68	(38)	-0.19	(20)	-0.09	(26)	-0.28	(18)	-0.14	(1)	0.28	(6)	-1.48	(9)	0.07	(151)
2002	0.07	(91)	0.94	(36)	-1.16	(24)	-0.87	(25)	-1.53	(1)	0.62	(24)	1.31	(3)	-0.17	(13)	0.05	(163)
2003	-0.02	(132)	-0.10	(53)	-0.31	(16)	-0.89**	(126)	-0.34	(2)	-0.64	(15)	2.67	(2)	-0.80	(14)	-0.40*	(246)
2004	0.24	(95)	0.68	(47)	-0.05	(29)	0.55**	(112)	1.25	(5)	-0.34	(16)	-2.31	(2)	0.43	(19)	0.40	(237)
2005	0.67***	(81)	-0.14	(38)	0.77***	(70)	0.33	(77)	0.97	(6)	-0.05	(7)			-1.00	(23)	0.16*	(197)
Panel B: Issue addressed and sponsor type																		
Union pension funds	0.35	(267)	0.04	(135)	0.84***	(92)	-0.09	(266)	9.57	(1)	0.04	(55)			0.19	(28)	0.16*	(703)
Public pension funds	1.35**	(62)	2.37*	(37)	-0.33	(10)	-2.72	(12)							0.65	(11)	1.08**	(131)
Investment funds	0.00	(26)	0.12	(6)	-6.51	(1)	-0.79	(2)	1.66	(19)					0.17	(4)	0.53	(54)
Coordinated investors	0.20	(72)	0.06	(38)			0.57	(19)	0.14	(59)							0.34	(141)
Socially responsible/religious investors	2.98	(10)	-0.22	(49)	0.99	(2)	-0.34	(47)			0.70	(2)			-0.75	(6)	0.14	(113)
Individuals	0.29	(427)	0.13	(187)	-0.31	(225)	0.33	(191)	0.46	(37)	-0.68	(11)	0.16	(35)	-0.31	(76)	0.06	(945)

Note to Table 5: This table shows percent cumulative abnormal returns in the days [-1,+1] surrounding the date that the proxy statements are mailed. 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, Musumeci, and Poulsen's (1991) standardized cross-sectional Z-test. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.

Table 6: Descriptive statistics of target and non-target firms

	Targets				Nontargets				*Difference in*	*Difference in*
	N	Mean	Median	St. dev.	N	Mean	Median	St. dev.	*means*	*medians*
Panel A: Financial, performance and ownership characteristics										
Assets ($ millions)	1494	46,549	10,538	129,968	9096	7,252	1,459	28,421	*39,298****	*9,079****
Sales ($ millions)	1494	15,773	7,139	14,456	9096	3,291	1,208	7,459	*12,482****	*5,931****
Debt-to-equity ratio	1494	1.45	0.91	11.20	9096	1.35	0.55	34.82	*0.11*	*0.37****
Market-to-book ratio	1494	3.02	2.29	12.17	9096	4.32	2.30	79.35	*-1.29*	*-0.01*
Prior one-year raw stock return (%)	1494	14.48	11.57	46.17	9096	20.56	13.61	72.32	*-6.08****	*-2.04****
Prior one-year abnormal stock return (%)	1494	-17.75	-18.80	46.24	9096	-11.22	-16.51	71.59	*-6.54****	*-2.29****
Prior one-year stock turnover	1494	1.37	1.04	1.13	9096	1.73	1.17	1.77	*-0.37****	*-0.13****
Institutional ownership (%)	1494	62.72	63.23	16.54	9096	63.88	65.01	20.90	*-1.16***	*-1.78****
Institutional ownership - pressure sensitive (%)	1494	13.56	12.95	5.93	9096	11.48	10.39	6.48	*2.08****	*2.56****
Institutional ownership - pressure insensitive (%)	1494	49.16	48.86	15.98	9096	52.40	52.61	20.08	*-3.24****	*-3.75****
Panel B: Governance characteristics										
Governance Index (max=24)	1494	9.91	10	2.48	9096	9.40	9	2.67	*0.51****	*1****
Entrenchment Index (max=6)	1494	2.34	2	1.31	9096	2.30	2	1.27	*0.04*	*0*
Board size	1494	11.31	11	3.01	9096	9.55	9	2.90	*1.76****	*2****
Executive directors (%)	1494	16.28	13.33	9.10	9096	20.44	16.67	11.15	*-4.16****	*-3.33****
Average age of nonexecutive directors	1494	59.93	60	2.99	9096	59.09	59.33	3.81	*0.83****	*0.67****
Separate chair and CEO (binary)	1494	0.12	0	0.32	9096	0.21	0	0.41	*-0.10****	*0****
CEO ownership (%)	1494	1.19	0.12	4.36	9096	2.45	3.58	5.96	*-1.27****	*-3.46****
Firm value sensitivity of CEO option holdings	1494	6.56	3.19	10.66	9096	10.73	7.05	12.38	*-4.17****	*-3.86****
Stock-based to total CEO compensation (%)	1494	45.03	48.02	28.26	9096	42.18	43.45	28.67	*2.85****	*4.57****
CEO compensation excluding option grants	1494	8,658	3,302	26,670	9096	4,117	1,620	10,307	*4,541****	*1,682****
Abnormal CEO compensation	1494	-0.09	-0.20	0.94	9096	0.01	-0.11	1.04	*-0.10****	*-0.09****

Note to Table 6: This table compares the characteristics of firms that are targeted and firms 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: Sample selection models explaining the probability of proposal submissions and the voting outcomes

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel A: Selection equations										
Intercept	-7.053***	-15.04	-6.574***	-4.66	-6.607***	-4.69	-5.372***	-3.32	-6.765***	-4.78
Log of assets	0.380***	20.13	0.402***	23.62	0.401***	23.61	0.394***	22.42	0.400***	23.80
Debt-to-equity	-0.006***	-2.69	-0.031***	-2.94	-0.032***	-3.12	-0.034***	-3.16	-0.031***	-3.06
Market-to-book	0.001	0.51	0.007***	2.63	0.007**	2.31	0.005	1.03	0.007**	2.33
Prior one-year abnormal stock return	-0.123	-1.10	-0.242**	-2.01	-0.261**	-2.27	-0.256**	-1.98	-0.249**	-2.13
Prior one-year stock turnover	0.038	0.87	-0.007	-0.09	-0.025	-0.30	-0.026	-0.29	-0.022	-0.27
Institutional ownership – pressure sensitive	0.396	0.46	1.336	1.39	1.543*	1.65	0.937	0.85	1.504	1.64
Institutional ownership – pressure insensitive	0.493	0.90	0.558	0.72	0.427	0.57	1.004*	1.94	0.436	0.59
Entrenchment index			0.077	1.37	0.071	1.26	-0.020	-0.33	0.058	0.97
Board size			-0.155	-1.16	-0.154	-1.19	-0.093	-0.78	-0.134	-1.03
Board size squared			0.001	0.19	0.001	0.22	-0.001	-0.27	0.000	0.05
Executive directors			-0.087	-0.09	-0.117	-0.12	-0.828	-0.91	-0.111	-0.12
Average age of nonexecutive directors			0.006	0.34	0.006	0.36	-0.015	-0.70	0.008	0.45
Separate chair and CEO			0.228	1.06	0.211	1.00	0.184	0.86	0.229	1.08
CEO ownership			-2.900***	-2.94	-2.905***	-3.01	-3.003***	-3.02	-2.860***	-2.92
Firm value sensitivity of CEO option holdings			0.022***	4.33	0.023***	4.28	0.022***	3.97	0.023***	4.23
Stock-based to total CEO compensation			-0.107	-0.40	-0.080	-0.29	-0.160	-0.65	-0.127	-0.46
Abnormal CEO compensation			-0.012	-0.22	-0.010	-0.19	-0.004	-0.07	-0.017	-0.32

Table 7: Sample selection models explaining the probability of proposal submissions and the voting outcomes *(continued)*

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel B: Outcome equations										
Intercept	3.739**	1.90	5.149**	2.58	26.178***	3.41	67.765***	4.57	28.429**	2.57
Times submitted	0.663**	2.56	0.581**	2.24	0.880***	3.38			0.860***	3.35
Number of proposals in proxy	-0.003	-0.01	-0.132	-0.40	0.267	1.10			0.417*	1.66
Proposal - Antitakeover	39.826***	23.23	40.408***	23.67	39.501***	22.31			39.019***	21.69
Proposal - Board	7.294***	4.47	7.317***	4.41	8.040***	4.70			8.008***	4.61
Proposal - Voting	19.789***	10.90	20.112***	10.95	19.937***	10.88			19.957***	10.71
Proposal - Compensation	6.162***	3.69	6.216***	3.67	6.844***	3.89			6.616***	3.75
Proposal - Sale of company	3.303	1.59	3.964*	1.84	2.342	1.07			2.087	0.96
Proposal - Audit	4.828**	2.00	4.729*	1.92	4.775*	1.92			4.569*	1.86
Proposal - Routine	-2.376	-1.37	-2.382	-1.30	-1.424	-0.76			-1.577	-0.85
Sponsor - Union pension fund	3.888***	3.80	3.996***	3.92	2.931***	3.07			2.576***	2.68
Sponsor - Public pension fund	9.044***	4.67	9.601***	4.92	6.666***	3.58			6.336***	3.38
Sponsor - Investment fund	10.196**	2.28	11.777***	2.69	10.411**	2.57			10.207**	2.58
Sponsor - Coordinated investors	0.352	0.26	1.260	0.94	-0.400	-0.31			-0.605	-0.47
Sponsor - Socially responsible/religious	-0.986	-0.65	-0.836	-0.55	-1.027	-0.65			-1.209	-0.74
Log of assets					-1.095***	-3.58	-2.356***	-4.46	-0.758**	-2.09
Debt-to-equity					-0.023	-0.55	-0.066**	-2.32	-0.029	-0.70
Market-to-book					0.027	1.16	0.087*	1.90	0.029	1.26
Prior one-year abnormal stock return					-0.003	-0.00	-0.322	-0.27	-0.121	-0.14
Prior one-year stock turnover					1.298***	2.63	1.154*	1.70	1.130**	2.23
Institutional ownership – pressure sensitive					-8.828	-1.04	25.177*	1.69	-6.254	-0.80
Institutional ownership – pressure insensitive					12.564***	3.70	19.405***	3.82	11.102***	3.32
Entrenchment index							2.953***	5.73	0.908**	2.53
Board size							-0.014	-0.02	-1.108**	-2.17
Board size squared							0.002	0.09	0.037**	2.17
Executive directors							-1.234	-0.20	1.403	0.31
Average age of nonexecutive directors							-0.033	-0.16	-0.078	-0.50
Separate chair and CEO							-3.704**	-2.15	-0.572	-0.45
CEO ownership							-7.653	-0.61	-2.925	-0.27
Firm value sensitivity of CEO option holdings							-0.082	-1.31	0.026	0.51
Stock-based to total CEO compensation							1.776	0.95	1.805	1.28
Abnormal CEO compensation							-0.590	-1.08	0.281	0.71

Table 7: Sample selection models explaining the probability of proposal submissions and the voting outcomes *(continued)*

	Model 1	Model 2	Model 3	Model 4	Model 5
Number of observations	11485	11485	11485	11485	11485
Number of uncensored observations	2338	2338	2338	2338	2338
Number of proposals	1960	1960	1960	1960	1960
Year dummies	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Wald χ^2	2206.1***	2434.1***	2735.8***	362.3***	3007.5***
Log-likelihood	918.8	953.1	1027.9	166.5	1039.4
ρ	0.711***	-0.288	-0.380***	-0.859***	-0.332***

Note to Table 7: In the selection equations of Panel A, the dependent variable is a dummy equal to one if a shareholder proposal has been submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the percentage of votes FOR shareholder proposals. The firm-level independent variables included in both Panels A and B are described in Appendix A. The proposal-level independent variables in Panel B are dummies equal to one if the variable description holds and zero otherwise. Log of assets is the natural logarithm of the book value of assets. Wald χ^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 χ^2 test. T-statistics in parentheses 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 the probability of proposal submissions and the cumulative abnormal returns

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel A: Selection equations										
Intercept	-8.838***	-11.76	0.037	0.01	-0.002	0.00	-0.169	-0.07	-0.144	-0.06
Log of assets	0.548***	12.96	0.598***	16.38	0.595***	16.62	0.592***	16.45	0.592***	16.56
Debt-to-equity	-0.004***	-3.81	-0.030***	-5.03	-0.030***	-5.18	-0.030***	-5.39	-0.030***	-5.33
Market-to-book	0.000	0.23	0.004*	1.82	0.003*	1.67	0.003	1.57	0.003	1.59
Prior one-year abnormal stock return	-0.200**	-2.12	-0.274**	-2.13	-0.238*	-1.88	-0.220*	-1.73	-0.224*	-1.77
Prior one-year stock turnover	0.095***	6.88	0.044	1.22	0.041	1.11	0.045	1.29	0.044	1.25
Institutional ownership - pressure sensitive	-3.137***	-2.95	-1.895*	-1.73	-1.904*	-1.69	-1.784	-1.63	-1.815*	-1.65
Institutional ownership - pressure insensitive	1.361***	4.07	1.035***	3.61	1.019***	3.67	0.994***	3.73	0.998***	3.71
Entrenchment index			0.264***	2.74	0.259***	2.71	0.247***	2.65	0.248***	2.65
Board size			-0.246***	-3.31	-0.244***	-3.34	-0.236***	-3.19	-0.237***	-3.21
Board size squared			0.007***	3.30	0.007***	3.29	0.007***	3.13	0.007***	3.15
Executive directors			-0.096	-0.10	-0.061	-0.06	0.007	0.01	0.010	0.01
Average age of nonexecutive directors			-0.139***	-3.29	-0.137***	-3.27	-0.134***	-3.23	-0.135***	-3.23
Separate chair and CEO			0.102	0.38	0.104	0.39	0.097	0.36	0.098	0.36
CEO ownership			-1.115*	-1.78	-1.061*	-1.81	-0.971*	-1.84	-0.979*	-1.84
Firm value sensitivity of CEO option holdings			0.022***	5.78	0.022***	5.83	0.022***	5.88	0.022***	5.87
Stock-based to total CEO compensation			-1.111***	-3.38	-1.090***	-3.39	-1.038***	-3.40	-1.041***	-3.39
Abnormal CEO compensation			0.107*	1.64	0.103	1.56	0.095	1.38	0.096	1.41

Table 8: Sample selection models explaining the probability of proposal submissions and the cumulative abnormal returns *(continued)*

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat	Coefficient	T-stat
Panel B: Outcome equations										
Intercept	-0.586	-1.53	-0.588	-1.53	-5.137***	-2.92	-0.023	-0.75	-3.481	-1.16
Targeted in previous year	-0.347	-1.43	-0.351	-1.45	-0.397	-1.62			-0.382	-1.57
Number of proposals in proxy	-0.236	-1.37	-0.236	-1.37	-0.310*	-1.83			-0.299*	-1.78
Proposal - Antitakeover	0.614**	2.06	0.615**	2.06	0.675**	2.27			0.565*	1.89
Proposal - Board	0.500	1.46	0.500	1.47	0.465	1.37			0.509	1.48
Proposal - Voting	0.082	0.26	0.085	0.27	0.081	0.26			0.161	0.53
Proposal - Compensation	0.147	0.48	0.149	0.49	0.104	0.34			0.088	0.29
Proposal - Sale of company	0.407	0.66	0.406	0.66	0.580	0.93			0.531	0.84
Proposal - Audit	-0.019	-0.04	-0.016	-0.03	0.028	0.06			0.106	0.20
Proposal - Routine	0.121	0.21	0.120	0.21	-0.009	-0.02			0.015	0.02
Sponsor - Union pension fund	0.254	1.12	0.253	1.12	0.238	1.04			0.232	1.02
Sponsor - Public pension fund	1.002*	1.70	1.007*	1.71	1.119*	1.88			1.094*	1.82
Sponsor - Investment fund	-0.060	-0.08	-0.047	-0.07	0.131	0.19			0.077	0.11
Sponsor - Coordinated investors	0.069	0.18	0.074	0.19	0.197	0.52			0.197	0.51
Sponsor - Socially responsible/religious	0.015	0.03	0.014	0.03	0.009	0.02			0.177	0.38
Log of assets					0.184**	2.32	0.170*	1.91	0.244***	2.59
Debt-to-equity					0.008	1.62	0.005	1.25	0.006	1.31
Market-to-book					0.006	0.97	0.006	1.24	0.006	1.15
Prior one-year abnormal stock return					-0.456	-1.59	-0.483*	-1.70	-0.485*	-1.68
Prior one-year stock turnover					0.252**	2.26	0.258**	2.37	0.242**	2.12
Institutional ownership - pressure sensitive					1.292	0.66	1.715	0.93	1.644	0.88
Institutional ownership - pressure insensitive					-0.202	-0.28	-0.194	-0.26	-0.388	-0.51
Entrenchment index							0.309***	3.91	0.252***	3.17
Board size							-0.244	-1.39	-0.232	-1.28
Board size squared							0.010	1.45	0.009	1.31
Executive directors							-0.523	-0.45	-1.170	-1.00
Average age of nonexecutive directors							-0.021	-0.50	-0.029	-0.66
Separate chair and CEO							0.108	0.35	0.088	0.28
CEO ownership							-2.253	-0.91	-2.264	-0.90
Firm value sensitivity of CEO option holdings							0.006	0.49	0.005	0.43
Stock-based to total CEO compensation							-0.694	-1.62	-0.739*	-1.74
Abnormal CEO compensation							0.081	0.67	0.096	0.80

Table 8: Sample selection models explaining the probability of proposal submissions and the cumulative abnormal returns *(continued)*

	Model 1	Model 2	Model 3	Model 4	Model 5
Number of observations	10551	10551	10551	10551	10551
Number of uncensored observations	1451	1451	1451	1451	1451
Number of firms	1961	1961	1961	1961	1961
Year dummies	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Wald χ^2	41.56***	41.74***	59.94***	71.76***	87.94***
Log-likelihood	2628.7	2637.6	2646.3	2645.7	2654.9
ρ	-0.095	-0.220**	-0.170*	-0.091	-0.104

Note to Table 8: In the selection equations of Panel A, the dependent variable is a dummy equal to one if a shareholder proposal has been submitted and zero otherwise. In the outcome equations of Panel B, the dependent variable is the cumulative abnormal return in the days [-1;+1] surrounding the date that the proxy statement is mailed. 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 included in both Panels A and B are described in Appendix A. The proposal-level independent variables in Panel B are dummies equal to one if the variable description holds and zero otherwise. Log of assets is the natural logarithm of the book value of assets. Wald χ^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 χ^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
Panel A: Financial, performance and ownership characteristics	
Assets ($ millions)	The book value of total assets. Source: *Compustat.*
Sales ($ millions)	The value of total net sales. Source: *Compustat*.
Debt-to-equity ratio	Total debt divided by the book value of equity. Source: *Compustat*.
Market-to-book ratio	Market capitalization of equity divided by the book value of equity. Source: *Compustat*.
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: *CRSP*.
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: *CRSP*.
Prior one-year stock turnover	The total number of shares sold during the year up to two months before the proxy mailing date, divided by the total number of shares outstanding. Source: *CRSP*.
Institutional ownership	The number of shares held by institutions, divided by the total number of shares outstanding. Source: *Thomson Financial CDA/Spectrum*.
Institutional ownership – pressure sensitive	The number of shares held by banks and insurance companies, divided by the total number of shares outstanding. Source: *Thomson Financial CDA/Spectrum*.
Institutional ownership – 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: *Thomson Financial CDA/Spectrum*.
Panel B: Governance characteristics	
Governance Index (Max=24)	Gompers, Ishii and Metrick (2003) index of 24 governance-related charter and bylaw provisions. Source: *RiskMetrics*.
Entrenchment Index (Max=6)	Bebchuk, Cohen and Ferrell (2008) index of six governance-related charter and bylaw provisions. Source: *RiskMetrics*.
Board size	The number of directors on the board of directors. Source: *RiskMetrics*.
Executive directors	The number of directors employed by the firm, divided by total board size. Source: *RiskMetrics*.
Average age of nonexecutive directors	The average age of directors not employed by the firm. Source: *RiskMetrics*.
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: *RiskMetrics*.
CEO ownership	The number of shares held by the CEO divided by total shares outstanding. Source: *ExecuComp*.
Firm value sensitivity of CEO option holdings	The value change in the CEO's total option holdings for a $1,000 change in the firm's market value of equity. Source: *ExecuComp*.
Stock-based to total CEO compensation	The value of stock options and restricted stock grants, divided by total CEO compensation for the individual year. Source: *ExecuComp*.
CEO compensation 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: *ExecuComp*.
Abnormal CEO compensation	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: *ExecuComp*.

Appendix B: Economic effects

	Proposal probability		Voting outcome		Cumulative abnormal return	
	Exp. Sign	*Economic effect*	*Exp. Sign*	*Economic effect*	*Exp. Sign*	*Economic effect*
Panel A: Proposal characteristics						
Times submitted			+	0.860***		
Targeted in previous year					-	nss
Number of proposals in proxy			+	0.417*	-	-0.299*
Proposal - Antitakeover			+	39.019***	+	0.565*
Proposal - Board				8.008***		nss
Proposal - Voting				19.957***		nss
Proposal - Compensation				6.616***		nss
Proposal - Sale of company				nss		nss
Proposal - Audit				4.569*		nss
Proposal - Routine				nss		nss
Sponsor - Union pension fund			+	2.576***	+	nss
Sponsor - Public pension fund			+	6.336***	+	1.094*
Sponsor - Investment fund			+	10.207**	+	nss
Sponsor - Coordinated investors				nss		nss
Sponsor - Socially responsible/religious				nss		nss
Panel B: Financial, performance and ownership characteristics						
Log of assets	+	0.592***	-	-0.758**	+	0.244***
Debt-to-equity	-	-0.030***	-	nss	-	nss
Market-to-book		nss		nss	-	nss
Prior one-year abnormal stock return	-	-0.224*	-	nss	-	-0.485*
Prior one-year stock turnover	+	nss	+	1.130**	+	0.242**
Institutional ownership – pressure sensitive		-1.815*		nss		nss
Institutional ownership – pressure insensitive	+	0.998***	+	11.102***	+	nss
Panel C: Governance characteristics						
Entrenchment index	+	0.248***	+	0.908**	+	0.252***
Board size	-	-0.237***	-	-1.108**	-	nss
Board size squared	+	0.007***	+	0.037**	+	nss
Executive directors	+	nss	+	nss	+	nss
Average age of nonexecutive directors	-	-0.135***	-	nss	-	nss
Separate chair and CEO	-	nss	-	nss	-	nss
CEO ownership	-	-0.979*	-	nss	-	nss
Firm value sensitivity of CEO option holdings	-	0.022***	-	nss	-	nss
Stock-based to total CEO compensation	-	-1.041***	-	nss	-	-0.739*
Abnormal CEO compensation	+	nss	+	nss	+	nss

Note to Appendix B: This table summarizes the economic effects of proposal and firm characteristics on the voting outcomes as shown in Model 5 of Table 7, and on the probability of proposal submissions and the cumulative abnormal returns as shown in Model 5 of Tables 8. The variables are described in Appendix A. *, ** and *** denote significance at the 10, 5 and 1% level, respectively.