Undoing the Powerful Anti-Takeover Force of Staggered Boards*

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Abstract

We examine cases where managers announce an intention to de-stagger their boards via proxy proposals or board action. The literature has established the staggered board as the most consequential of all takeover defenses and one that destroys wealth. Thus, dismantling this structure should create value. We study the wealth effects and motives behind this change in governance within a conditional event study. We find that de-staggering the board creates wealth and that shareholder activism is an important catalyst for pushing through this change. Moreover, investor reaction shows a perception that de-staggering firms are more likely to be takeover targets.

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The many financial scandals arising out of the recent stock market bubble have refocused investors' attention on the importance of good governance practices. One aspect receiving considerable scrutiny of late is the prevalence of staggered boards: a structure whereby only one third of the directors stand for election in a given year. Firms with staggered boards are much harder to acquire than firms whose directors face annual elections. Several recent papers have established that takeover protections in general and staggered boards in particular destroy value.[1] Given this fact, the dismantling of staggered boards in favor of annual elections should create value. In this paper we examine cases where managers announce an intention to de-stagger their boards. We study the factors influencing this decision and document and explain the wealth effects.

Why might staggered boards destroy value? It is not a staggered board in isolation but rather the combination of a staggered board and a poison pill that creates a veritable fortress for the incumbent board. But since a board can install a pill at any time without shareholder approval, the staggered board becomes the crucial cog in this defense.[2] Control the board and you control the fate of the poison pill. The poison pill is such an effective defense that no pill has ever been triggered. How does a potential suitor gain control of a staggered board? It requires a minimum of two proxy fights separated by at least one year (i.e., two annual shareholder meetings) to win a majority of the seats on a staggered board, an arduous task. In fact, Bebchuk et al. (2002a) state that not a single potential suitor won a ballot box victory over an effective staggered board in the

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[1] These papers include Bebchuk, Coates, and Subramaniam (2002a, b), Gompers, Ischi, and Metrick (2003), Bebchuk and Cohen (2005), Bebchuk, Cohen, and Ferrell (2005), Daines (2005), and Faleye (2006).
[2] An exception is the "dead hand" poison pill that can only be redeemed by the incumbent board. However, dead hand pills are routinely struck down by the courts, for example by the New York courts in the 1980s and the Delaware courts in the 1990s.

period studied (1996-2000). Staggered boards are not only effective but they are quite common: as of 2004, 60% of all firms in the Investor Responsibility Research Center (IRRC) database had staggered boards.

Many firms adopted staggered boards in the 1980s in the midst of an explosion of hostile takeover activity and before the power of the staggered board as a defense had been well established. Since 1990 few firms have been able to convince shareholders to approve the adoption of staggered terms, but many firms adopt a staggered board prior to going public (see Daines and Klausner, 2001).[3]

Contemporaneous with the refusal to adopt staggered boards, shareholder proposals calling for the removal of staggered boards are routinely the most common and the most popular, often receiving majority support (see Georgeson Shareholder Services, 2005). In spite of this shift in shareholder sentiment, few firms considered abandoning their staggered boards until recently. Apparently, the corporate scandals of recent years and the fall-out that ensued, culminating in the passage of the Sarbanes-Oxley Act, are the proverbial "straw that broke the camels back" that have pressured firms that had previously ignored shareholders' concerns.[4]

It is in fact the recent focus on corporate governance that provides us the opportunity to conduct our study: though our events date back to 1987, two-thirds of our sample is from 2003 and 2004. A similar study focusing on original staggered board

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[3] This pattern is repeated among our sample and control firms. More than half of the firms involved in our study originally staggered their boards prior to 1990. Of those that staggered their boards later, most did so prior to going public.

[4] In discussing decisions by Merck and Lucent to finally move to de-stagger their boards in the face of several consecutive years of majority-supported shareholder proposals, Institutional Shareholder Services states in its 2004 Postseason Report that "… it is fair to say that the pressure of majority votes on shareholder resolutions played a significant role in getting companies to make changes this season. Those who refused did so at their peril." Moreover, the percentage of shareholder proposals to repeal staggered boards that receive support from a majority of the shares outstanding went from 12.5% in 2001 to 55.6% in 2004 (See Georgeson), further pressuring shareholders.

adoption dates would be extremely difficult if not impossible to execute because most firms adopted staggered boards either while privately-held or before the power of the staggered board as a takeover defense was well understood (see above).

In this paper, we compile a dataset of 188 firms whose management has stated an intention to put a binding resolution to de-stagger the board to a shareholder vote or simply de-staggered by board vote. We find that the overall reaction to the decision to de-stagger shows no evidence of significant wealth effects for shareholders. However, this overall effect is misleading because while most of our sample firms *immediately* switch to a policy of annual director elections, a significant minority drag the process out as long as possible. Comparing wealth effects when the sample is segmented into those that immediately adopt a staggered board and those that phase it in over time, the cumulative abnormal returns (CARs) of those immediately switching net of the CARs of those phasing the switch in over time is a highly significant 1.82%.

We conduct an analysis of the determinants of the decision to drop the staggered board. We find that it is generally those firms that would be considered to have better governance and/or whose managers/directors face stricter monitoring that are more inclined to drop the stagger. Specifically, firms operating in an industry with more M&A activity are more likely to eliminate the staggered board. Also, de-staggering firms are much more likely to face pressure from activist shareholders in the form of shareholder proposals requiring directors to face annual elections. In terms of governance, firms with better governance index scores are more likely to eliminate the staggered board, while firms with poison pills in place are less likely to drop the stagger. Moreover, firms whose officers and directors own a larger stake are more likely to de-stagger.

We examine the determinants of the wealth effects within a conditional event study approach (see Acharya (1988, 1993); and Prabhala (1997)). This approach treats the de-stagger announcement as a decision rather than an exogenous event. Our results indicate that the CARs are significantly positively related to the immediate implementation of the change in board structure (rather than phasing it in as existing terms expire) consistent with the univariate wealth effects. The CARs are also significantly positively related to officer and director holdings, scaled industry M&A volume, the presence of recent shareholder proposals to de-stagger, and Heckman's λ (the inverse Mills ratio for the first stage PROBIT regressors, a measure of the surprise in the announcement).

A positive reaction to the announcement to immediately de-stagger suggests either that analysts expect the firm that has chosen to drop this takeover defense will improve its performance, or this firm is viewed as more likely to be taken over, or both. The positive relation between CARs and industry deal volume, combined with the fact that the change in the mean and the median long-term earnings forecasts is nil (and unrelated to announcement period CARs), indicates that a significant portion of the wealth effect we document is related to a perceived enhanced probability of takeover upon switching to annual director elections.

Previous studies have documented wealth loss to shareholders due to the presence of staggered boards. Bebchuk et al. (2002a) estimate that staggered boards have cost shareholders of potential takeover targets 8%-10% of firm value based on estimates of the probability of remaining independent and premium paid if eventually taken over, while Bebchuk and Cohen (2005) estimate a loss of 4% to 6% of value associated with

staggered boards and "*some* evidence that staggered boards bring about, and not merely reflect, a reduced firm value" (emphasis added). Our 1% to 1.82% wealth gain for shareholders is consistent with these figures when one accounts for the fact that the 8%-10% estimate is *conditional* on becoming a takeover target, while the 4%-6% estimate only *partially* reflects wealth destruction due to the presence of a staggered board. Daines (2005) documents wealth loss of around 1% surrounding the adoption of classified boards due to a legislative change, but necessarily restricts attention to Massachusetts-domiciled companies, while Faleye (2006) documents wealth-destroying behavior rather than estimating the magnitude of the wealth effects.

Our paper makes several contributions to the literature on corporate governance. Staggered boards are now recognized as the most potent takeover defense (see Bebchuk et al., 2002a,b; Bebchuk and Cohen, 2005; and others). To our knowledge, ours is the first comprehensive study of firms' decisions to drop their staggered board in favor of annual elections (or the *dismantling* of anti-takeover amendments (ATAs) in general) – a decision that has become fairly common post Sarbanes-Oxley but was previously rare. This situation presents a unique opportunity to study the wealth effects associated with ATAs at a time when their repercussions as takeover defenses were well understood. Thus we are able to contribute to the literature linking governance practices and firm value by specifically showing that an act to improve governance (removal of the staggered board) is value-enhancing. Moreover, our event study results are free from the endogeneity concerns raised by Core, Guay, and Rusticus (2006) and Lehn, Patro, and Zhao (2006).

We document that shareholder activism in the form of shareholder proposals is an important catalyst in pushing firms to drop their staggered boards. We show that a significant portion of the wealth effect we document is related to a perceived enhanced probability of takeover upon switching to annual director elections. This, when combined with the effects of shareholder activism, showcases the complementarity of internal and external governance mechanisms documented by Cremers and Nair (2005). Finally, our setting is ideal for employing the conditional event study methodology (as suggested in Prabhala, 1997) and the 2-stage procedure materially affects some of our results.

Following this introduction, we review the literature on governance and firm value in Section I. Section II describes our sample, data sources, and circumstances surrounding the original adoption of the staggered board. Section III presents estimates of the PROBIT model of the decision to de-stagger. Section IV shows the wealth effects associated with the decision to de-stagger and their determinants. Section V concludes.

I. Staggered Boards, Corporate Governance, and Firm Value

The notion of what constitutes good governance and the growing emphasis on the need for it are nothing new. While shareholders have campaigned for better governance for some time, the movement accelerated rapidly in the wake of oversight and conflicts of interest scandals at the likes of Enron, Worldcom, and Tyco International.[5] The crowning

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[5] Thomas and Cotter (2005) report shareholder proposals concerning the elimination of takeover defenses have received majority support in the post-Enron period. Moreover, the IRRC's Carol Bowie states that shareholder proposals to repeal staggered boards have received majority support for some time but were ignored by firms. Now, however, says Ms. Bowie, "The climate has changed with respect to companies being responsive to shareholder requests" (see Murti, 2005).

achievement in this movement was the enactment of the Sarbanes-Oxley legislation (hereafter, SARBOX) in 2002.[6]

The academic contribution to this movement is more recent, having largely begun with the paper of Gompers, Ishii, and Metrick (2003). This seminal paper spawned a new literature on the relationship between firm value and measures of the quality of corporate governance (see, for example, Bebchuk, Cohen, and Ferrell, 2005; Core, Guay, and Rusticus, 2006; Cremers and Nair, 2005; Del Guercio, Wallis, and Woidtke, 2006; and Dittmar and Mahrt-Smith, 2006).[7]

The events of the 1980s revealed the power of the market for corporate control as a tool for enforcing good corporate governance. The hostile takeover became the modus operandi for a band of corporate raiders who saw others' excesses as an opportunity for a quick buck. In 1979, when the hostile takeover market was in its infancy, Marty Lipton developed the modern day poison pill (see Lipton, 1979), subsequently validated in the *Moran v. Household International* case in 1984. Thus began a huge push towards the use of various ATAs or shark repellents to fend off the aforementioned raiders. It was unclear how these devices would be treated by the courts until the landmark case of *Paramount Communications v. Time* in 1989, which gave boards the right to "just say no" to an offer for the firm even if it appeared superior to any other offer on the table.

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[6] In addition to SARBOX, many institutions have embraced the push towards better governance. These include the NYSE and NASD, who have developed minimum governance standards for listed companies, activist public pension funds like CalPERS that have published guidelines for good governance, and even, somewhat reluctantly, the mutual fund industry that has in place new rules for governance structures as well as new disclosure rules for voting on shareholder proposals (see Davis and Kim, 2005).

[7] Prior to these studies there were numerous studies that looked at the effect of certain governance features in isolation (e.g., board independence) on firm value, but no earlier studies tried to develop a comprehensive measure of what constitutes good governance and relate it to firm value.

The academic literature on the use of ATAs dates back some 25 years.[8] This literature is rather inconclusive in many respects with few papers showing significant wealth effects. Moreover, those that do find significant effects are unable to reach a consensus on the question of whether ATAs are good or bad for shareholders.

There are many possible explanations for the lack of consistency in these studies: ATA adoption dates are often imprecise with many firms not actually making formal announcements (this is no doubt weakening our results as well); there was little consensus as to which ATAs were the most important so different studies examined varying subsets of ATAs; and differing time periods across studies rendered the results non-comparable given the dynamic nature of case law on the subject, not to mention that none of the studies in this literature included significant sample sizes that post-dated the landmark *Paramount Communications v. Time* case.

Also underlying this lack of consistency is a theoretical debate over whether ATAs help or hurt shareholders. On the one hand, ATAs are clearly a way for poorly performing managers to entrench themselves. But, on the other hand, some claim that ATAs enhance the bargaining position of the incumbent board, leading ultimately to a higher premium on deals that eventually go through.[9]

Recent work shows that of all the potential adoptions of ATAs, it is the staggered board that is the most important. It is not a staggered board in isolation but rather the combination of a staggered board and a poison pill that creates a near impenetrable

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[8] See, for instance, DeAngelo and Rice (1983), Linn and McConnell (1983), Jarrell and Poulsen (1987), Karpoff and Malatesta (1989), Agrawal and Mandelker (1990), McWilliams (1990), Bhagat and Jeffries (1991), Comment and Schwert (1995), Mahoney, Sundaramurthy, and Mahoney (1996), and McWilliams and Sen (1997) who all look at the wealth effects stemming from the adoption of ATAs by firms. Note that none of these studies has significant coverage of the 1990s in their dataset.

[9] Though limited in scope, the recent work of Bebchuk et al. (2002a,b) raises serious questions about the ability of staggered boards to increase premia in either negotiated or hostile transactions.

defense. But since a board can install a pill at any time without shareholder approval, the staggered board becomes the key element of this defense. If you control the board, the fate of the poison pill is in your hands. The poison pill is so effective that no pill has ever been triggered. Bebchuk and Cohen (2005) argue that since the staggered board/poison pill combination is so effective other ATAs like fair price provisions are largely irrelevant in modern takeover contests. Daines (2005) makes a similar argument.

Governance experts and shareholder activists have been fighting against staggered boards for some time. As a result, the number of firms attempting to get shareholder approval to stagger their boards has declined precipitously since 1990.[10] One exception to this trend is that firms going public often adopt a staggered board prior to their IPO. In fact from 1988 to 1999, the proportion of firms going public with staggered boards has increased from 36.2% to 82.0% (Field and Karpoff, 2002, Daines and Klausner, 2001, Coates, 2001). Another exception is that some states have adopted laws meant to shield local firms from potential hostile offers.

In 1990, the state of Massachusetts, in response to a hostile bid for a Massachusetts-chartered company by a British firm, adopted a law requiring all Massachusetts firms to have staggered boards.[11] There were some provisions allowing firms to opt out of this law under certain circumstances but many firms were affected. In a recent paper, Daines (2005) studies the impact of the adoption of this legislation on the 134 Massachusetts-domiciled companies that could be identified. He finds that the

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[10] According to Klausner (2002), of the ten proposals to introduce staggered boards made in 2000, six were made by firms where insider holdings exceeded 35% of outstanding shares. Of the remaining four only one passed.

[11] Interestingly, the firm whose targeting prompted this response in the first place (Norton) was acquired by a French firm only two weeks after the passage of this law. Apparently the French were more generous, especially to Norton's management, than were the British.

portfolio of MA firms that did not already have a staggered board at the time this legislation was introduced lost 1% to 1.5% of their value over the period of introduction and passage of the law, significant at the 5% to 10% level depending on how returns were computed and over which interval. Based on these and related results Daines (2005) concludes that staggered boards destroy value.

In a recent paper, Faleye (2006) showcases specific ways in which staggered boards help to entrench management. He shows that firms with classified boards are less likely to fire the CEO when warranted, reduce the effectiveness of independent directors, are more likely to have officers whose pay is unresponsive to performance, and are less likely to implement (non-binding) shareholder proposals when passed. Fortunately, our results indicate that shareholders are getting the impression that staggered boards are not value-maximizing and management is starting to listen (see also Murti, 2005).

In summary, most of the research on the adoption of ATAs is rather dated with samples largely if not completely pre-dating the landmark *Paramount Communications v. Time* case that firmly established the "just say no" defense in Delaware case law. Moreover, the early studies on ATAs did not consistently distinguish between different types of ATAs, nor did any of them focus on the staggered board as an especially strong defense. More recent papers have paid considerable attention to staggered boards (i.e., Bebchuk et al, 2002a, b; Bechuk and Cohen, 2005; Bebchuk, Cohen, and Ferrell, 2005; Daines, 2005; and Faleye, 2006). These papers make it much harder to make the case that staggered boards are good for shareholders. Shareholders themselves recognize this based on voting and proposal patterns over the last 15 years. Moreover, institutions like the California Public Employees Retirement System (CalPERS), Institutional

Shareholder Services (ISS), and TIAA/CREF specifically make the case against staggered boards in their corporate governance guidelines.

Finally, a new line of research that looks at multiple sources of governance has recently gained traction. This research stresses the complementarity of different forms of governance (see John and Kedia, 2001). The strongest test of these ideas was recently published by Cremers and Nair (2005). They show that internal (shareholder activism) and external (the market for corporate control) governance mechanisms complement each other to increase firm performance. Specifically, a portfolio that is short entrenched firms and long the most democratic firms only generates positive alphas in the presence of a large shareholder.

We believe that the evidence we provide in this paper makes the case against staggered boards even stronger. Our event analysis shows that shareholders benefit when firms immediately drop staggered boards in favor of annual election of directors. Moreover, our PROBIT analysis suggests that it is firms with better governance and/or better monitoring that are more inclined to drop the stagger. Finally, this is more likely to occur when the market for corporate control is active and it is more beneficial for shareholders when the market for corporate control is more active, consistent with the complementarity of internal and external governance reported by Cremers and Nair (2005).

II. Sample Selection and Data Sources

Our sample consists of firms that choose to de-stagger their boards between 1987 and 2004. We collect data on the incidence of staggered boards from the governance

database available from the Investor Responsibility Research Center (IRRC). The sample firms are first identified from firms that change their staggered board status in the IRRC data. We supplement the sample by searching the Dow Jones Newswire (Factiva) and Lexis-Nexis with the key words "declassification," "de-staggering," "declassify," "de-stagger," and "annual election of directors." Our final sample consists of 188 firms and is heavily skewed towards the last two years: more than 65% of the sample comes from 2003 and 2004. We present a time breakdown of the sample in Figure 1.

We gather proxy statements filed with the Securities and Exchange Commission (SEC) in the year of the decision to de-stagger for each sample firm. We collect information such as the implementation of the board de-staggering (immediate vs. phased-in), the minimum votes required to de-stagger, whether the classified board was by-law or charter-based, other concurrent management and shareholder proposals, and information concerning share ownership and the board of directors. We collect data on institutional holdings from Spectrum**.**

For the sample firms that are covered by the IRRC corporate governance database, we collect governance data such as indicator variables for poison pill, golden parachutes, whether the company is incorporated in Delaware, whether there exist limits to shareholder bylaw amendments, whether there is a supermajority requirement for mergers, and whether there exists limits to shareholder charter amendments. Currently, there are seven years of data (1990, 1993, 1995, 1998, 2000, 2002, and 2004) covered in the IRRC database. If IRRC data in a particular year is not available, we use data from the most recent prior year. As a result, for firms announcing the decision to de-stagger in the years of 2002 or 2003, the governance variables are extracted from the 2002 IRRC

data. Note that IRRC data listed as year t is actually from the end of year t-1. Shareholder proposal data come from various issues of the IRRC publication entitled "Corporate Takeover Defenses". For firms not covered by the IRRC data, we examine bylaws and charters and use Proxy Research Reports from Institutional Shareholder Services (ISS).

We further merge our sample with the directors' data available from IRRC. The IRRC directors dataset has an annual frequency, and covers information on the board of directors of companies included in the S&P 500, S&P MidCap, and S&P SmallCap indices for the eight-year period of 1996 to 2003. We gather information such as (1) dual role of CEO as board Chair, (2) board size, (3) percentage of independent directors, and (4) the percentage of shares held by directors.

We construct a sample of one-to-one matching control firms by identifying firms from the IRRC database that retain their staggered boards and are closest in total asset value (Compustat item #6) to each of the firms in our original sample. We also gather return information from CRSP, and financial statement information from the annual Compustat database.

As noted, almost two-thirds of the sample firms announce an intention to de-stagger their boards in 2003 or 2004. This shift most likely can be attributed to changes in shareholder attitudes following the many post-bubble corporate scandals and the passage of SARBOX. Voting patterns on shareholder proposals to de-stagger the board reflect this change in attitude. We calculate shareholder support for the proposals using the voting results reported by Georgeson (2001, 2004). Georgeson reports voting results based on both the number of shares outstanding and the number of votes cast. The number of proposals receiving support from a majority of the shares outstanding

increased from 12.5% in 2001 to 55.6% in 2004. The respective proportions using the number of votes cast are 66.7% and 94.4%. Interestingly, the number of proposals remains relatively stable over this period.

We investigate whether there are systematic differences among the sample and control firms in terms of how and when the staggered board first came into being. Bebchuk et al. (2002a) state that it clearly became more difficult for established firms to get their shareholders to vote in favor of a new proposal to stagger the board once the significance of Delaware's *Paramount Communications v. Time* (from 1989) became clear. Klausner (2002) shows a significant and sustained drop-off in management proposals to stagger the board from 1990 to 1991 and reports that successes were rare among those attempting to stagger their boards in later years (see Footnote 10). Finally, the IRRC first reports comprehensive governance data in 1990. For these reasons, we segment both our sample and control firms according to whether they originally classified their boards after 1990 or earlier.

We report the timing of the decision to stagger in Panel A of Table I. The majority of our sample and control firms had their staggered boards in place by the end of 1990. In these cases, shareholders most likely voted for proposals to stagger the board without understanding the full ramifications of their vote. Bebchuk et al. (2002a) speculate that most of these votes would not have held up had shareholders been given a second chance to vote after 1990. In Section III.B, we investigate whether the timing of the adoption of a staggered board affects the decision to de-stagger within a PROBIT model and find no significant relation between the decision to de-stagger and the circumstances surrounding the original adoption of a staggered board.

For those firms that staggered their boards after 1990, we not only report the timing of their decision, but we also investigate the circumstances surrounding the adoption of the staggered board. Though it was difficult to get shareholders to vote for a proposal to stagger the board after 1990, many firms managed to put in place assorted takeover defenses (including staggered boards) prior to going public. As reported in Panel B, consistent with Daines and Klausner (2001), Coates (2001), and Fields and Karpoff (2002), the majority of both sample and control firms that staggered their boards in the post-1990 period already had their staggered board in place at the time of their IPO. In several other instances boards were staggered through a merger where the shareholders were asked to vote for the deal and the staggered board as a package.[12] Only a few of our firms actually gave their shareholders the right to vote directly for the staggered board.

We also investigate changes in other takeover protections from the time the staggered board was put in place until just prior to the decision to de-stagger. We use a modified version of the Bebchuk et al. (2005) entrenchment index (BCF). The Index can take on a score from 0 to 5 and is the sum of five dummy variables equaling one if the sample firm has a poison pill (PILL), requires supermajority approval of mergers (SUPERMAJORITY), has a golden parachute (GOLDEN), has limits to amend its charter (LIMCHAR), and has limits to amend its bylaws (LIMBYLAW).[13] We report

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[12] In the case of one sample firm, the shareholders were given a separate vote on the adoption of the staggered board. In all other cases, the vote on the merger and any related changes to the charter and/or bylaws were combined into one shareholder vote.

[13] The entrenchment index consists of six variables Bebchuk et al. (2005) report as having the greatest explanatory power of the 24 variables in the Gompers et al. (2003) GIM index. The six variables are the five listed above and a dummy variable equaling one if the sample firm has a staggered board. We drop this component of the BCF index since both sample firms and control firms have staggered boards prior to our event dates (by construction).

mean changes in the BCF index and the number of firms increasing, decreasing, or leaving unchanged their BCF Index in Panel C of Table I.

Overall, both the sample and control firms experience small but significant increases in the number of takeover protections in place. A majority of the firms do not experience a change in their BCF Index and relatively few firms decrease the number of protections prior to the decision to de-stagger. Moreover, the decision to de-stagger is unrelated to the change in the BCF index. In sum, the results of Table I do not indicate that the sample firms have undergone an unusual transformation precipitating them to de-stagger their boards. Instead, it is more likely that the motivation to de-stagger was driven by an exogenous shock, e.g., the shift in public sentiment following the scandals at Enron, Worldcom, and others, culminating in the passage of SARBOX.

III. The Decision to De-stagger

A. Descriptive Statistics on Sample and Control Firms

We investigate the motive behind a firm's decision to de-stagger its board by examining various firm characteristics for our sample and control firms. We divide the characteristics into four categories to get a complete picture of the monitoring/governance environment: (1) anti-takeover devices, (2) board characteristics, (3) monitoring characteristics, and (4) prior firm performance. Table II reports the mean of each variable for de-staggering firms and control firms, as well as *t*-statistics of the null hypothesis that the mean of each variable is the same for both sub-samples.

A.1. Anti-takeover devices

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The set of anti-takeover devices includes the measure of the sample and control firms' vulnerability to takeover using our modified version of the Bebchuk, et al. (2005) entrenchment index (BCF). We also consider each of these variables individually and also whether the firms are incorporated in Delaware (DELAWARE). We hypothesize that firms with less entrenched managers (i.e., with a low BCF Index) are more likely to de-stagger the board. Our results indicate firms that choose to de-stagger the board have lower BCF Indexes. Of the five components, only poison pills are significantly less common among firms choosing to de-stagger. In contrast, firms choosing to de-stagger are more likely to have limits to amend their charters, though this protection is not common among either sample firms or controls. Finally, we control for the existence of management proposals to remove other takeover defenses with the variable OTHMPROP, which equals one if the sample firm's management put additional proposals to remove takeover protections on the same proxy as proposals to remove the staggered board (sample firms) or on the contemporaneous proxy for control firms.

A.2. Board Characteristics

Yermack (1996) documents a higher Tobin's Q for companies with small boards and suggests that large boards are ineffective due to poor communication and decision-making. Presumably, small boards can be more effective in instituting action to improve corporate governance practices. On the other hand, if directors of large boards need to exert greater effort to be effective, the incremental benefit of de-staggering the board is larger by placing those directors under the active monitoring of annual elections. As a result, we do not have a pre-determined prediction on the effect of board size on firms'

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decision to de-stagger their board. Less entrenched managers are also less likely to maintain a staggered board under investor pressure. The extant prior literature and positions advocated by regulators call for an independent board and the separation of the roles of CEO and board Chair. We hypothesize that boards with these structures are more likely to open board seats to annual elections (captured by the variables INDEP and CEOCHAIR, respectively).

Our univariate statistics indicate that there are no significant differences in these board characteristics between the de-staggering firms and the control sample. In contrast, firms with greater officer and director ownership (ODSHARES) are more likely to de-stagger. More shares in the hands of officers and directors is usually thought to improve incentive alignment unless the stake is sufficiently large that entrenchment becomes a concern (see Morck, Shleifer, and Vishny, 1988). De-staggering the board should help to allay some fears of entrenchment.

A.3. Monitoring Characteristics

We investigate several factors that are related to the degree of monitoring of the sample firms. Given the growing role of shareholder activists, we create a dummy variable equaling one if the firm received one or more shareholder proposals to de-stagger the board in years -3 through -1 (SHAREPROP). The sample firms are much more likely (34% of the sample) to have received a prior shareholder proposal than the control firms (6% of the sample).

Next, we investigate the impact of industry-specific M&A activity on a firm's decision to dismantle its staggered board. This is meant to proxy for the intensity of

monitoring from the market for corporate control. We adapt an M&A volume measure from Schlingemann, Stulz, and Walkling (2002). We calculate the M&A volume as the aggregate industry value of M&A activity scaled by aggregate industry assets for year -1 (MAVOL) using Thomson Financial's SDC Platinum and Compustat. Industries are defined using two-digit SIC codes. Overall, the sample firms operate in industries with significantly more active M&A markets than the control firms.

The expected relation between institutional ownership (INSTOWN) and the decision to de-stagger is uncertain due to the heterogeneous nature of institutional investors. While some institutional investors such as pension funds have been among the more activist shareholders[14], others, such as mutual funds, are less likely to pressure management for fear of jeopardizing other business relationships.[15] We find institutional ownership is significantly greater among the control firms, suggesting that the latter effect dominates, at least with respect to de-staggering the board.

The de-staggering firms use significantly more leverage than the control firms. We calculate leverage as the ratio of long-term debt over total assets as of year -1 in book value terms (DEBTRATIO). Jensen (1986) argues that debt can serve a monitoring function by reducing the amount of free cash flow over which managers have discretion. Thus, from several points of view, our sample firms are better monitored than the control firms.

A.4. Prior firm performance

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[14] In our sample, of the firms receiving shareholder proposals, 48% receive proposals submitted by institutional investors, primarily pension plans, while the balance are from individual investors (primarily gadflies). Retail money managers, such as mutual funds, rarely if ever submit proposals.
[15] See Davis and Kim (2005). Also, for a detailed description of the types of conflicts that can arise when a fund company is also a benefits manager, see the description of the behavior of Fidelity in Farzad (2006).

As discussed in the previous section, firms may be pressured to de-stagger their boards. This pressure may be more effective when firms are suffering from inferior performance. Bebchuk et al. (2002), Bebchuk and Cohen (2005), and Faleye (2006) report that firms with staggered boards have market to book ratios lower than those of firms without staggered boards. We use market to book (the book value of total assets less the book value of common plus the market value of common divided by the book value of total assets as of the end of year -1, MBOOK), the change in return on assets (the change in net income from the end of year -2 to the end of year -1 divided by the average assets at the end of years -2 and -1, DROA) and the preannouncement abnormal return (the market-adjusted buy and hold return over days -110 to -11, PRERETURN) to capture firm performance prior to the announcement of the decision to de-stagger. However, our univariate statistics indicate that the de-staggering firms exhibit marginally significantly greater *improvements* in operating performance prior to the decision to de-stagger their boards.

B. *PROBIT Analysis*

The univariate statistics above are suggestive of factors that influence a firm's decision to dismantle its staggered board. We conduct a more thorough analysis of these determinants by estimating a PROBIT model with the choice to de-stagger as the dependent variable. Specifically, we estimate a PROBIT model of a firm's decision to de-stagger its board with the specification given in Equation (1):

$$\Pr(I_i = 1) = \Phi \left(\begin{array}{l} \alpha_0 + \alpha_1 BCF + \alpha_2 PILL + \alpha_3 SUPERMAJORITY + \alpha_4 GOLDEN \\ + \alpha_5 LIMCHAR + \alpha_6 LIMBYLAW + \alpha_7 DELAWARE + \alpha_8 BDSIZE \\ + \alpha_9 CEOCHAIR + \alpha_{10} INDEP + \alpha_{11} ODSHARES + \alpha_{12} SHARE\,P\,ROP \\ + \alpha_{13} DEBTRATIO + \alpha_{14} MAVOL + \alpha_{15} MAVOL * SARBOX + \alpha_{16} OTHMPROP \\ + \alpha_{17} INSTOWN + \alpha_{18}\,P\,RE\,R\,ETURN + \alpha_{19} DROA + \alpha_{20} MBOOK + \alpha_{21} REIT \end{array} \right) \quad (1)$$

where I_i is a binary variable that takes the value of one for firms that elect to de-stagger their boards, and zero for control firms whose boards remain staggered. Φ is the cumulative normal distribution function.

In addition to the independent variables defined above, we include dummy variables equaling one if the firm de-staggered its board in 2003 or 2004 following passage of the Sarbanes-Oxley act (SARBOX) or if the firm is a Real Estate Investment Trust (REIT). We include the SARBOX dummy due to the increase in shareholder activism following the scandals at Enron and other companies. We interact SARBOX with MAVOL since the role of the takeover market in the decision to de-stagger might be different in the recent era of extreme focus on corporate governance. REITs make up an atypically high proportion (11.8%) of the sample firms so we include a REIT dummy to account for the fact that REITs may de-stagger for different reasons than non-REITs[16].

We present the estimation results in Table III. Model 1 reports the estimated coefficients of all the independent variables identified above except the BCF Index. Model 2 removes four of the components of the BCF Index leaving only the poison pill dummy (PILL). Finally, we replace the individual components of the BCF Index (including PILL) with the index itself in Model 3.

Some of the strongest results involve the monitoring variables. The existence of prior shareholder proposals to de-stagger the board (SHAREPROP) and the presence of

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[16] We also ran our empirical tests excluding the REITs from the sample and got nearly identical results.

an active M&A market (MAVOL) are both strongly related to the firms' decision to de-stagger. With respect to SHAREPROP, apparently at some point firms feel compelled to submit to shareholder pressure, especially in the post-SARBOX period. [17] This is consistent with Bizjak and Marquette (1998) who find that firms are more likely to rescind poison pills if shareholders have submitted proposals to have the pill rescinded or put to a vote. Taken together, our results and theirs provide evidence that active shareholders can successfully push for improvements in corporate governance. Moreover, we contribute to the recent focus on the importance of shareholder activism in the corporate governance literature (see Del Guercio and Hawkins, 1999; Gillan and Starks, 2000; Thomas and Cotter (2005); and Del Guercio et al. (2006), among others).

Firms operating in industries experiencing greater M&A activity are more likely to de-stagger. This effect is similar both pre- and post-SARBOX. In contrast, the proportion of shares held by institutional investors (INSTOWN) is negatively related to the decision to de-stagger. Again, this relation is consistent with Davis and Kim's (2005) argument that many institutional investors are unlikely to jeopardize other business relationships by pushing too hard in terms of shareholder activism. The debt ratio is not related to the decision to de-stagger the board.

Among the anti-takeover variables, the BCF index has a negative and significant coefficient, consistent with the argument that firms with more democratic governance practices are more likely to improve their governance further and force directors to face annual elections. Of the anti-takeover devices that comprise the BCF index, the presence

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[17] Taub (2004) quotes SharkRepellent.net as stating "Boards are becoming more concerned with the appearance of good governance than with managing their risk of hostile takeovers". He goes on to say that "given the continuing influence of Sarbanes-Oxley … boards of directors are increasingly likely to heed their shareholders' wishes."

of a poison pill dominates all others. Bebchuk et al (2002a) argue that the combination of a staggered board and a poison pill creates a virtually impenetrable defense against potential raiders. Our results suggest that firms with a poison pill in place are reluctant to give up this powerful takeover protection. Finally, firms are more likely to de-stagger if they are simultaneously trying to drop other defenses.

Both the proportion of independent directors (INDEP) and the officer and director ownership (ODSHARES) are positively related to the decision to de-stagger. As with the univariate analysis, board size and the dummy variable indicating the CEO serves a dual role as Chair (BDSIZE and CEOCHAIR) are not significant determinants of a firm's decision to dismantle its staggered board.

Of the variables measuring prior firm performance, the change in profitability (DROA) has a positive and significant coefficient indicating firms are more likely to de-stagger following improvements in operating performance. However, the market to book ratio is negatively related to the decision to de-stagger.

Taken together these results suggest that firms subject to greater internal and external monitoring are more likely to de-stagger their boards, consistent with the complementarity of internal and external governance documented by Cremers and Nair (2005). In particular, pressure from activist shareholders and the potential for greater monitoring from the market for corporate control in the form of takeover protections in place and industry M&A activity is related to the decision to de-stagger. Independent boards and greater officer and director ownership are also related, while institutional ownership deters rather than promotes a change to annual director elections.

IV. Analysis of announcement effects

A. Univariate analysis

We investigate the wealth effects surrounding announcements of firms' intentions to de-stagger their boards and insist that their directors face annual shareholder elections. We estimate cumulative abnormal returns (CARs) for firms choosing to de-stagger their boards as the sum of the abnormal returns ($AR_{i,t}$) over days -1 to 1 where $AR_{i,t}$ is the abnormal return for firm i on event day t defined in Equation (2):

$$AR_{i,t} = r_{i,t} - (\alpha_i + \beta_i r_{m,t}) \ . \tag{2}$$

The coefficients α_i and β_i in Equation (2) are estimated over the period from event day -110 through event day -11. We use the earliest of three possible event dates. These dates include: the day the decision to de-stagger was announced in the press, the release date of the definitive proxy statement containing a proposal to de-stagger or information to the effect that the board has de-staggered itself without the necessity of a shareholder vote, and finally, the release date of a preliminary proxy statement corresponding to the previously-mentioned definitive proxy statement. Note that not all companies have all three dates.

The mean and median abnormal returns are 0.42% and 0.27%, respectively and are insignificantly different from zero. However, this overall effect is misleading because while most of the de-staggering firms *immediately* switch to a policy of annual director elections, a significant minority drag the process out as long as possible. Thus, we segment the sample by whether the implementation of the annual election of directors was to be immediate (63%) or phased in as the existing terms concluded. In this case, announcements of immediate implementation have mean and median positive and

significant announcement effects of 1.11% and 0.66%, respectively. In contrast, the announcement of phased implementation generates a negative and marginally significant return of -0.71% on average (median of -0.36% and insignificant). The difference in mean abnormal returns for immediate and phased implementation is 1.82% and highly significant (median difference is -0.95% and significant).[18] This provides clear evidence that dismantling staggered boards create value for shareholders.

We also divide the sample according to whether the decision to de-stagger was made pre- or post-SARBOX, whether the staggered board was bylaw- or charter-based, and whether the company received a shareholder proposal calling for a de-staggered board in the three years prior to the decision to de-stagger. In no case, were there significant differences between these sub-samples.

B. Regressions of announcement effects

To conduct a more thorough analysis of the wealth effects associated with the dismantling of staggered boards, we run regressions with three day announcement period CARs as the dependent variable and a wide array of independent variables. We use many of the same variables described in the analysis of the decision to de-stagger (Section III). Additional variables are described below. Most of the additional variables describe the circumstances surrounding the decision to de-stagger.

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[18] Shareholders' preference for immediate de-staggering is reflected in the response of shareholder activist Gerald Armstrong to the news of Xcel Energy's decision to allow existing directors to complete their existing terms prior to the implementation of annual elections. He refers to this decision as a "stalling tactic" adding, "They are going to prolong this as long as they can. They know they are in hot water with shareholders." See Svaldi (2004).

CHARTER is a dummy variable equaling one if the provision staggering the board is charter-based. IMMEDIATE equals one if the directors will immediately be subjected to annual elections. IMMEDIATE should have a positive relation to the CARs as the firm will become more quickly and credibly accountable to shareholders and also more vulnerable to a potential takeover. Also, we control for firm size by including the variable TOTALASSETS which equals the book value of firms' assets at year-end -1.

As mentioned earlier, corporate governance has received increased scrutiny in the wake of the post-bubble scandals. As such, in the post-SARBOX era, firms might be removing staggered boards for reasons other than exposing themselves to the discipline of the market for corporate control. Therefore, we inter-act SARBOX with MAVol.

Finally, we control for potential self-selection bias in our analysis of the announcement effects. We adopt a conditional methodology as our analysis of firms' decisions to drop their staggered boards indicates that investors could have observed certain information and gauged the probability of a subsequent announcement to de-stagger. Ignoring this prior observable information can lead to biased and incomplete measures of the new (unexpected) information that managers signal through their announcements.

Acharya (1993) formalized that when using event period data only, a conditional method is equivalent to the truncated regression model proposed by Heckman (1979). By taking into account the pre-event period for firms facing choice problems (using the first stage analysis), we avoid the potential selectivity bias inherent in the unconditional

methodology.[19] Prabhala (1997) advocates using a 2-step procedure when so-called "non-event" firms are included, i.e., our control firms from the PROBIT regression.

We draw on the two-step estimator of Heckman (1979) as discussed in Prabhala (1997) and estimate the following conditional event study model:

$$E(CAR_i|D) = b_0 + b'X_i + b_\lambda \lambda_i, \tag{3}$$

which assumes that the expected abnormal return conditional on the decision to de-stagger, D, is based on a set of variables, X. The last independent variable, λ_i, is the unexpected information revealed by the de-staggering announcement and is the inverse Mills ratio of the first stage regressors computed as:

$$\lambda_i = \frac{\phi(\alpha'Z_i)}{\Phi(\alpha'Z_i)}, \tag{4}$$

where Z_i is the set of variables used to explain the decision, D. In equation 4, $\phi(\cdot)$ is the standard normal density function based on $\alpha'Z_i$ from the first stage PROBIT model (Table III) and $\Phi(\cdot)$ is the cumulative distribution function (CDF) of the same distribution. If the decision to de-stagger is value enhancing, then the CARs should be positively related to λ.

Using the above variables, we estimate cross-sectional regressions of the form given in Equation (5) using ordinary least squares (OLS):

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[19] Many prior studies conducted (unconditional) tests on the information effect of a corporate event in which linear regressions of announcement effects on a set of firm characteristics are used to identify those factors that explain the cross-sectional variation in announcement effects. However, these unconditional tests may be misspecified since corporate events are voluntary choices of firms. As such, investors may possess very different prior information across firms making the same type of announcement (Acharya, 1988, 1993; Eckbo, Maksimovic, and Williams, 1990; and Prabhala, 1997).

$$
\begin{aligned}
CAR_i = {} & b_0 + b_1 BCF + b_2 PILL + b_3 CHARTER + b_4 IMMEDIATE \\
& + b_5 OTHMPROP + b_6 DELAWARE + b_7 BDSIZE + b_8 CEOCHAIR \\
& + b_9 INDEP + b_{10} ODSHARE + b_{11} SHAREPROP + b_{12} DEBTRATIO \\
& + b_{13} MAVOL + b_{14} MAVOL * SARBOX + b_{15} INSTOWN \\
& + b_{16} PRERETURN + b_{17} DROA + b_{18} MBOOK + b_{19} TOTALASSETS \\
& + B_{20} REIT + b_{21}\lambda + \varepsilon_i
\end{aligned}
\tag{5}
$$

Table IV presents the results of regressions of the three-day CARs. Models 1 and 2 report the estimates of Equation 5 with either the BCF Index or the Poison Pill dummy variable and without λ, our measure of the unexpected information revealed by the de-staggering announcement. Models 3 and 4 are analogous to Models 1 and 2 but with λ included.

We focus our discussion on Models 3 and 4 which account for the selection bias, with occasional references to Models 1 and 2 where appropriate. Firms going immediately to the annual election of directors (IMMEDIATE=1) experience greater announcement effects, consistent with the idea that these firms are more quickly accountable to the shareholders and/or more vulnerable to a takeover. The coefficient on IMMEDIATE is around 2.5% and significant at the 1% level and is somewhat larger in magnitude than the negative effects documented in Daines (2005) around the *adoption* of the Massachusetts staggered board law. The positive coefficient on IMMEDIATE indicates either the anticipation of improved performance or an increased likelihood of becoming a takeover target.

The CARs are also positively related to the scaled volume of M&A activity (MAVOL). However, the coefficient on the interactive term (MAVOL*SARBOX) is significantly negative and almost as large in magnitude as the coefficient on MAVOL indicating that the positive relation is limited to firms de-staggering their boards prior to

2003. Taken together this is consistent with the idea that, in the pre-SARBOX period, the market viewed the announcement of an intention to de-stagger as a signal that the de-staggering firm was more likely to be acquired. With the increased emphasis on governance during the post-scandal era, firms may now move to annual elections for different reasons.

In other regressions (not reported here) we include estimates of the mean and median change in analysts' long-run earnings forecasts surrounding the announcement to de-stagger using data from I/B/E/S.[20] We use the percentage change in the consensus (or median) forecast (as a percentage of the absolute value of the mean (or median) forecast prior to the announcement) and winsorize changes at 97%. The changes in forecasts surrounding the de-stagger announcements are insignificantly different from zero. Moreover, they are not related to the CARs. Thus, it is unlikely that the positive coefficient on IMMEDIATE reflects anticipated performance improvements. Rather, this evidence, when combined with the coefficient on MAVOL, indicate that the positive reaction is consistent with a perceived increase in the probability of takeover.

Firms with greater officer and director ownership (ODSHARES) have greater announcement effects. These firms are likely seen as reducing the entrenchment component of their ownership positions while maintaining the incentive benefits of high insider ownership, and perhaps are seen as signaling their willingness to be acquired. This is also consistent with McWilliams (1990) and McWilliams and Sen (1997) who

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[20] We look at the change in the two fiscal year-ahead consensus (or median) forecast of earnings per share to capture a long range effect. We consider the change in the consensus (or median) forecast from immediately preceding the de-stagger announcement to immediately following the de-stagger announcement, e.g., if the de-stagger announcement was on March 5, 2004, we look at the change in the consensus forecast of FY2005 earnings from February 15th, 2004 to March 15th, 2004, since this figure is reported by IBES on a monthly basis in the middle of the month.

find that CARs surrounding the *adoption* of a staggered board are negatively related to inside ownership. Finally, this idea is consistent with the positive relation between industry M&A activity (MAVOL) and the decision to de-stagger documented in section III.B.

As a reminder, Models 3 and 4 are estimated using Heckman's 2-stage procedure rather than simple OLS and include the inverse Mills ratio as a regressor to mitigate the problem of self-selection bias. Models 3 and 4 show that λ is significantly positively related to the CARs suggesting the market is favorably surprised by the decision to de-stagger. Moreover, the inclusion of λ has some striking effects on some of the other coefficients.

In particular, two of the monitoring variables are significantly related to the CARs, whereas in Models 1 and 2 they were unrelated. SHAREPROP is positively related to the CARs and INSTOWN is negatively related. Taken together, the results suggest a positive role for shareholder activists, particularly among firms with fewer institutional shareholders. Additionally, the coefficients and t-statistics on both the officer and director ownership and scaled M&A activity are substantially larger in Models 3 and 4 than in Models 1 and 2. Finally, the inclusion of λ reduces the importance of other independent variables, notably REIT, DELAWARE, and OTHMPROP. This indicates that the decision to de-stagger was less of a surprise for REITs, firms incorporated in Delaware, and firms with other proposals to drop ATAs on the proxy. Overall, the two-step conditional event study (Models 3 and 4) increases explanatory power by about 15-20% relative to a single step OLS cross-sectional CAR regression.

We consider, but do not report several other variables. These other variables include a dummy variable indicating whether the firm initially staggered their board before 1991, the proportion of shares outstanding required for the de-stagger proposal to pass, a dummy variable indicating the eventual outcome regarding the shareholder vote, and the proportion of shares owned by affiliated and unaffiliated 5% block-holders. Excluding these variables has no material effect on the reported results.

Overall, the univariate and conditional event study results both provide evidence that de-staggering the board creates value for shareholders. Moreover, the results of this section support the idea that the de-staggering announcement is signaling an increased willingness to be acquired and illustrates the important role played by shareholder activists. In particular, the positive relation between the announcement returns and the immediate implementation dummy, the shares held by officers and directors, the volume of mergers and acquisitions activity, and the existence of previous shareholder proposals all support this conclusion. Our results are also broadly consistent with the findings of Cremers and Nair (2005) who find that internal and external monitoring mechanisms are complementary governance mechanisms rather than substitutes.

V. Conclusion

In this paper, we compile a dataset of 188 firms with staggered boards whose management has stated an intention to put a binding resolution to remove the stagger to a shareholder vote or simply removed the stagger with a board vote. A common occurrence in the post-SARBOX era but one that was previously rare. The literature has now established the staggered board as the most consequential of all available takeover

defenses (see Bebchuk et al., 2002a, b; Bebchuk and Cohen, 2005; Bebchuk et al., 2005; and Daines, 2005; and Faleye, 2006). Thus, the dismantling of this structure in favor of annual director elections has important implications for shareholder rights and wealth.

We conduct a PROBIT analysis of the determinants of the decision to drop the staggered board. We find that it is generally those firms with better monitoring mechanisms (internal and/or external) and incentives in place that are more inclined to drop the stagger. Firms that operate in an industry with more M&A activity and with better governance index scores are more likely to eliminate the staggered board, while firms with poison pills in place are less likely to do so. Additionally, firms with higher ownership concentration among officers and directors are more inclined to shift to annual director elections. Finally, shareholder proposals play a pivotal role in this process since fully 34% of our sample firms face shareholder proposals to de-stagger the board in the three years leading up to the event date while only 6% of control firms face such pressure.

We conduct a conditional event study that shows that de-staggering the board creates value for shareholders, suggesting that staggered boards destroy value. The cumulative abnormal returns (CARs) of those firms that intend to immediately switch to annual director elections are about 2.5% higher than the CARs of firms that slowly phase in annual elections. The CARs are also significantly related in the cross section to various firm and industry characteristics. Specifically, CARs are positively related to industry M&A deal volume indicating an increase in the probability of being taken over. CARs are also positively related to prior shareholder activism, suggesting that this activity is value enhancing. Finally, the CARs are positively related to Heckman's λ (the

inverse Mills ratio) indicating that surprises are positively received in this context and also indicating the importance of utilizing the 2-stage procedure.

Our results are consistent with the view that forcing directors to face annual elections is good for shareholders. Moreover, it is firms with better governance and/or whose managers face strict monitoring that are more likely to act in the interest of shareholders and de-stagger the board. Finally, we show that the level of takeover activity in a firm's industry affects their decision to de-stagger the board and the level of M&A activity is positively related to the CARs of our sample firms, suggesting that a significant portion of the wealth effects we document are related to a perceived enhanced probability of takeover upon switching to annual director elections.

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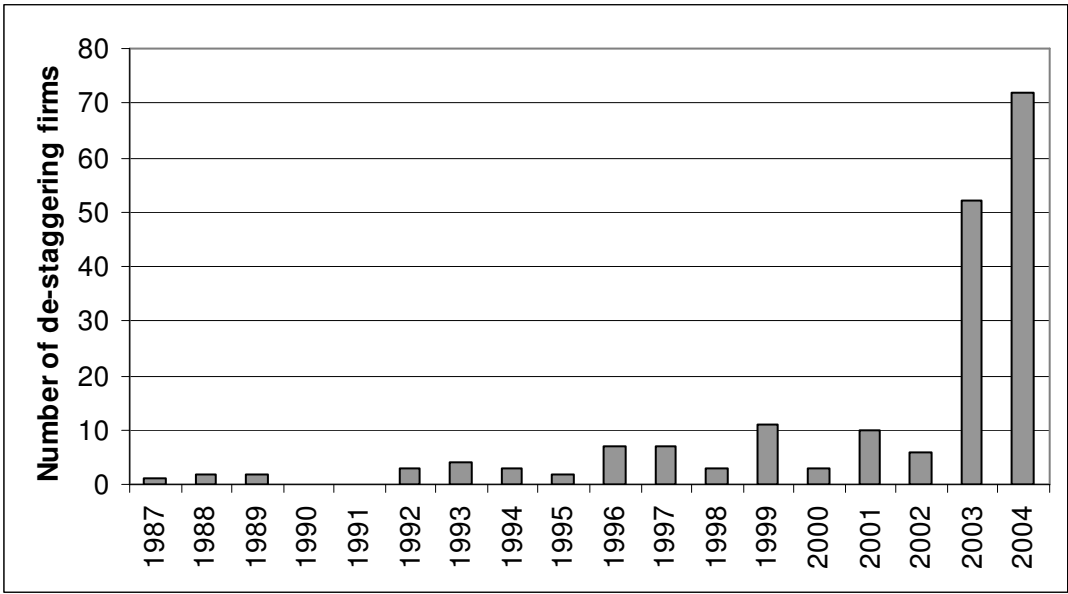
Figure 1. Distribution of Sample Firms by Year of the Decision to De-stagger

Table I
Information on who staggers their board and when

The sample consists of 188 sample and control firms announcing they will de-stagger their board or that they will put the matter to a shareholder vote over 1987 to 2004. The control firms are similar in size to our sample firms in the given year, but choose to maintain their staggered boards. N is the number of observations for which the relevant data is available. Change in BCF index is the mean change in the indexes value from time of initial board staggering event to the value at the decision to de-stagger. [#], [##], and [###] indicates the proportion of sample and controls for the selected variable or the change in BCF index between the sample and control firms is significantly different at the 10%, 5%, and 1% levels, respectively. *, **, *** indicates the change in BCF index is significantly different from zero at the 10%, 5%, and 1% levels, respectively.

	De-staggering Firms	Control firms	test statistic
Panel A: Initial implementation of staggered board			
Up to 1990	97 (54%)	111 (64%)	1.90[#]
1991 or later	83 (46%)	63 (36%)	
N	180	174	
Panel B: Circumstances at adoption among firms staggering in 1991 or later:			
Staggered at IPO	53 (64%)	48 (76%)	1.60
Staggered at a merger	11 (13%)	2 (3%)	2.31[##]
Staggered via shareholder vote	17 (20%)	6 (10%)	1.81[#]
Staggered without shareholder vote	3 (4%)	7 (11%)	1.67[#]
N	83	63	
Panel C: Changes in BCF Index from initial adoption to just prior to the announcement of the decision to de-stagger			
Change in BCF index	0.20[*]	0.31[***]	0.74
Decrease in BCF	24 (22%)	14 (12%)	2.04[##]
No change in BCF	55 (51%)	65 (56%)	0.69
Increase in BCF	29 (27%)	38 (32%)	0.92
N	108	117	

Table II
Summary Statistics of Sample and Control Firms

The sample consists of 188 firms announcing they will de-stagger their board or that they will put the matter to a shareholder vote. The control firms are similar in size to our sample firms in the given year, but choose to maintain their staggered boards. SHAREPROP is an indicator variable equaling one if the firm received a shareholder proposal to de-stagger the board over the three years prior to the announcement year. PILL is an indicator variable with value of one for firms with a poison pill. MAVOL is the average aggregate industry value of M&A activity scaled by aggregate industry assets for year -1. Industries are defined using two-digit SIC codes. DELAWARE is an indicator variable equaling one if the sample firm is incorporated in Delaware. BCF the entrenchment index of Bebchuk, Cohen, and Ferrell (2005) minus one (since both sample firms and controls have classified boards). CEOChair is one if the CEO is also the board Chair. INDEP is the percentage of independent outside directors on the board. BDSIZE is the number of directors. ODSHARES and INSTOWN are the fraction of shares owned by the officers and directors and institutional investors, respectively. DROA is the change in net income from year -2 to year -1 divided by the average assets in years -2 and -1. MBOOK is the book value of total assets less the book value of common equity plus the market value of common equity all divided by the book value of total assets. The PRERETURN is the market-adjusted buy and hold return over days -110 to -11. DEBTRATIO is the firm's debt-to-asset ratio in book value terms. The mean values of each variable for both sample and control firms are presented. Also tabulated are the t statistics for the null hypothesis that the means of variable are the same for sample and control firms, with *, **, *** indicates significance at the 10%, 5%, and 1% levels, respectively.

Variable	De-staggering Firms	Control firms	t-statistics
Anti-takeover devices:			
BCF	1.76	2.01	-2.30**
Poison Pill	0.46	0.67	-4.07***
Supermajority	0.21	0.22	-0.38
Golden Parachute	0.66	0.73	-1.59
Limits to amend charter	0.17	0.07	3.21***
Limits to amend bylaws	0.25	0.32	-1.27
Delaware	0.54	0.56	-0.38
Board Characteristics:			
BDSize	9.73	9.58	0.46
CEOChair	0.65	0.69	-0.80
Indep	0.70	0.68	1.11
ODShares	0.15	0.09	3.35***
Monitoring			
ShareProp	0.34	0.06	7.56***
DebtRatio	0.26	0.18	3.44***
MAVol	0.06	0.04	2.13**
InstOwn	0.48	0.65	-4.76***
Performance:			
MBook	1.64	1.77	-0.97
PreReturn	0.03	0.04	-0.27
DROA	0.03	-0.00	1.68*

Table III
PROBIT Analysis of Decision to De-stagger the Board

The dependent variable is 1 for our sample firms which elect to de-stagger their boards and 0 for the control firms. BCF equals the sum of five dummy variables indicating that the sample firm has a poison pill (PILL), requires supermajority approval of any merger (SUPERMAJORITY), has a golden parachute (GOLDEN), has limits to amend its charter (LIMCHAR), and has limits to amend its bylaws (LIMBYLAW). DELAWARE, PILL, SUPERMAJORITY, GOLDEN, LIMCHAR, LIMBYLAW, CEOCHAIR, and REIT are all indicator variables. BDSIZE is equal to the number of directors. INDEP refers to the percentage of independent directors. ODSHARES and INSTOWN are the fraction of shares owned by the officers and directors and institutional investors, respectively. OTHMPROP is a dummy equaling one if management placed other proposals to eliminate anti-takeover devices in the proxy statement. PRERETURN is the return on the firm's stock net of the market return in the 100-day period through event day -11. The DROA is defined as change in the variable net income divided by assets. DEBTRATIO is the firm's debt-to-asset ratio in book value terms. MBOOK is the book value of total assets less the book value of common equity plus the market value of common equity all divided by the book value of total assets. SHAREPROP is a dummy variable equaling one if the sample firm received a shareholder proposal calling for a de-stagger board over the three years prior to the announcement year. MAVOL is the aggregate industry value of mergers and acquisitions activity scaled by aggregate industry assets for years -1 and 0. Industries are defined using two-digit SIC codes. The MLE estimates are presented in the table with χ^2 statistics in the parenthesis. The χ^2 and p-values of the test that all coefficients are jointly zero are also reported. *, **, *** indicates significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)
Intercept	-0.73	-0.69	-0.52
	(1.40)	(1.35)	(0.80)
PILL	-0.87***	-0.86***	
	(20.32)	(21.03)	
SUPERMAJORITY	-0.11		
	(0.21)		
GOLDEN	0.05		
	(0.05)		
LIMCHAR	0.46		
	(1.95)		
LIMBYLAW	-0.37*		
	(3.04)		
BCF			-0.25***
			(8.22)
DELAWARE	0.26	0.20	0.21
	(1.77)	(1.09)	(1.29)
BDSIZE	0.01	0.01	0.00
	(0.22)	(0.07)	(0.00)

CEOCHAIR	0.02	0.02	0.02
	(0.02)	(0.01)	(0.01)
INDEP	1.93***	1.98***	1.71***
	(8.71)	(9.98)	(8.11)
ODSHARES	1.28**	1.32**	1.53***
	(3.84)	(4.31)	(6.14)
SHAREPROP	1.82***	1.83***	1.76***
	(49.89)	(51.39)	(47.69)
DEBTRATIO	-0.07	-0.06	0.14
	(0.02)	(0.01)	(0.07)
MAVOL	2.60**	2.51**	2.60**
	(3.95)	(3.96)	(4.44)
MAVOL*SARBOX	2.79	2.61	3.70
	(0.79)	(0.73)	(1.59)
INSTOWN	-1.81***	-1.86***	-1.80***
	(23.09)	(25.05)	(24.62)
OTHMPROP	1.54***	1.57***	1.71***
	(6.91)	(7.85)	(9.32)
PRERETURN	0.35	0.41	0.29
	(1.12)	(1.56)	(0.80)
DROA	1.93**	1.95**	1.88**
	(5.78)	(6.10)	(6.37)
MBOOK	-0.15**	-0.15**	-0.16**
	(4.18)	(4.17)	(5.15)
REIT	1.68***	1.63***	1.54***
	(18.42)	(17.92)	(17.45)
Model χ^2	136.01	138.24	145.04
(p-value)	(0.00)	(0.00)	(0.00)

Table IV
Regression of Three-Day Abnormal Returns

This table presents results of regressions of the three day abnormal return at announcement of the decision to de-stagger the board or put the matter to a shareholder vote. CHARTER is a dummy variable equaling one if the provision staggering the board is charter based. IMMEDIATE is a dummy variable that equals one if the board will immediately begin holding annual election of directors. SHAREPROP is a dummy variable equaling one if the sample firm received a shareholder proposal calling for a de-stagger board over the three years prior to the announcement year. MAVOL is the aggregate industry value of mergers and acquisitions activity scaled by aggregate industry assets for years -1 and 0. Industries are defined using two-digit SIC codes. DELAWARE is a dummy variable equaling one if the sample firm is incorporated in Delaware. BCF equals the sum of five dummy variables indicating that the sample firm has a poison pill, requires supermajority approval of any merger, has a golden parachute, has limits to amend its charter, and has limits to amend its bylaws. OTHMPROP is a dummy equaling one if management placed other proposals to eliminate anti-takeover devices in the proxy statement. CEOCHAIR one if the same individual holds the positions of CEO and chair of the board. REIT is a dummy variable equaling one if the sample firm is a Real Estate Investment Trust. INDEP is the percentage of independent outside directors on the board. BDSIZE is the number of directors. ODSHARES and INSTOWN are the fraction of shares owned by the officers and directors and institutional investors, respectively. DEBTRATIO is the firm's debt-to-asset ratio in book value terms. MBOOK is the book value of total assets less the book value of common equity plus the market value of common equity all divided by the book value of total assets. The DROA is the change in net income from the end of year -2 to the end of year -1 divided by the average assets at the end of years -2 and -1. The PRERETURN is the market-adjusted buy and hold return over days -110 to -11. TOTALASSETS is in millions of dollars as of the end of year -1. λ, is the inverse Mills ratio computed as $\lambda = \phi(\alpha'X)/\Phi(\alpha'X)$, where $\phi(\cdot)$ and $\Phi(\cdot)$ are the density function and cumulative distribution function using the standard normal based on $\alpha'X_i$ estimated from the Table III PROBIT models, respectively. The sample consists of 188 firms announcing they will de-stagger their board or that they will put the matter to a shareholder vote. Absolute values of t-statistics in parentheses. *, **, *** indicates significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
Intercept	0.005	0.009	-0.056	-0.046
	(0.19)	(0.35)	(1.55)	(1.26)
BCF	0.003		-0.001	
	(0.92)		(0.28)	
PILL		0.008		-0.006
		(1.07)		(0.60)
CHARTER	0.011	0.011	0.012	0.012
	(0.98)	(1.01)	(1.11)	(1.10)
IMMEDIATE	0.023***	0.024***	0.022***	0.025***
	(2.86)	(3.04)	(2.85)	(3.13)
OTHMPROP	-0.030**	-0.027**	-0.003	-0.007
	(2.29)	(2.17)	(0.17)	(0.46)
DELAWARE	-0.020**	-0.021**	-0.014	-0.014
	(2.40)	(2.43)	(1.55)	(1.55)

BDSIZE	-0.001	-0.001	-0.001	-0.001
	(0.62)	(0.83)	(0.54)	(0.69)
CEOCHAIR	-0.006	-0.005	-0.009	-0.008
	(0.69)	(0.65)	(1.05)	(0.98)
INDEP	-0.015	-0.017	0.028	0.024
	(0.61)	(0.67)	(0.92)	(0.77)
ODSHARES	0.041*	0.042*	0.077***	0.069***
	(1.92)	(1.97)	(3.03)	(2.82)
SHAREPROP	0.001	-0.001	0.040**	0.034*
	(0.07)	(0.08)	(2.21)	(1.85)
DEBTRATIO	-0.000	-0.001	0.007	0.001
	(0.02)	(0.04)	(0.31)	(0.05)
MAVOL	0.139***	0.139***	0.200***	0.193***
	(2.69)	(2.70)	(3.56)	(3.41)
MAVOL*SARBOX	-0.197**	-0.186**	-0.159*	-0.166**
	(2.38)	(2.22)	(1.92)	(2.00)
INSTOWN	-0.012	-0.012	-0.054**	-0.047**
	(0.98)	(0.95)	(2.60)	(2.31)
PRERETURN	-0.029**	-0.030**	-0.034***	-0.032***
	(2.47)	(2.55)	(2.85)	(2.76)
DROA	0.009	0.008	0.030	0.025
	(0.50)	(0.47)	(1.59)	(1.34)
TOTALASSETS	0.000	0.000	0.000	0.000
	(1.16)	(1.11)	(1.32)	(1.22)
MBOOK	0.003	0.003	0.000	0.001
	(0.82)	(0.79)	(0.02)	(0.16)
REIT	-0.028**	-0.027**	0.009	0.005
	(2.02)	(2.00)	(0.47)	(0.26)
λ			0.051**	0.046**
			(2.49)	(2.16)
R^2	0.27	0.27	0.30	0.30
Adj-R^2	0.16	0.16	0.19	0.19
F-statistic	2.48	2.50	2.76	2.68