

Board of Directors' Responsiveness to Shareholders: Evidence from Majority-Vote Shareholder Proposals

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Abstract: In this paper we document the frequency of implementation of non-binding, majority-vote shareholder proposals and analyze the determinants of Boards' decision to implement them. Using a sample of 620 shareholder proposals that received a majority vote between 1997 and 2004, we show that the frequency of implementation has more than doubled from 16% in 1997 to over 40% in 2003-2004. This increase is not driven by changes in the mix of proposal or proponent types, and seems to reflect a structural shift in the post-Enron governance environment. We predict that the implementation decision is related to the governance structure and financial characteristics of the targeted firm, pressure from shareholders and peer firms, and the characteristics of the proposal. We find a positive relation between shareholder pressure and the likelihood of implementation. In particular, we document that the likelihood of implementation decision is increasing in the percentage of votes cast in favor of the proposal and in ownership by "activist" shareholders. We find that targeted firms are more likely to implemented majority-vote proposals after industry-peer firms implement a similar proposal. We also find that proposals relating to Board issues and executive compensation are less likely to be implemented than other types of proposals. Our tests fail to identify an association between governance characteristics and the performance of targeted firms and their decisions to implement majority vote proposals.

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1. Introduction

The recent wave of corporate scandals has raised questions about the effectiveness of Boards of directors in their monitoring role. The subsequent reform debate focused on enhancing Boards' independence from management,¹ increasing Boards' accountability to shareholders (e.g. by changing the Board election system)² or improving Boards' internal processes and practices (Carter and Lorsch, 2004).

One direct example of Boards' alleged lack of responsiveness to shareholder concerns is the historically low frequency of adoption of non-binding shareholder proposals receiving a majority vote [The Economist, 2002]. However, a number of factors suggest that the cost of ignoring majority-vote shareholder proposals may have increased over the last few years, both for the targeted firms and for the individual directors. Firms ignoring majority votes on shareholder resolutions receive lower ratings from governance services, such as The Corporate Library, are more likely to end up on CalPERS' "focus list" of poor financial and governance performers (CFO.com, 2005) and often receive negative press coverage (CFO.com, 2003), particularly if the proposal has received majority support for a number of years. These effects

¹ On November 4, 2003, the SEC approved final amendments to the NYSE and Nasdaq corporate governance listing standards. Under the amended standards, the majority of the Board of directors and all Board's committees must be comprised of independent directors, under more stringent independence criteria.

² In 2003 the Security Exchange Commission (S.E.C.) proposed a rule that would have provided certain shareholders access to their companies' proxy materials to have their nominees included along with management's nominees in elections to the Board of Directors (see Bebchuk, 2003, for details). Under pressure from business lobbyists, the proposal has been abandoned. However, shareholder activists in the 2005 and 2006 proxy seasons have been submitting a number of shareholder proposals asking firms replace the current plurality vote system with a majority voting system. In a plurality vote system, the director nominee can be elected in uncontested election even with only one vote cast in favor - since the other votes can only be withheld (there is no "vote against"). In a majority voting system, the nominee will only be elected if a majority of votes are cast in her favor. Many of these resolutions have received significant support and the majority voting system is being adopted by numerous firms, even among those non-targeted by these proposals (CFO.com, 2006)

reflect the increased interest by the investment community in “governance risk” after the Enron-type scandals. Besides, in the post-2001 reform-oriented environment, real or perceived governance failures - such as the failure to act upon majority vote shareholder proposals - may strengthen the position of those supporting radical changes opposed by the corporate community.³ As for individual directors, firms’ refusal to implement shareholder proposals that have received majority support is one of the most common reasons behind vote no campaigns, i.e., campaigns to withhold votes from all/some directors⁴, and directors singled out in these campaigns face a higher chance of losing their Board seat as well as other directorships (Del Guercio, Wallis and Woidtke, 2006). All these factors suggest that Boards may have re-examined their policy with respect to shareholder resolutions receiving significant support.

In this paper we analyze the frequency of adoption of non-binding, majority-approved shareholder proposals over the 1997 – 2004 proxy seasons and then examine the determinants of the Boards’ decisions to implement such proposals. In particular, we predict that the likelihood of implementation of majority-approved shareholder proposals is higher for targeted firms with better governance structures, when shareholders pressure and peer pressure is higher, and when the targeted firm has experienced poor recent performance.

Using a sample of 620 governance-related shareholder proposals that received a majority vote between 1997 and 2004, we document that the frequency of implementation has almost doubled from an average of 22% between 1997 and 2002 to an average of 41% in 2003-2004. This dramatic increase mirrors the concurrent increase in the number of shareholder proposals

³ For example, in a December 2003 letter, the Council for Institutional Investors complained about firms’ low responsiveness to shareholder proposals and asked the S.E.C. to include a pattern of ignoring majority vote shareholder resolutions among the “triggers” for shareholder access to the ballot (see ftnt.2). The then Chairman of the S.E.C. , W. Donaldson, reportedly embraced this idea (Reuters, 2003)

⁴ Institutional Shareholder Services (ISS), the influential proxy voting service, currently recommends to withhold votes from the entire Board if the Board fails to act on a proposal supported from the majority of the votes outstanding last year, or the majority of the votes cast over the last two years (ISS, 2006).

submitted to a vote, but it has different explanations. While the surge in the number of shareholder proposals is mostly the result of higher activism by labor unions, particularly in the area of executive compensation (e.g. proposals to expense employee stock options), the higher frequency of implementations occurs across various types of proposals (particularly proposals to remove anti-takeover measures) and is not driven by new proposal types, nor by increased activism by stronger proponents. Hence, the above trend seems more consistent with a structural shift in the governance environment and lends some support to frequent assertions of a new ‘atmosphere’ in the boardrooms.

As for the determinants of the implementation decision, our multivariate analyses provide evidence of a positive association between the degree of shareholder pressure and the likelihood of implementation. In particular, we document a positive and significant relation between the degree of voting support and the likelihood of implementation. We also find that proposals brought to vote by shareholders that have a greater ability to exert pressure such as unions and various types of institutions, are more likely to be implemented. In addition, greater levels of ownership by activist shareholders who presumably lend their support to shareholder proposals and are likely to push for implementation subsequent to a majority-vote, are associated with greater likelihood of implementation. Peer pressure also seems to play a key role, since firms whose peers implement majority vote shareholder proposal in the recent past appear more likely to follow suit. Financial performance and structural indicators of governance, such as a shareholder rights index (G-score), the degree of Board independence and CEO-Chairman duality do not seem to affect the likelihood of implementation. These results hold after controlling for sample selection bias.

Our study contributes to the growing academic literature on the determinants and effects of shareholder activism. Previous studies on Rule 14a-8 shareholder proxy proposals have concluded that this form of activism has been, at best, marginally effective, citing the low rate of adoption of the proposals.⁵ However, most of these studies analyze shareholder proposals over the 1980s and 1990s. Our evidence suggests that a key dimension of the effectiveness of shareholder resolutions – the frequency of their implementations – has increased significantly after 2002. This trend occurred at the same time as the increase in the number of proposals and the frequency of majority votes, enhancing the economic relevance of the findings. A typical concern in this line of research is that the implementations we document (e.g. removal of classified Board and poison pills, etc.) would have occurred anyway, due to underlying causes other than the shareholder proposals. However, recent studies provide evidence to the contrary. Guo, Kruse and Nohel (2005) analyze firms’ decision to de-classify their Boards and find that the presence of a shareholder proposal to declassify the Board greatly increases the likelihood of this decision (after controlling for other determinants). Similarly, Ferri, Sandino and Markarian (2006) find that the presence of a related shareholder proposal increase the likelihood of adoption of stock options expensing by targeted firms and even non-targeted peer firms. These findings, combined with our evidence of a positive relation between degree of voting support and likelihood of implementation, suggest that the implementations are the effect of the proposals rather than some other underlying factor.

Our results may also be of interest to different groups of practitioners. Understanding the determinants of Boards’ implementation decision can help shareholder activists sponsoring these

⁵ In general, these studies find that shareholder proposals have limited effect on targeted firms’ governance policies and performance, with few exceptions. For a detailed summary of these findings see Gillan and Starks (1998) and Karpoff (2001). Recently, Del Guercio, Wallis and Woitke (2006) analyze the consequences of vote no campaigns and conclude that this form of activism is more powerful than shareholder proposals in triggering governance changes.

resolutions to better direct their efforts. For example, the positive association between the implementation by a peer firm and the likelihood of implementation suggests that it may be a better strategy for activists to target firms in the same industry, since leading one firm to implement the proposal may have spillover effects on peer firms targeted by the same proposal. Our evidence on the recent increase in implementation rate of majority-vote proposals may lead to a greater participation by institutional investors traditionally more inclined to engage in behind-the-scene negotiations with management than to submit proposals under Rule 14a-8 proposals. Boards of Directors can find helpful our analysis of the determinants of the implementation decision, particularly if one assumes that our analysis, on average, captures “best practices” by Boards. Finally, our findings can inform the policy debate at a time when regulators are considering a number of changes to the proxy voting process (e.g. S.E.C. current proposal to allow electronic voting of proxies).

The paper proceeds as follows. Section 2 discusses the related literature and develops our predictions. Section 3 outlines the sample selection and the data used in the analysis. Section 4 presents descriptive statistics and examines univariate and multivariate results. Section 5 discusses the findings and concludes.

2. Related Literature and Predictions

2.1 Institutional Background

Shareholder proposals are typically submitted under Securities and Exchange Commission Rule 14a-8, which permits any shareholder holding shares worth \$2,000 for at least one year to include one proposal and a 500-word supporting statement in the proxy statement distributed by a company for its annual shareholder meeting. Under Rule 14a-8, shareholders

must submit proposals at least six months before the shareholder meeting date. The proposals are limited in the subjects they can address (e.g. they cannot address “ordinary business” matters) and, most importantly, they are generally non-binding, i.e. they must be in the form of a recommendation to the Board and cannot mandate policy actions - reflecting the S.E.C. aversion to proposals that (by mandating actions) might preclude the Board's ability to exercise business judgment and effectively usurp its fiduciary role (for more details, see Black, 1998, and Gillan and Starks, 2000).

2.2 Determinants of Boards' Decisions to Implement Majority-approved Shareholder Proposals

Our focus in this paper is on the determinants of Boards' decisions to implement non-binding, majority-vote shareholder proposals. Shareholder proposals are presented well in advance of the annual meeting (at least 120 days before). Hence, the Boards have the opportunity to evaluate the proposals, discuss them with management, hear from major shareholders, observe the past actions of peer companies in similar situations and decide between implementing the proposals (or some modified version of them) and letting shareholders vote upon them at the annual meeting.⁶ Therefore, with few exceptions,⁷ the fact the proposal is eventually voted upon indicates that the Board opposed it, and the decision to implement the proposal after a majority-vote (even though non-binding) reflects a reversal in this initial

⁶ Previous studies document that a significant number of proposals are withdrawn either because the board agrees in merit, or because the board and management prefer to avoid the negative publicity associated with a majority vote (or generally the higher scrutiny of the topic submitted for a vote by the other shareholders), or as a result of negotiations between the proponent and the board (Carleton, Nelson, and Weisbach, 1997; Smith, 1996). Our study focuses on a different form of Board's responsiveness to shareholder proposals, that is, the decision to implement them after a majority vote. Majority-vote proposals were opposed by management when initially presented, while withdrawn proposals may have been withdrawn because the Board agreed with them and had already adopted them (or was in the process of adopting them). Hence, we believe our setting allows for a more powerful investigation of the notion of Boards' responsiveness to shareholders.

⁷ In very few cases the Board does not actively oppose or support a shareholder proposal and defers the decision to implement it until after the annual meeting. For example, in 2000 the shareholders of Health Net, Inc. presented a proposal to de-classify the Board of directors. In its proxy statement, the Health Net, Inc. Board stated, “The Board of Directors is not making a recommendation on how stockholders should vote on this Stockholder Proposal, but instead wants to receive a clear indication of how the Company's stockholders would like it to proceed on this issue.”

opposition. Our objective is to understand why some Boards implement the same proposals they decided not to implement a few months earlier.

We conjecture that the governance structure of the targeted firm, the degree of shareholder and peer pressure it faces, its financial performance, the proposal type and the time period are likely to affect the likelihood that the Board implements a shareholder proposal after a majority-vote. The next paragraphs will develop these predictions in more detail.

2.2.1. Governance structure

In general, we would expect Boards to be more responsive to shareholders in firms with better governance structures. However, a number of different firm-level mechanisms interact to determine the governance structure of corporations, including internal monitoring mechanisms (Board of Directors and ownership composition) and external monitoring mechanisms (anti-takeover measures and the market for corporate control, see Cremers and Nair, 2006). These different mechanisms may differ in terms of their effects on the likelihood of implementation of majority vote shareholder proposals.

With respect to the Board of directors, it has been long recognized that directors have an incentive to build and maintain a reputation as effective monitors in the director labor market (Fama and Jensen, 1983). Ignoring majority-approved shareholder proposals will likely hurt their reputation and often leads to highly publicized no-vote campaigns, with negative consequences on their ability to keep directorship seats (Del Guercio, Wallis and Woidtke, 2006). Concerns with reputation effects are arguably more important for independent directors, that is, Board members who are not officers of the firm (and hence whose careers are less tied to the CEO and other top management) and who do not have other personal or business ties to the

firm's management. Therefore, we expect more independent Board to be more likely to implement majority-approved shareholder proposals.

The second major internal corporate governance mechanism is shareholder composition, specifically ownership by institutional shareholders (Jensen and Waner, 1988). One way monitoring by institutional owners manifests itself is through shareholder activism (Black, 1990; Karpoff, Malatesta and Walkling, 1996; Smith, 1996). For example, institutional investors can, in extreme cases, "vote with their feet" by selling their shares of an un-cooperative firm. Thus, firms with higher levels of institutional ownership may be more responsive to the shareholder proposals supported by institutional investors. However, institutional investors may play a different role based on their investment horizon and conflicts of interest (Black, 1990; Bushee, 1998; Cremers and Nair, 2006). We conjecture that Boards will be more likely to implement majority-approved shareholder proposals if there is a significant level of ownership by "dedicated" institutional investors (i.e. institutions with large, long-term holdings). Our prediction assumes that a higher ownership makes it more likely that these investors contributed to the majority vote received by the proposal.

Finally, we make no prediction with respect to the relationship between external governance mechanisms and the likelihood of implementation. On one hand, one may expect firms with stronger shareholder rights (e.g. fewer takeover defenses) to be generally more responsive to their shareholders' concerns. On the other hand, the pressure on Boards to implement a proposal (say, eliminate super-majority provisions) will be lower if the firm fares well in terms of other measure of shareholder rights (e.g. no poison pill), leading to predict a negative relation between strength of external governance and likelihood of implementation.

2.2.2 Shareholder pressure

We conjecture that, all else being equal, Boards are more likely to implement majority-approved shareholder proposals when there is more pressure from the shareholders to do so. One way shareholder pressure manifests itself is the *voting outcome* of the proposal. High voting support will galvanize proponents and other shareholder who voted for the proposal, resulting in more intense campaign for its implementation after the annual meeting. This effect will be compounded by greater press coverage. Note, however, that the voting outcome may positively affect the likelihood of implementation also for a different reason. Boards may interpret the voting outcome as an indication of the quality of the proposal, i.e. as a signal of its value-creating potential. Both interpretations lead to predict a positive association between voting outcome and likelihood of implementation.

Note also that the voting outcome has different dimensions: proposal approval,⁸ percentage of votes cast in favor of the proposal, percentage of votes outstanding in favor of the proposals. The different dimensions allow us to explore in our empirical analysis a variety of questions. For example, does the likelihood of implementation depend on whether the majority-vote proposal is formally approved, after controlling for the percentage of votes in favor of the proposal? Do Boards use a “shadow” implementation rule, i.e. implement only proposals that receive a majority of shares outstanding, essentially ignoring proposals supported only by the majority of votes cast? Does the percentage of voting support matter or achieving certain threshold is enough to trigger Boards’ actions? These questions have important implications for academic research, as well practitioners and regulators. For example, a finding that Boards respond to majority-vote proposals even when they are not formally approved, and that the percentage of voting support

⁸ Note that a majority-vote proposal may not be considered approved if approval requires a majority of all votes cast (including abstentions, and, sometimes, broker non-votes) or a majority/super-majority of all votes outstanding. More details on this in Sec.3.1.

matters, would suggest that shareholder proposals can be effective at triggering governance changes. On the other hand, a finding that boards tend to implement only (or mostly) proposals achieving the majority of votes outstanding (rather than votes cast) would imply that shareholder activists need to direct their efforts at increasing voting turnout, and would have implications for policy decisions affecting the proxy voting process.⁹

The degree of shareholder pressure may also depend on the *history of the majority-approved shareholder proposal*. Specifically, it might be difficult for a Board to dismiss a proposal that wins a majority vote for a number of years in a row. As for the case of the voting outcome, a sequence of majority votes may both increase the pressure on Boards and provide a more ‘stable’ signal of the quality of the proposal and the shareholders’ desires¹⁰ – particularly if the Board is concerned that the vote may be the temporary effect of shareholder dissatisfaction with the firm performance or that the ownership base may change significantly from period to period. On the other hand, a sequence of majority votes without implementations may be viewed as measure of Board’s entrenchment and lack of responsiveness to shareholders, leading to predict a negative relation with the likelihood of implementation. What effect will prevail is an empirical question.

Finally, the pressure to implement the proposal may also depend on the *characteristics of the proponent*, as well as the *presence of activist shareholders* (who presumably supported the

⁹ The S.E.C. is considering a rule that would allow electronic voting of proxies and that, as a result, may affect voting turnout and the probability of a proposal being approved. At the same, NYSE is consider whether to eliminate broker non-votes from the votes count in “routine” proposals such as Board elections and auditors’ ratifications. A better understanding of firms’ reaction to majority votes and approval may inform the policy discussions on these issues.

¹⁰ For example, in response to a shareholder proposal to de-classify the Board, in its 2004 Proxy Statement, Baker Hughes Incorporated states, “While continuing a classified board is believed to be in the best interest of the stockholders at this time, if this proposal receives at least the same support by the stockholders of all outstanding shares at the 2004 Annual Meeting as it did in 2003, the Board intends to introduce and support a binding proposal at the 2005 Annual Meeting to amend the Company’s Restated Certificate of Incorporation in order to eliminate the provision classifying our Board.”

proposal and will push for its implementation after the majority-vote). It has been documented that certain shareholders, such as the California Public Employees' Retirement System (CalPERS), partly due to its large stake in targeted companies, have been able to play a prominent and often successful role as shareholder activist (Smith, 1996; Prevost and Rao, 2000; Barber, 2006).

2.2.3 Peer pressure

Boards are often concerned with the actions undertaken by their peers in the same industry. Indeed, shareholder proposals often bring actions taken by other companies as example of best practices that the targeted firm should follow. Hence, we expect that the frequency of implementation of the same proposal by peer companies in past year will positively affect the likelihood of implementation.

2.2.4 Financial Characteristics

We expect the decision of a Board to implement the majority-approved shareholder proposals to be associated with the firm's recent *performance* in the period leading up to the annual meeting. Specifically, if the firm is performing well, the Board can use good performance as an excuse to dismiss shareholder proposals as unnecessary. If, on the other hand, the firm is performing poorly, it is more likely to face pressure to respond to the requests of its shareholders.

Also, we expect firm size to be positively associated with the decision to implement. Larger firms have, on average, higher analyst following and get more coverage in the media, thereby facing higher political costs from ignoring shareholder resolutions.

2.2.5. Type of proposals and time effects

We predict that Boards' decisions to implement majority-approved shareholder proposals will vary by the type of proposal and the year in which the proposal is presented. In particular,

we expect that Board's responsiveness has increased since 2002, mostly due to higher scrutiny after Enron-type corporate scandals. As for the proposal types, we make no direct predictions since it is hard to 'rank' different proposal types in terms of cost and benefits accruing to shareholders and Boards. For example, while one may expect managers to be particularly concerned with proposal threatening their job security (e.g. proposals to remove-anti-takeover provisions), leading to stronger Board resistance to these proposals, it is also likely that shareholder pressure will be higher for these proposals, since they may have a stronger impact in terms of valuation effects.

3. Sample Selection, Research Design and Variable Description

3.1 Sample selection

Our sample of shareholder proposals is obtained from the Investor Responsibility Research Center (IRRC), which has collected data on shareholder proposals from proxy filings since 1986 for companies included in the Standard & Poor's 1500 index. Our focus is on governance-related shareholder proposals voted upon between 1997 and 2004.¹¹

The IRRC database contains the company name, the date of the annual meeting, the name of the shareholder proponent (when available), a brief description and categorization of the proposal content, the percentage of votes cast in favor of the proposal, a dummy for whether the proposal received a majority vote, a dummy for whether the proposal was formally approved and the requirement for proposal approval. The IRRC dataset defines as *majority-vote* proposals those where the votes cast in favor are higher than the votes cast against (without counting abstentions or broker non-votes). However, a proposal is considered formally *approved* only if it

¹¹ IRRC is still in the process of tracking the implementation information for proposals voted upon in 2005.

fulfills the proposal-specific and firm-specific requirement for approval. As a result, a majority-vote proposal may not be considered approved if approval requires a majority of all votes cast (including abstentions, and, sometimes, broker non-votes) or a majority/super-majority of all votes outstanding. Our final sample consists of 2,456 governance-related shareholder proposals over the period 1997-2004, of which 620 received a majority vote and 555 were formally approved.¹²

For all proposals receiving a majority vote, the dataset also contains a brief description of any subsequent action taken by the company in response and, sometimes, a reference of the data source for such information. Using this information as a starting point, we identify the action taken by the firm and its date, and code as “implemented” any majority-vote proposal where the Board takes a significant step toward a partial or full implementation within a year from the annual meeting where the proposal received a majority vote. Appendix 1 provides some examples.¹³

Note that since IRRC only tracks implementation-related information for majority-vote proposals, we have no information about potential actions taken by firms in response to non-majority votes. While according to IRRC the rate of implementation of non-majority vote proposals is negligible, this element introduces a potential for selection bias, which we will try to deal with in our research design (see Sec.3.2).¹⁴

Based on the description provided in the IRRC database, we aggregate shareholder proposals into five major groups: Board, Defense, Executive Compensation, Shareholder Rights,

¹² In 38 (18) cases, majority vote proposals failed to pass because approval required a majority (20 cases) or supermajority of shares outstanding (18 cases), while in the remaining 27 cases they failed to pass because either abstention votes (22) or abstention votes and broker non-votes (5 cases) were counted as votes against the proposal.

¹³ We are in the process of creating a separate classification for “partially” implemented versus “fully” implemented proposals and provide more descriptive evidence on the circumstances of each type of implementation.

¹⁴ To assess this problem, for the next version of the paper we are planning to hand-collect implementation information for a sample of non-majority vote proposals where votes for range between 40% and 50% of the sum of votes for and against.

and Others (see Table 1, Panel B). The “Board” category includes proposals concerning Board’s composition, directors’ compensation, independence, and qualifications. The “Executive Compensation” category includes proposals concerning executive compensation, such as proposals requiring shareholder approval of severance packages, disclosure of specific compensation items, use of certain compensation schemes (e.g. performance-based options, indexed options), as well as proposals to expense employees’ stock options. The “Defense” category includes proposals aimed at removing anti-takeover measures, mostly poison pills and a classified Board structure. The “shareholder rights” category includes proposals to eliminate supermajority provision, to adopt confidential voting, etc.. Finally, “Other” proposals include proposal dealing with a variety of issues, such as prohibiting auditors from doing non-audit work for the firm or inviting the firm to consider strategic alternatives (i.e. sell the firm to third party).

Based on the information in the dataset, we also classify the proponents in one of these five groups: Individuals, Unions (Labor Union Funds), Public Pension Funds, Religious Groups Funds and Other Shareholder Groups (this includes investment advisors, investment management firms, mutual funds, etc.). In some cases, the proponent identity is not disclosed since firms are generally obliged to disclose it only upon specific request.

3.2 Research Design

To test our hypothesis we estimate the following Probit model:

$$\text{Probability of Implementation} = f(\text{Governance Structure, Shareholder Pressure, Peer Pressure, Financial Characteristics, Type of Proposals, Time Effects}) \quad (1)$$

To account for selection bias due to the fact that we only observe the implementation decision for majority-vote proposals, we also employ a maximum likelihood Probit model with

sample selection where the first step is the Probit model (1a) described below and the second stage is the Probit model in (1):

$$\text{Probability of a Majority Vote} = f(\text{Shareholder Composition, History of Proposal, Financial Characteristics, Sponsor Effects, Type of Proposals, Time Effects}) \quad (1a)$$

We estimate heteroskedasticity-adjusted standard errors that are clustered by firm. Clustering accounts for the fact that we may have multiple observations for a given firm in our sample.

Section 3.3 below discusses the variables used to estimate (1). Appendix 2 provides a more detailed description of these variables as well as the variables used in the selection model (1a).

3.3 Variables Description

Dependent Variable: IMPLEMENTED

The dependent variable in equation (1) above is an indicator variable that equals one if the company implements the proposal during the year following the majority vote, and zero otherwise (see Section 3.1 for our definition of “implementation”).

Governance Structure

We employ three sets of variables to capture the governance structure of the firm. The first set of variables is intended to represent the degree of Board independence and the level of CEO influence on the Board. *CEOCHAIR* is an indicator variable equal to one if the firm’s CEO is also chair of the Board of directors, and zero otherwise. *%INDEP* is the percentage of independent directors according to the IRRC definition. *INTERLOCK* equals one if at least one director is involved in an interlocking directorship with an executive, and zero otherwise. In

supplementary analyses, we also examine a dummy equal to 1 when the percentage of shares held by independent directors is greater than 1%.

A number of previous studies suggest that these variables may capture the monitoring effectiveness of the Board. We measure these variables as of the date of the annual meeting in which the proposal is voted upon. We obtain the data from the IRRC Directors dataset. When not available in the IRRC Directors dataset, we hand collect them from the firms' proxy filings.

Second, to capture the external governance structure of the firm, we use the governance index, G , based on Gompers, Ishii, and Metrick (2003) from the IRRC Governance dataset. G is a summary measure of the level of shareholder rights at a given firms and is available in the years 1995, 1998, 2000, 2002, and 2004. We use the most recent governance index in or before the year of the annual meeting.

Third, we construct a proxy for the degree of proposal support by 'stable' institutional owners, defined on the basis of their past investment behavior and horizon. To do so, we first obtain data on institutional ownership from the Thompson Financial Institutional Holdings Database. This database reports institutional holdings quarterly, based on form 13F filings to the S.E.C. We measure institutional ownership at the most recent quarter end before the annual meeting. Then, using the classification in Bushee (1998), we divide institutional ownership into two categories: i) *INSTIT_OWN_DED*, the fraction of shares outstanding held by 'dedicated' institutional owners, who are characterized by having large investments in firms, low portfolio turnover, and no trading sensitivity to current earnings news; ii) *INSTIT_OWN_OTHER*, the fraction of shares outstanding held by all other institutions, i.e. those that are highly diversified and have low portfolio turnover ('quasi-indexers') and those with high turnover and who follow momentum investment strategies ('transient investors'). We assume that higher ownership by

dedicated investors increases the likelihood that at least a fraction of them supported the proposal and we predict that such support will result in a higher probability of implementation.

Shareholder Pressure

In our analysis, we use two variables to capture the degree of shareholder pressure resulting from the voting outcome. *APPROVAL* indicates whether the company considered the proposal passed based on the firm- and proposal-specific vote requirement. *VOTES_FOR* is the percentage of votes cast in favor of the proposal (excluding abstention votes and broker non-votes). In sensitivity tests, we also consider a dummy for whether the proposal achieved the majority of shares outstanding.

As discussed in Section 3.1, we believe the history of the proposal may affect the degree of shareholder pressure. We use *N_MAJ_CONS*, defined as the number of consecutive years that the proposal has received a majority vote, to represent the history of a given shareholder proposal.¹⁵

Additional source of shareholder pressure to implement the proposal are the presence of activist institutions and the proponent's identity. Following Cremers and Nair (2006), we measure the ownership by activist institutions, *OWN_ACTIVIST*, as the fraction of shares outstanding held by activist pension funds. We define *UNION_PROP* as an indicator variable equal to one if the proponent of the proposal is a labor union fund, and zero otherwise. Similarly, *INSTIT_PROP* is an indicator variable that is equal to one if the proponent is a public pension or another shareholder group (e.g. investment advisors, mutual funds, etc.), and zero otherwise. In supplementary analyses we also use a dummy equal to 1 if the fraction of common

¹⁵ Since our dataset only covers the 1997-2004 period, for all proposals presented in 1997 we hand-collect information on whether the proposal was presented and received a majority vote in 1996. For the sub-sample of 1997 proposals also presented in 1996, we then hand-collect the same data for 1995, and so on. The source for these data are proxy statements (list of proposals submitted) and 10-Qs (voting outcome).

shares outstanding held by the proponent of the proposal. We hand collect the proponent's percentage ownership from proxy statements. However, this measure is available only for a subset of the majority-vote proposals since firms are not required to disclose it.

Finally, from the 10-Qs field after the annual meeting we hand collected the percentage of votes withheld from director nominees at the annual meeting where the majority-vote shareholder proposal is voted upon. Based on these data we define *VOTES_WITHHELD* as an indicator variable that equals one if at least 20% of votes were withheld from at least one director, and zero otherwise.

Peer Pressure

To capture the degree to peer pressure our sample firms face, we use *PEER_IMPLEMENTED*, an indicator variable equal to one if at least one firm in the S&P 1500 with the same two-digit SIC code implemented a similar proposal during the prior year, and zero otherwise.

Financial Characteristics

We use stock returns and market value of equity, calculated from the CRSP monthly and daily databases, to depict the financial characteristics of the firms in our sample. We calculate size-adjusted stock returns over three months leading up to the annual meeting (*ABRET3*). Abnormal stock returns are the monthly-compounded buy-and-hold stock returns less the mean stock return for firms in the same equity market value decile compounded over the same period. Firm size, *LNSIZE*, is measured as the natural log of equity market value at the time of the annual meeting.

Type of Proposals and Time Effects

We define four indicator variables to capture the different types of proposals, based on the classification described in Section 3.1: *Defense*, *Executive Compensation*, *Shareholder Rights*, and *Others*. Finally, *AFTER_2001* is an indicator variable equal to one if the year of the annual meeting is 2002 or later, zero otherwise.

4. Empirical Results

4.1 Shareholder Proposals Characteristics

Table 1 Panels A – C present descriptive statistics on the frequency and outcome of shareholder proposals over time, as well as their distribution by type and by proponent. In each panel, we distinguish between *majority vote proposals* and *proposals approved*. As discussed in Section 3.1 above, while the IRRC dataset tracks implementation information for all majority vote proposals, that is, proposals where the votes cast in favor are higher than the votes cast against (without counting abstentions), a proposal is considered formally approved only if it fulfills the proposal-specific and firm-specific requirement for approval. A majority vote proposal may not be approved if the company’s rule for approval requires a majority of all votes cast (including abstentions, and, sometimes, broker non-votes) or a majority/super-majority of all votes outstanding. In our sample there are 65 majority vote proposals that do not meet the firm-specific approval criteria.¹⁶

Panel A displays a significant increase in *number of shareholder proposals*, *their voting outcome* and *their rate of implementation* after the governance scandals of 2001-2002. The number of proposals jumped from an average of 295 between 1997 and 2002 to more than 400 proposals in 2003 and 2004. The fraction of proposals receiving a majority vote increased

¹⁶ In 38 (18) cases, majority vote proposals failed to pass because approval required a majority (20 cases) or supermajority of shares outstanding (18 cases), while in the remaining 27 cases they failed to pass because either abstention votes (22) or abstention votes and broker non-votes (5 cases) were counted as votes against the proposal. Broker non-votes (DEFINE HERE)

steadily from 1997 (10%) to 2000 (24%), and then jumped to 33% in 2002 and 2003.¹⁷ The fraction of majority vote proposals implemented by firms increased from 16% to 26% between 1997 and 1999, then averaged about 23% between 2000 and 2002, and finally almost doubled to more than 40% in 2003 and 2004. Similar trends occurred in terms of approval rates and rate of implementation of approved proposals. We investigate potential explanations for these trends later in this section.

As for the *types of proposals* (Panel B), over the sample period, the frequency of proposals dealing with anti-takeover measures, Board of Directors, and executive compensation was broadly the same (each group accounts for about 25%-28% of the proposals), with the remaining proposals dealing with shareholder rights (4%) or a variety of other issues (12%). However, the rate of support differs dramatically across proposal types. While, respectively, 65% and 61% of proposals dealing with anti-takeover measures and shareholder rights received a majority vote, only 13% of the executive compensation and 2% of the Board-related shareholder proposals received a majority vote. Among the proposals most likely to receive a majority vote are proposals to eliminate supermajority provisions (86%) and confidential voting (47%), and proposals to remove poison pills (74%) and classified Boards (61%). Among the executive compensation proposals only proposals to expense stock options and submit large golden parachutes to shareholder approval received significant support (50% and 31%, respectively). Conditional on receiving a majority vote, the rate of implementation by firms is the highest for shareholder rights proposals (45%), followed by defense and executive compensation proposals (30%), while Board-related proposals are the least likely to be implemented (15%). The higher

¹⁷ Interestingly, a marked increase in voting support is already visible in the 2002 proxy season, while the increase in number of proposals and their rate of implementation by firms begins with the 2003 proxy season. This 'delay' may reflect, respectively, the fact that proposals are submitted at least six months ahead of the annual meeting (hence the 2003 proxy season reflects initiatives shareholders undertake in 2002) and the possibility that firms reacted to the new 'governance' environment only after the passage of Sarbanes-Oxley in August 2002.

rate of implementation for shareholder rights proposals is mostly due to the confidential voting proposals (69%). Within the anti-takeover measures, the higher implementation rate for poison pill proposals relative to classified Board proposals (40% versus 22%) is noteworthy. Other proposals with high likelihood of implementation are proposals requiring shareholder approval for golden parachutes (67%) and proposals to eliminate super-majority provisions (37%). Similar trends occurred in terms of approval rates and rate of implementation of approved proposals.

With regard to *proponents' identity* (Panel C) 54% of the proposals were presented by individual shareholders, with labor unions accounting for 26% of the total, while public pensions, religious organization and other shareholder groups are less frequent sponsors of shareholder proposals. Proposals presented by public pension funds seem more likely to receive a majority vote (37%, versus approximately 25% for individuals, union funds and other shareholder groups, and only 3% for religious groups). This may reflect public pension funds' superior ability to present proposals of interest to other shareholders, higher credibility with other shareholders or larger investment in campaigning for the proposals. However, higher voting support for proposals by public pension funds does not seem to translate into higher rate of implementation by firms. In fact, conditional on a majority vote, proposals presented by pension funds, union funds or individuals do not differ significantly in terms of implementation rate (approximately 30-32%), while majority vote proposals presented by other shareholder groups enjoy the highest rate of adoption (40%).

The trends documented above raise a number of questions. For example, what caused the increase in number of shareholder proposals after 2002? Is the higher frequency of majority votes the result of a change in the composition of proposals or more activism by stronger proponents? Is the higher rate of implementation in 2003 and 2004 driven by certain proposals or

proponents? To shed more light on these questions, Table 1 Panels D-F present data on proponent identity and proposal type over time, as well as data on proposal types by proponent identity.

With respect of the *frequency of shareholder proposals*, the dramatic increase in 2003 and 2004 appears to be driven by the increased participation of labor unions (Panel E) and the higher number of proposals on executive compensation (Panel D). In fact, while proposals by individuals have remained stable over time (approximately 160-190 every year), proposals filed by labor union funds jumped from an average of 50 between 1997 and 2002 to an average of 190 in 2003 and 2004 (Panel E).¹⁸ A parallel increase occurred in the number of proposals dealing with executive compensation - mostly as a result of new types of executive compensation proposals such as proposals to expense employee stock options and to use performance-based options and/or restricted stock (see Panel D). Untabulated analyses confirm that most of the new executive compensation proposals voted upon in 2003 and 2004 were filed by labor unions.

The increase in executive compensation proposals filed by labor unions, however, only marginally explains the trends in majority votes and implementations. With respect to the *frequency of majority votes*, the steady increase over the sample period reflects two factors (Panel D): (i) a constant and significant increase over the whole sample period in the frequency of majority votes for anti-takeover and shareholder rights proposals (in particular, proposals to declassify Board and eliminate supermajority provisions), and (ii) a higher rate of support in 2003 and 2004 for certain existing (golden parachutes) or new (expensing stock options) executive compensation proposals.

¹⁸ As a result, the share of proposals filed by individuals has decreased from 60% (1997-2002) to 43% (2003-2004), while the share filed by labor union funds has increased from 19% (1997-2002) to 43% (2003-2004).

With respect of the *frequency of implementations*, the two-fold increase during 2003-2004 relative to prior years is largely due to the higher rate of implementation of anti-takeover proposals - particularly proposals to declassify Boards (see Panel D). Other contributing factors are a spike in the adoption of shareholder rights proposals in 2004 and the high implementation rate in 2002-2004 of golden parachute proposals which usually failed to even receive a majority vote in earlier years.

Finally, Panels G and H document the frequency of shareholder proposals, majority votes, approvals and implementations by number of *consecutive* times the proposal was voted upon and received majority vote in the past, respectively. 31% of the proposals were presented also in the previous year (Panel G). Of these proposals, less than half were presented also two years before or earlier. Unsurprisingly, shareholder proposals already presented in the past have higher frequency of majority votes (32% versus 21%).¹⁹ However, the implementation rate seems higher only for proposals presented at least two or three times in the past. Panel H analyzes the sub-sample of 781 proposals already presented the year before and shows that, among the proposals failing to receive a majority vote in the past, only 12% receive a majority vote, while, among the proposals that received a majority vote in the past, 89% receive a majority vote again. Indeed, this percentage is an increasing function of the number of consecutive times the proposal received a majority votes in the past. These data suggest a remarkable stability on the degree of voting support of a given proposal, implying that certain firms' policy to implement a proposal only if approved again next year may have little reason. Panel H also shows that the frequency of implementations is higher for proposals that received a majority vote at least once before (35% versus 22%).

¹⁹ Proponents are more likely to re-submit proposals that obtain a significant level of voting support.

To summarize, the following observations emerge from the analysis in Table 1. First, there has been a significant increase in the frequency of shareholder proposals after 2002, essentially due to new initiatives by labor unions in the area of executive compensation. Second, there also has been a constant increase in the frequency of majority votes over the sample period - driven by the higher support for anti-takeover and shareholder rights proposals - heightened after 2002 by the significant support received by some of new executive compensation proposals (expensing stock options). Finally, there is a two-fold increase in the rate of implementation of majority vote proposals during 2003 and 2004 (relative to prior years), mostly due to the higher rate of implementation of anti-takeover proposals.

4.2 Descriptive Statistics and Univariate tests

Table 2 Panel A provides descriptive statistics for the full sample of shareholder proposals focusing on the set of variables used in the first stage estimation (i.e., the probability of a majority vote). Across the 2,546 shareholder proposals, the average voting support (*VOTES_FOR*) was 31.4%, with 24.4% of the proposals receiving a majority vote (*MAJ_VOTE*) and 31% already presented the previous year (*PRES1*). On average, in our sample, the percentage of institutional ownership (*INSTIT_OWN*) and insider ownership (*INSIDER_OWN*), is, respectively, 61% and 2.9%. However, insider ownership is quite skewed as suggested by a median of 0.6%. Consistent with previous studies on shareholder proposals, targeted firms tend to be large, poorly performing firms. The mean (median) market capitalization is \$31 (\$9) billion, while the mean 12-month abnormal return is -1.9%.

Panel B reports descriptive statistics for the sample of majority-approved proposals as well as separately for proposals that were subsequently implemented (*implemented*) and those

that were not implemented (*not implemented*), and presents univariate tests of differences across the two sub-samples.

With respect to the *internal governance* characteristics, the CEO is also the chairman of the board (*CEOCHAIR*) in 80% of our sample. While, on average, 75.4% of the directors that sit on the board in our majority vote sample are independent (*%INDEP*), in about 5% of the observations, there is at least one board member with an interlocking relationship (*INTERLOCK*). Contrary to our predictions, we observe that the proportion of observations where the CEO is the chairman of the board is higher in the *implemented* sub-sample than in the *not implemented* sub-sample (significant at 10% level). Similarly, the mean value for the percentage of independent board member is slightly higher for the *not implemented* sample (not significant). A potential explanation for this finding is that Boards where the CEO is Chairman and a lower fraction of directors fits the independence criteria may be more concerned with the consequences of ignoring shareholder proposals. In other words, the CEO may be more willing to be responsive to shareholders if it perceives it as a way to maintain her dual role and/or more control on the Board members. Besides, ignoring proposals often leads to vote-no campaigns and Boards targeted by vote-no campaigns are more likely to fire an under-performing CEO (Del Guercio et al., 2006). However, the pattern of interlocking relationships across the two sub-samples is consistent with our predictions. The percentage of board members that have interlocking relationships is lower in the *implemented* sub-sample (2.6%) than in the *not-implemented* (6.3%) sub-sample (difference significant at 5% level).

With respect to the *external governance* characteristics, the mean G-score for the sample is 10.44. This is higher than the G-score of about 9 in the sample of firms studied in Gompers, Ishii and Metrick (2003), consistent with the notion that firms targeted by shareholder proposals

have relatively poor governance. The mean and the median for the *implemented* sub-sample is significantly lower (respectively, at 10% and 5 % level), suggesting that firms that subsequently adopt majority-vote proposals have a better governance structure. Ownership by dedicated institutional owners (*INSTIT_OWN_DED*) is, on average, 11.6%, while the combined ownership by quasi-indexers and transient institutional owners (*INSTIT_OWN_OTHER*) is 55%. There are no significant differences among the *implemented* and *not implemented* sub-samples with respect to these variables.

We now turn our attention to the variables that measure *shareholder pressure*. As discussed earlier (see Section 3.1), 89.5% of the majority vote proposals are formally approved (*FORMAL_APPROVAL*). This figure is significantly higher (at the 1% level) for the *implemented* sub-sample (mean 92.7% versus 81.1%), suggesting that formal approval may increase the likelihood of implementation. Also, voting support for the proposal is significantly higher (at the 1% level) for the *implemented* sample, in terms of both mean and median, consistent with higher levels of support resulting in greater likelihood of implementation. Activist shareholders (*OWN_ACTIVIST*) own, on average, 3% of the shares outstanding in the *implemented* sample compared to 2.6% in the *not implemented* sample (difference significant at 1% level), suggesting that greater ownership by an activist shareholder increases the likelihood of implementation. The average number of consecutive years a proposal received majority vote (*N_MAJ_CONS*) is also significantly higher for the *implemented* sample, consistent with continued support resulting in greater likelihood of implementation. Panel B also shows that the *implemented* firms' majority vote proposals are presented by proponents that hold a greater percentage of shares (*OWN_PROP*) and that these firms are more likely to have been targeted by

vote no campaigns where at least 20% of the votes were withheld from at least one director (*VOTES_WITHHELD*).

Panel B also suggests that peer companies' actions may affect a firm's decision to implement a majority-approved proposal. Specifically, firms in the *implemented* sub-sample are more likely to have at least one peer company that has implemented a similar proposal during the previous year (*PEER_IMPLEMENTED*).

The results for *AFTER_2001* suggest that the likelihood of firms implementing majority-approved shareholder proposals has increased over the recent years. This result is consistent with the pattern documented in Table 1, Panel A.

Finally, abnormal returns during the three months preceding the annual meeting (*ABRET3*) are lower for the *implemented* sample, consistent with the notion that poor recent performance results in stronger pressure on the board to be responsive to shareholders. However, the difference is not significant at conventional levels. Descriptive statistics also show that the size (*SIZE*) of firms that implemented majority vote proposals is not different from those that do not.

Table 3 displays the Pearson and Spearman correlation for the set of variables we use in the multivariate analysis of the implementation decision. The findings are in line with the univariate tests. Consistent with our predictions, the *IMPLEMENTED* variable is positively correlated with the dummy for approval (*APPROVAL*), the percentage of votes cast in favor of the proposal (*VOTES_FOR*), ownership by activist shareholders (*OWN_ACTIVIST*), the presence of a vote no campaign that resulted in at least 20% of votes being withheld from at least one director (*VOTES_WITHHELD*), the presence of at least one peer company that implemented a similar proposal during the previous year (*PEER_IMPLEMENTED*), and the time period

indicator variable *AFTER_2001*; and negatively correlated with the existence of at least one board member with an interlocking relationship (*INTERLOCK*) and the G-score (*G*). Contrary to our predictions, but consistent with the univariate results in Panel B of Table 2, *IMPLEMENTED* is positively correlated with the presence a CEO that is also the chairman of the board (*CEOCHAIR*). The correlation levels among the independent variables do not raise concerns of multicollinearity, with two exceptions: (i) *SIZE* and *OWN_PROP*, and (ii) *OWN_ACTIVIST* and *AFTER_2001*.

4.3 Multivariate Results

First Stage – Determinants of Likelihood of Majority Vote

Table 4 provides the results for the first stage Probit estimation (model (1a) in Section 3.2) where the dependent variable is an indicator variable that takes the value of one for shareholder proposals that receive a majority vote, and zero otherwise (*MAJORITY_VOTE*).

Table 4 shows that the likelihood of a majority vote is positively associated with institutional ownership in the firm (*INSTIT_OWN*) and negatively associated with insider holdings (*INSIDER_OWN*). These results suggest that institutions, on average, lend their support to governance-related shareholder proposals, while insiders (unsurprisingly) oppose them (otherwise the proposals would not be put up for a vote in the first place). Finally, proposals presented at larger firms get lower voting support, - a result consistent with previous studies and usually ascribed to the higher cost of collective action in larger firms and the greater resources these firms can invest in campaigning against the proposals. The results show that the identity of the proponent, the type of the proposal and the time period in which the proposal is presented all play a role in determining the voting outcome. Specifically, the coefficients of both *UNION_PROP* and *INSTIT_PROP* are positive and significant, suggesting that proposals

sponsored by unions and institutions are more likely to receive majority vote than those sponsored by individual and religious groups, the effects of which are captured by the intercept. The coefficients of *TYPE* indicator variables suggest that proposals related to *Takeover Defense*, *Employee Compensation* and *Shareholder Rights* are more likely to get majority support than those that relate to *Board* issues (captured by the intercept), consistent with the pattern documented in Table 1, Panel B. The indicator variables for *YEAR* indicate an increase in support for shareholder proposals over time in that proposals presented in years 2000 – 2004 are more likely to receive a majority vote than those presented in 1998 (captured by the intercept).

Overall, the results in Table 4 are consistent with findings in previous studies on the determinants of the voting outcome (e.g. Gillan and Starks, 2000).²⁰

Second Stage – Determinants of Likelihood of Implementation

Table 5 presents the results for the analysis of the determinants of the implementation decision. Model (1) reports the results for the Probit estimation (equation (1) in Section 3.2) and Model (2) presents results for the maximum likelihood Probit estimation with selection (joint estimation of equations (1a) and (1) in Section 3.2). The Wald test of independent equations reported at the bottom of Table 5 Model (2) strongly rejects the null hypothesis that the two equations are independent, confirming our concerns of selection bias due to the fact that we only observe the implementation decision for majority vote proposals. Thus, while the results across

²⁰ Most of these studies use as a dependent variable the percentage of votes cast in favor of the proposal. Our main interest in the determinants of the voting outcome stems from the need to control for the potential selection bias associated with the selection criterion (the presence of a majority vote) in the analysis of the implementation decision. Hence, we present the results of the probit model used later in the paper to account for selection bias in the implementation analysis. However, in untabulated tests, we also estimate an ordinary least squares (OLS) regression where the dependent variable is the percentage of votes cast in favor of the proposal. The results for that estimation are qualitatively similar to those presented in Table 4. One notable difference is that in the OLS estimation the coefficient of *PRES1* is positive and significant suggesting that proposals already presented in the previous year receive a higher level of support. This finding is consistent with Gillan and Starks (2000), though they have a measure of the number of times the proposal was presented in the past rather than a dummy for whether it was presented the previous year.

the two models are not dramatically different, our discussion below focuses on the results for Model (2).

Most of the variables that proxy for the governance structure of the firm are not associated with the likelihood of implementation. For example, the coefficients on *CEOCHAIR* is, contrary to predictions, positive but insignificant and the coefficient on *%INDEP*, again contrary to predictions, is negative but insignificant. Moreover, while the coefficients on *INTERLOCK* and *G* are in the predicted direction, they are not significantly different from zero with p-values of 0.15 and 0.24, respectively. The coefficient of *INSTIT_OWN_DED* is positive and marginally insignificant (p-value of 0.11) suggesting that ownership by stable institutions may have an impact on the implementation decision.

As for the measures of shareholder pressure, the coefficient on *APPROVAL* is positive, but insignificant (p-value of 0.19). That is, when we control for other factors that may affect the likelihood of implementation - in particular, the percentage of votes in favor of the proposal - formal approval does not have an incremental effect on the likelihood of implementation. In contrast to governance related variables, variables that capture the extent of shareholder pressure seem to play a role in the implementation decision. Specifically, the coefficient of *VOTES_FOR* is positive and significant. This finding suggests that the implementation is likely to be the result of the proposal rather than some other underlying factor equally affecting all targeted firms.²¹

There is also a positive relation between the ownership by activist shareholders (*OWN_ACTIVIST*) and the likelihood of implementation. In addition, the coefficients of *UNION_PROP* and *INSTIT_PROP* are positive and significant, suggesting that after controlling

²¹ However, it cannot be excluded that the percentage of voting support is correlated with determinants of the probability that the firm adopts the governance change advocated by the proposal, independently from the proposal. We believe our interpretation is more likely to be the correct one, since these firms had refused to implement the proposal just few months earlier.

for the other determinants of the implementation decision., majority-vote proposals by unions and institutions are more likely to be implemented. The other two measures of shareholder pressure, number of consecutive years a proposal received majority support (*N_MAJ_CONS*) and the opposition to directors' re-election (*VOTES_WITHHELD*), are not significantly associated with the likelihood of implementation in this multivariate setting, possibly because of their correlation with *VOTES_FOR* (see Table 3).

As for our proxy for peer pressure, the multivariate analysis confirms that the presence of a peer firm implementing a similar proposal in the previous year (*PEER_IMPLEMENTED*) is positively associated with the likelihood of implementation of a majority-approved proposal. Next we turn our attention to the role of time period and the type of proposal. Consistent with predictions and the results in Tables 1 and 2, the coefficient on *AFTER_2001* is positive and significant. Thus, after 2001 proposals receiving a majority vote are more likely to be implemented. Similarly, there are differences between proposal types in terms of the likelihood of implementation. Specifically, proposals related to *Defense*, *Executive Compensation* and *Shareholder Rights* are not only more likely to receive a majority vote (see Table 4) but also more likely to be implemented than proposals that relate to *Board* issues. Tests of differences for coefficients of proposal type indicator variables (not reported) suggest that *Shareholder Rights* proposals have the highest likelihood of implementation followed by *Defense* proposals. Specifically, the coefficient on *Shareholder Rights (Defense)* indicator variable is significantly greater than the coefficients on *Takeover Defense*, *Employee Compensation* and *Other (Executive Compensation and Other)* indicator variables. Finally, the coefficient on *ABRET3* is negative as predicted, but not significant (p-value of 0.16).

In additional analyses (results not reported), we explore the effect of other governance and shareholder pressure attributes on the implementation decision. First, we examine the role of a new CEO and find that the existence of a new CEO in the year of or the year prior to the majority vote does not affect the likelihood of implementation. Second, we test whether Board members who sit on other Boards that implemented a majority vote proposal have an impact on the implementation decision. Our results do not provide support for such an impact. Next, we include an indicator variable that equals one if independent Board members own at least one percent of the shares outstanding and zero otherwise. The results show no relation between this variable and the implementation decision. This result may reflect a belief by independent board members that the given shareholder proposal is not value-increasing. Fourth, we add another variable that captures the degree of shareholder pressure, an indicator variable that is equal to one if the votes in favor of the proposal are greater than 50% of the votes *outstanding*. This variable is also insignificant. None of the above tests affect our benchmark results.

Finally, we include an indicator variable that is equal to one if the proponent of the proposals owns at least one percent of the shares outstanding, and zero otherwise. This variable is hand-collected and is available only for a subset of our sample – its inclusion reduces the sample size to 336 observations. The coefficient on this variable is positive and significant, suggesting that the likelihood of implementation is higher when the proponent holds at least 1% of the shares outstanding of the firm. Other results remain similar except for the coefficient of *PEER_IMPLEMENTED* and *OTHER_PROP*, both of which become insignificant. The latter result is not surprising since most of the cases where ownership by proponent is greater than 1% are cases where *OTHER_PROP* is 1 (i.e. public pension funds, investment groups, etc.).

5. Conclusion

In this paper we analyze the frequency of adoption of non-binding, majority-approved shareholder proposals and examine the determinants of the Boards' decisions to implement such proposals. Specifically, we predict that the likelihood of implementation of majority-approved shareholder proposals is higher for targeted firms with better governance structures, when shareholders pressure and peer pressure is higher, and when the targeted firm has experienced poor recent performance.

Our study is of relevance at a time when the monitoring effectiveness of Board of directors is under criticism and there is intense debate on increasing the Boards' accountability to shareholders and on what policy reforms (if any) should be put in place. In this context, the setting we analyze may be very informative since majority-vote shareholder proposals, while non-binding, are a clear and direct expression of the preferences of a significant portion of the shareholder base, hence the Board' decision to ignore or implement these proposals may be viewed as a direct measure of responsiveness to shareholder concerns.

Using a sample of 620 governance-related shareholder proposals that received a majority vote between 1997 and 2004, we document that the frequency of implementation has almost doubled from an average of 22% between 1997 and 2002 to an average of 41% in 2003-2004. This dramatic increase in the frequency of implementations occurs across various types of proposals (particularly proposals to remove anti-takeover measures), is not driven by new proposal types nor by increased activism by stronger proponents. Hence, the above trend seems more consistent with a structural shift in the governance environment and lends some support to frequent assertions of a different 'atmosphere' in the boardrooms.

The multivariate analyses provides evidence of a positive association between the degree of shareholder pressure (as captured by the degree of voting support, the identity of the proponent, and the level of ownership by activist shareholders) and the likelihood of implementation. We also find that firms whose peers implement majority vote shareholder proposal in the recent past appear more likely to follow suit suggesting that peer pressure also plays a key role in the implementation decision. Financial performance and structural indicators of governance, such as a shareholder rights index (G-score), Board independence and CEO-Chairman duality do not seem to affect the likelihood of implementation. These results hold after controlling for sample selection bias.

Our study contributes to the growing literature on shareholder activism and has implications for academics and practitioners alike. However, our results should be interpreted with the following two caveats in mind. First, the shift we document in the frequency of implementations may be a reaction to Enron and other corporate scandals rather than a permanent shift in the responsiveness of Boards of Directors. Second, our study focuses only on firms in S&P 1500 and hence our results may not be generalizable to the universe of firms. Nevertheless, in the context of shareholder activism the S&P 1500 is an interesting sample in itself, because the firms in this sample represent not only a significant portion of the market, but are also the firms on which most activism is focused.

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Appendix 1: Examples of Proposal Implementations [work-in-progress]

Appendix 2: Variable Definitions

First-stage Regression Variables

MAJ_VOTE = Indicator variable equal to 1 if the proposal received a majority of votes cast (excluding abstention votes and broker non-votes), and 0 otherwise. Source: IRRC.

INSTIT_OWN = Percentage of shares outstanding held by institutions, measured on the most recent quarter end before the annual meeting. Source: Thompson Financial.

OWN_INSIDER = Percentage of shares outstanding held by executives, measured on the date of the annual meeting, plus the percentage of shares outstanding held by independent directors, measured on the most recent quarter end before the annual meeting. Source: Execucomp and IRRC.

PRES1 = Indicator variable equal to 1 if the proposal was presented the prior year, and 0 otherwise. Source: IRRC.

SIZE = Equity market value measured at the time of the annual meeting, expressed in millions of dollars. Source: CRSP.

ABRET12 = Size-adjusted stock return over the twelve months leading up to the annual meeting. The size-adjusted return is calculated as the monthly compounded buy-and-hold stock return less the mean stock return for firms in the same equity market value decile compounded over the same period. Source: CRSP.

UNION_PROP = Indicator variable equal to 1 if the proponent is a labor union fund, and 0 otherwise. Source: IRRC.

INSTIT_PROP = Indicator variable equal to 1 if the proponent is a public pension or another shareholder group (e.g., investment advisors, mutual funds, etc.), and 0 otherwise. Source: IRRC.

TYPE = Classification of proposal type into the following categories: Board Issues, Takeover Defense, Employee Compensation, Shareholder Rights, or Other. Source: IRRC.

YEAR = Year of the annual meeting. Source: IRRC.

Additional Second-stage Regression Variables

IMPLEMENTED = Indicator variable equal to 1 if the firm implements the proposal during the year following a majority vote, and 0 otherwise. Source: IRRC.

CEOCHAIR = Indicator variable equal to 1 if the firm's CEO is also chair of the Board of Directors, and 0 otherwise. Source: IRRC.

%INDEP = Percentage of Board members that are independent according to the IRRC's definition.²² Source: IRRC.

INTERLOCK = Indicator variable equal to 1 if at least one director is involved in an interlocking directorship with an executive, and 0 otherwise. Source: IRRC.

G = The most recent governance index (Gompers, Ishii, and Metrick, 2003) in or before the year of the annual meeting.²³ Source: IRRC.

INSTIT_OWN_DED = The percentage of shares outstanding held by "dedicated" institutional owners. Source: Thompson Financial, using classifications described in Bushee (1998).

INSTIT_OWN_OTHER = The percentage of shares outstanding held by institutional owners that are not "dedicated". This includes those that are highly diversified and have low portfolio turnover ("quasi-indexers") and those with high turnover and who follow momentum investment strategies ("transient investors"). Source: Thompson Financial, using classifications described in Bushee (1998).

FORMAL_APPROVAL = Indicator variable equal to 1 if the company considered the proposal passed based on the firm- and proposal-specific vote requirement, and 0 otherwise. Source: IRRC.

VOTES_FOR = The percentage of votes cast in favor of the proposal (excluding abstention votes and broker non-votes). Source: IRRC.

OWN_ACTIVIST = The percentage of shares outstanding held by activist pension funds. Source: Thompson Financial, using the 18 largest public pension funds identified in Cremers and Nair (2006).²⁴

N_MAJ_CONS = The number of consecutive years the proposal has received a majority vote. Source: IRRC, supplemented by hand collection for proposals that received a majority vote in 1997.

VOTES_WITHHELD = Indicator variable equal to 1 if at least 20% of votes were withheld from at least one director, and 0 otherwise. Source: Hand collected from 10-Qs filed after the annual meeting.

²² IRRC generally classifies as independent all directors who are neither employees of the company nor *affiliated* with the company. It is defined as affiliated any director who is a former employee; is an employee of , or is a service provider, supplier, customer; is a recipient of charitable funds; is considered an interlocking or designated director; or is a family member of a director or executive. For more details and examples, see <http://www.irrc.com/resources/glossary.htm>.

²³ The Governance index is an index of 24 firm-specific corporate-governance provisions in 5 categories—tactics for delaying hostile bidders, voting rights, director/officer protection, other takeover defenses, and state laws. The index is formed by adding one point for every provision that reduces shareholder rights, leading to values between 0 and 24. Thus, larger values indicate weaker governance.

²⁴ These are California Public Employees Retirement System, California State Teachers Retirement, Colorado Public Employees Retirement Association, Florida State Board of Administration, Illinois State Universities Retirement System, Kentucky Teachers Retirement System, Maryland State Retirement and Pension System, Michigan State Treasury, Montana Board of Investment, New Mexico Educational Retirement Board, New York State Common Retirement Fund, New York State Teachers Retirement System, Ohio Public Employees Retirement System, Ohio School Employees Retirement System, Ohio State Teachers Retirement System, Texas Teachers Retirement System, Virginia Retirement System, and State of Wisconsin Investment Board.

OWN_PROP = The percentage of shares outstanding held by the proponent of the proposal.
Source: Hand collected from proxy statements.

PEER_IMPLEMENTED = Indicator variable equal to 1 if at least one firm in the S&P 1500 with the same two-digit SIC code implemented a similar proposal during the prior year, and 0 otherwise. Source: IRRC.

ABRET3 = Size-adjusted stock return over the three months leading up to the annual meeting. The size-adjusted return is calculated as the monthly compounded buy-and-hold stock return less the mean stock return for firms in the same equity market value decile compounded over the same period. Source: CRSP.

AFTER_2001 = Indicator variable equal to 1 if the year of the annual meeting is 2002 or later, and 0 otherwise. Source: IRRC.

Table 1: Implementations of Shareholder Proposals*Panel A: Frequency of Proposals, Majority Votes, Approvals, and Implementations by Year*

Year	Proposals Voted Upon (VU)		Majority Vote Proposals (MV)		Proposals Approved (APP)		Proposals Implemented			
	N	% of Total	N	% of VU	N	% of VU	N	% of MV	N _{APP}	% of APP
1997	294	11.5%	31	10.5%	26	8.8%	5	16.1%	4	15.4%
1998	255	10.0%	32	12.5%	26	10.2%	7	21.9%	5	19.2%
1999	287	11.3%	54	18.8%	43	15.0%	14	25.9%	13	30.2%
2000	263	10.3%	63	24.0%	52	19.8%	15	23.8%	14	26.9%
2001	266	10.4%	66	24.8%	62	23.3%	14	21.2%	14	22.6%
2002	292	11.5%	98	33.6%	89	30.5%	24	24.5%	24	27.0%
2003	479	18.8%	156	32.6%	147	30.7%	66	42.3%	62	42.2%
2004	410	16.1%	120	29.3%	110	26.8%	48	40.0%	43	39.1%
Total	2,546	100.0%	620	24.4%	555	21.8%	193	31.1%	179	32.3%

Table 1 (continued): Implementations of Shareholder Proposals

Panel B: Frequency of Proposals, Majority Votes, Approvals, and Implementations by Proposal Type

Proposal Type	Proposals Voted Upon (VU)		Majority Vote Proposals (MV)		Proposals Approved (APP)		Proposals Implemented			
	N	% of Total	N	% of VU	N	% of VU	N	% of MV	N _{APP}	% of APP
<u>Defense</u>	<u>676</u>	<u>26.6%</u>	<u>443</u>	<u>65.5%</u>	<u>396</u>	<u>58.6%</u>	<u>134</u>	<u>30.2%</u>	<u>125</u>	<u>31.6%</u>
Poison Pills	283	11.1%	210	74.2%	192	67.8%	83	39.5%	78	40.6%
Classified Board	376	14.8%	230	61.2%	202	53.7%	50	21.7%	47	23.3%
Other – Defense	17	0.7%	3	17.6%	2	11.8%	1	33.3%	0	0.0%
<u>Board</u>	<u>707</u>	<u>27.8%</u>	<u>13</u>	<u>1.8%</u>	<u>13</u>	<u>1.8%</u>	<u>2</u>	<u>15.4%</u>	<u>2</u>	<u>15.4%</u>
Board Independence	198	7.8%	8	4.0%	8	4.0%	2	25.0%		0.0%
Board Elections	352	13.8%	3	0.9%	3	0.9%	0	0.0%		0.0%
Board Qualifications	69	2.7%	1	1.4%	1	1.4%	0	0.0%		0.0%
Board Compensation	62	2.4%	1	1.6%	1	1.6%	0	0.0%		0.0%
Board – Other	26	1.0%	0	0.0%	0	0.0%				
<u>Executive Compensation</u>	<u>709</u>	<u>27.8%</u>	<u>92</u>	<u>13.0%</u>	<u>84</u>	<u>11.8%</u>	<u>27</u>	<u>29.3%</u>	<u>26</u>	<u>31.0%</u>
Shrd. Approval for Golden Parachutes	100	3.9%	31	31.0%	29	29.0%	21	67.7%	20	69.0%
Expense Options	106	4.2%	53	50.0%	48	45.3%	5	9.4%	5	10.4%
Shrd. Approval for Option Repricings	11	0.4%	1	9.1%	1	9.1%	1	100.0%	1	100.0%
Executive Pay Process	89	3.5%	4	4.5%	4	4.5%	0	0.0%	0	0.0%
Link Pay to Performance	127	5.0%	3	2.4%	2	1.6%	0	0.0%	0	0.0%
Restrict/Cap Executive Pay	191	7.5%	0	0.0%	0	0.0%				
Link Pay to Social Criteria	82	3.2%	0	0.0%	0	0.0%				
Executive Compensation – Other	3	0.1%	0	0	0	0.0%				
<u>Shareholder Rights</u>	<u>107</u>	<u>4.2%</u>	<u>65</u>	<u>60.7%</u>	<u>55</u>	<u>51.4%</u>	<u>29</u>	<u>44.6%</u>	<u>25</u>	<u>45.5%</u>
Eliminate Supermajority Provision	50	2.0%	43	86.0%	40	80.0%	16	37.2%	16	40.0%
Confidential Voting	34	1.3%	16	47.1%	9	26.5%	11	68.8%	7	77.8%

Right to Act by Written Consent	11	0.4%	4	36.4%	4	36.4%	1	25.0%	1	25.0%
Right to Call Special Meeting	5	0.2%	1	20.0%	1	20.0%	1	100.0%	1	100.0%
Shrd. Rights – Other	7	0.3%	1	14.3%	1	14.3%	0	0.0%	0	0.0%
<u>Other</u>	<u>347</u>	<u>13.6%</u>	<u>7</u>	<u>2.0%</u>	<u>7</u>	<u>2.0%</u>	<u>1</u>	<u>14.3%</u>	<u>1</u>	<u>14.3%</u>
Auditor Independence	67	2.6%	2	3.0%	2	3.0%	1	50.0%	1	50.0%
Strategic Alternatives	126	4.9%	1	0.8%	1	0.8%	0	0.0%	0	0.0%
Miscellaneous	154	6.0%	4	2.6%	4	2.6%	0	0.0%	0	0.0%
Total	2,546	100.0%	620	24.4%	555	21.8%	193	31.1%	179	32.3%

Table 1 (continued): Implementations of Shareholder Proposals

Panel C: Frequency of Proposals, Majority Votes, Approvals, and Implementations by Proponent Identity

Proponent Identity	Proposals Voted Upon (VU)		Majority Vote Proposals (MV)		Proposals Approved (APP)		Proposals Implemented			
	N	% of Total	N	% of VU	N	% of VU	N	% of MV	N _{APP}	% of APP
Individual	1,385	54%	326	23.5%	293	21.2%	97	29.8%	87	29.7%
Labor Unions	657	26%	181	27.5%	157	23.9%	54	29.8%	51	32.5%
Public pensions	111	4%	41	36.9%	37	33.3%	13	31.7%	12	32.4%
Religious Organizations	88	3%	3	3.4%	1	1.1%	0	0.0%	0	0.0%
Other shareholder groups	192	8%	46	24.0%	45	23.4%	18	39.1%	18	40.0%
Not disclosed	113	4%	23	20.4%	22	19.5%	11	47.8%	11	50.0%
Total	2,546	100.0%	620	24.4%	555	21.8%	193	31.1%	179	32.3%

Table 1 (continued): Implementations of Shareholder Proposals

Panel D: Frequency of Proposals, Majority Votes, and Implementations by Proposal Type and Year

Proposal Type	1997			1998			1999			2000			2001			2002			2003			2004		
	N	%		N	%		N	%		N	%		N	%		N	%		N	%		N	%	
		MV	I		MV	I		MV	I		MV	I		MV	I		MV	I		MV	I		MV	I
Defense	64	39	16	65	40	19	93	52	21	81	67	20	72	71	16	94	81	22	127	75	46	80	85	51
Poison Pills	20	65	31	13	69	11	28	79	32	26	77	45	23	74	41	50	78	28	80	70	48	43	79	50
Classified Board	43	28	0	49	35	24	64	41	12	53	64	6	46	70	3	42	88	16	45	87	44	34	97	52
Other – Defense	1	0		3	0		1	0		2	0		3	67	0	2	0		2	0		3	33	100
Board	116	2	0	87	0	79	1	100	76	3	50	75	0	83	4	0	90	1	0	101	4	0		
Board Independence	21	0		17	0		20	5	100	18	11	50	13	0		22	9	0	39	0		48	6	0
Board Elections	52	0		52	0		39	0		37	0		47	0		44	2	0	39	3	0	42	2	0
Board Qualifications	11	9	0	8	0		14	0		8	0		8	0		7	0		8	0		5	0	
Board Compensation	30	3	0	8	0		6	0		9	0		4	0		2	0		2	0		1	0	
Board – Other	2	0		2	0		0			4	0		3	0		8	0		2	0		5	0	
Executive Compensation	55	2	0	48	0	67	1	100	44	0	59	0	53	8	50	205	24	37	178	21	16			
Shrd. Approval for Golden Parachutes	4	25	0	5	0		11	0		7	0		13	0		19	11	100	18	78	100	23	61	36
Expense Options	0			0			0			0			0			2	0		71	45	13	33	64	5
Shrd. Approval for Option Repricings	0			3	0		3	33	100	1	0		1	0		2	0		1	0		0		
Executive Pay Process	12	0		18	0		11	0		6	0		5	0		5	20	0	19	11	0	13	8	0
Link Pay to Performance	3	0		0			3	0		3	0		11	0		9	11	0	63	2	0	35	3	0
Restrict/Cap Executive Pay	27	0		12	0		30	0		14	0		16	0		6	0		27	0		59	0	
Link Pay to Social Criteria	9	0		9	0		9	0		13	0		13	0		10	0		5	0		14	0	
Exec. Comp. – Other	0			1	0		0			0			0			0			1	0		1	0	
Shareholder Rights	8	25	50	12	50	33	10	40	50	14	50	43	23	61	43	17	82	36	12	83	40	11	73	75
Eliminate Supermajority Provision	0			2	50	0	3	67	50	7	71	20	12	83	30	10	90	33	9	100	33	7	100	71
Confidential Voting	4	25	100	7	43	33	5	20	100	5	40	100	7	57	75	5	80	50				1	100	100
Right to Act by Written Consent	3	33	0	3	67	50	2	50	0	1	0		1	0		0			1	0		0		
Right to Call Special Meeting	0			0			0			1	0		2	0		0			2	50	100	0		
Shrd. Rights – Other	1	0		0			0			0			1	0		2	50	0	0			3	0	

Other	<u>51</u>	<u>2</u>	<u>0</u>	<u>43</u>	<u>0</u>		<u>38</u>	<u>0</u>		<u>48</u>	<u>0</u>		<u>37</u>	<u>3</u>	<u>0</u>	<u>45</u>	<u>2</u>	<u>0</u>	<u>45</u>	<u>2</u>	<u>0</u>	<u>40</u>	<u>8</u>	<u>33</u>
Auditor Independence	1	0		1	0		1	0		1	0		1	0		25	0		21	0		16	13	50
Strategic Alternatives	23	0		22	0		21	0		32	0		19	0		2	0		2	0		5	20	0
Miscellaneous	27	4	0	20	0		16	0		15	0		17	6	0	18	6	0	22	5	0	19	0	
Total	294	11	16	255	13	22	287	19	26	263	24	24	266	25	21	292	34	24	479	33	42	410	29	40

Table 1 (continued): Implementations of Shareholder Proposals

Panel E: Frequency of Proposals, Majority Votes, and Implementations by Proponent Identity and Year

Proponent Identity	1997			1998			1999			2000			2001			2002			2003			2004		
	<u>N</u>	<u>MV</u>	<u>I</u>	<u>N</u>	<u>MV</u>	<u>I</u>	<u>N</u>	<u>MV</u>	<u>I</u>	<u>N</u>	<u>MV</u>	<u>I</u>	<u>N</u>	<u>MV</u>	<u>I</u>	<u>N</u>	<u>MV</u>	<u>I</u>	<u>N</u>	<u>MV</u>	<u>I</u>	<u>N</u>	<u>MV</u>	<u>I</u>
Individual	172	5	0	167	10	12	170	10	12	169	20	18	169	26	16	159	41	20	195	38	40	184	36	56
Labor Unions	40	23	22	49	18	22	56	41	26	35	49	35	37	22	38	56	23	38	209	28	36	175	25	21
Public pensions	9	22	50	17	29	60	17	41	43	17	53	22	8	25	0	18	39	29	8	63	40	17	24	0
Religious Organizations	18	0		11	0		17	0		10	0		8	0		5	60	0	7	0		12	0	
Other shareholder groups	51	24	17	10	10	0	27	26	43	28	11	33	18	22	50	17	35	50	22	27	83	19	37	29
Not disclosed	4	0		1	0		0			4	0		26	31	25	37	11	25	38	29	73	3	0	
Total	294	11	16	255	13	22	287	19	26	263	24	24	266	25	21	292	34	24	479	33	42	410	29	40

Table 1 (continued): Implementations of Shareholder Proposals

Panel F: Frequency of Proposals, Majority Votes, and Implementations by Proposal Type and Proponent Identity

Proposal Type	Individual			Labor Unions			Public pensions			Religious Organizations			Other shareholder groups			Not disclosed		
	N	%		N	%		N	%		N	%		N	%		N	%	
		MV	I		MV	I		MV	I		MV	I		MV	I			
<u>Defense</u>	<u>414</u>	<u>64</u>	<u>28</u>	<u>139</u>	<u>66</u>	<u>32</u>	<u>46</u>	<u>74</u>	<u>24</u>	<u>5</u>	<u>60</u>	<u>0</u>	<u>51</u>	<u>65</u>	<u>45</u>	<u>21</u>	<u>71</u>	<u>53</u>
Poison Pills	186	74	36	63	76	40	2	50	0	1	100	0	25	76	63	6	67	75
Classified Board	223	57	19	73	60	23	43	77	24	3	67	0	19	68	23	15	73	45
Other – Defense	5	40	50	3	0		1	0		1	0		7	14	0	0		
<u>Board</u>	<u>455</u>	<u>1</u>	<u>0</u>	<u>114</u>	<u>3</u>	<u>0</u>	<u>34</u>	<u>6</u>	<u>100</u>	<u>35</u>	<u>0</u>	<u>0</u>	<u>47</u>	<u>6</u>	<u>0</u>	<u>22</u>	<u>0</u>	<u>0</u>
Board Independence	87	2	0	71	3	0	13	15	100	5	0		16	13	0	6	0	
Board Elections	292	1	0	26	4	0	11	0		8	0		7	0		8	0	
Board Qualifications	19	0		3	0		5	0		22	0		15	7	0	5	0	
Board Compensation	43	2	0	9	0		0			0			9	0		1	0	
Board – Other	14	0		5	0		5	0		0			0			2	0	
<u>Executive Compensation</u>	<u>238</u>	<u>3</u>	<u>14</u>	<u>341</u>	<u>23</u>	<u>27</u>	<u>13</u>	<u>8</u>	<u>100</u>	<u>44</u>	<u>0</u>	<u>0</u>	<u>55</u>	<u>9</u>	<u>60</u>	<u>18</u>	<u>11</u>	<u>50</u>
Shrd. Approval for Golden Parachutes	36	6	50	55	45	68	0			0			7	43	67	2	50	100
Expense Options	7	43	0	95	52	8	0			0			1	100	100	3	0	
Shrd. Approval for Option Repricings	3	0		4	0		4	25	100	0			0			0		
Executive Pay Process	51	2	0	28	7	0	0			6	0		3	33	0	1	0	
Link Pay to Performance	22	5	0	88	1	0	7	0		0			4	0		6	17	0
Restrict/Cap Executive Pay	109	0		57	0		1	0		4	0		14	0		6	0	
Link Pay to Social Criteria	10	0		11	0		1	0		34	0		26	0		0		
Exec. Comp. – Other	0			3	0		0			0			0			0		
<u>Shareholder Rights</u>	<u>63</u>	<u>76</u>	<u>46</u>	<u>15</u>	<u>47</u>	<u>43</u>	<u>15</u>	<u>27</u>	<u>50</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>50</u>	<u>0</u>	<u>8</u>	<u>50</u>	<u>50</u>
Eliminate Supermajority Provision	47	85	40	2	100	0	0			0			0			1	100	0
Confidential Voting	12	67	75	12	33	75	5	20	100	2	0		1	100	0	2	100	50
Right to Act by Written Consent	0			0			8	38	33	0			1	100	0	2	0	
Right to Call Special Meeting	0			0			2	0		0			1	0		2	50	100
Shrd. Rights – Other	4	0		1	100	0	0			0			1	0		1	0	

Other	215	0		48	4	50	3	0		2	0		35	9	0	44	5	0
Auditor Independence	9	0		31	6	50	0			0			0			27	0	
Strategic Alternatives	94	0		0			0			1	0		27	4	0	4	0	
Miscellaneous	112	0		17	0		3	0		1	0		8	25	0	13	15	0
Total	1385	24	30	657	28	30	111	37	32	88	3	0	192	24	39	113	20	48

Table 1 (continued): Implementations of Shareholder Proposals

Panel G: Frequency of Proposals, Majority Votes, Approvals, and Implementations by Number of Consecutive Times the Proposal has been Voted Upon

# Times Voted Upon	Proposals Voted Upon (VU)		Majority Vote Proposals (MV)		Proposals Approved (APP)		Proposals Implemented			
	N	% of Total	N	% of VU	N	% of VU	N	% of MV	N _{APP}	% of APP
<u>0</u>	<u>1,765</u>	<u>69.3%</u>	<u>367</u>	<u>20.8%</u>	<u>340</u>	<u>19.3%</u>	<u>114</u>	<u>31.1%</u>	<u>110</u>	<u>32.4%</u>
<u>≥0</u>	<u>781</u>	<u>30.7%</u>	<u>253</u>	<u>32.4%</u>	<u>215</u>	<u>27.5%</u>	<u>79</u>	<u>31.2%</u>	<u>69</u>	<u>32.1%</u>
1	425	16.7%	121	28.5%	108	25.4%	33	27.3%	29	26.9%
2	162	6.4%	49	30.2%	41	25.3%	17	34.7%	15	36.6%
3	79	3.1%	34	43.0%	28	35.4%	11	32.4%	11	39.3%
4	41	1.6%	17	41.5%	14	34.1%	9	52.9%	7	50.0%
5	24	0.9%	12	50.0%	8	33.3%	6	50.0%	5	62.5%
6	12	0.5%	4	33.3%	3	25.0%	2	50.0%	1	33.3%
>6	38	1.5%	16	42.1%	13	34.2%	1	6.3%	1	7.7%
Total	2,546	100.0%	620	24.4%	555	21.8%	193	31.1%	179	32.3%

Table 1 (continued): Implementations of Shareholder Proposals

Panel H: Frequency of Proposals, Majority Votes, Approvals, and Implementations by Number of Consecutive Times the Proposal has Received a Majority Vote (if previously presented)

# Majority Votes	Proposals Voted Upon (VU)		Majority Vote Proposals (MV)		Proposals Approved (APP)		Proposals Implemented			
	N	% of Total	N	% of VU	N	% of VU	N	% of MV	N _{APP}	% of APP
<u>0</u>	<u>575</u>	<u>73.6%</u>	<u>69</u>	<u>12.0%</u>	<u>48</u>	<u>8.3%</u>	<u>15</u>	<u>21.7%</u>	<u>6</u>	<u>12.5%</u>
<u>≥0</u>	<u>206</u>	<u>26.4%</u>	<u>184</u>	<u>89.3%</u>	<u>167</u>	<u>81.1%</u>	<u>64</u>	<u>34.8%</u>	<u>59</u>	<u>35.3%</u>
1	130	16.6%	111	85.4%	97	74.6%	33	29.7%	29	29.9%
2	44	5.6%	41	93.2%	38	86.4%	17	41.5%	16	42.1%
3	19	2.4%	19	100.0%	19	100.0%	6	31.6%	6	31.6%
4	11	1.4%	11	100.0%	11	100.0%	6	54.5%	6	54.5%
5	2	0.3%	2	100.0%	2	100.0%	2	100.0%	2	100.0%
Total	781	100.0%	253	32.4%	215	27.5%	79	31.2%	65	36.7%

Notes:

Panels A, B, C, G, and H present summary statistics for governance-related shareholder proposals (“Proposals Voted Upon”), proposals receiving a majority of votes cast (“Majority Vote Proposals”), proposals considered by management as formally approved (“Proposals Approved”), and proposals implemented by management subsequent to a majority vote (“Proposals Implemented”). N_{APP} is the number of proposals implemented among those that were formally approved. Hence, N_{APP} differs from N if there are cases of proposals that were implemented as a result of a majority vote, even though the majority vote did not translate into a formal approval of the proposal. Panel G includes only the 781 cases where the proposal had been presented previously.

Panels D and E present the number of governance-related shareholder proposals presented (N), the percent that received a majority of votes cast (%MV), and the percent that were implemented by management subsequent to a majority vote (%I).

Table 2: Descriptive Statistics and Univariate Tests

Panel A: Descriptive Statistics for the Entire Sample of Shareholder Proposals

Variable	N	Mean	Q1	Median	Q3
<i>VOTES_FOR</i>	2,523	31.4%	10.4%	27.6%	49.6%
<i>MAJ_VOTE</i>	2,546	0.24	-	-	-
<i>PRES1</i>	2,546	0.31	-	-	-
<i>INSTIT_OWN</i>	2,486	60.7%	50.6%	60.3%	72.0%
<i>INSIDER_OWN</i>	1,868	2.9%	0.2%	0.6%	1.8%
<i>SIZE</i> (in millions)	2,488	31,656	2,170	8,963	33,098
<i>ABRET12</i>	2,482	-0.02	-0.24	-0.03	0.17

Table 2 (continued): Descriptive Statistics and Univariate Tests

Panel B: Descriptive Statistics for the Sample of Majority Vote Shareholder Proposals

Variable	All Proposals					Not Implemented			Implemented			Implemented vs. Not Implemented	
	N	Mean	Q1	Median	Q3	N	Mean	Median	N	Mean	Median	Mean (t-test)	Median (Wilcox)
<i>IMPLEMENTED</i>	620	0.31	-	-	-	427	0.00	-	193	1.00	-	-	-
<i>CEOCHAIR</i>	620	0.80	-	-	-	427	0.78	-	193	0.84	-	0.06 *	-
<i>%INDEP</i>	607	0.75	0.69	0.78	0.86	416	0.76	0.78	191	0.74	0.78	-0.01	0.00
<i>INTERLOCK</i>	607	0.05	-	-	-	416	0.06	-	191	0.03	-	-0.04 **	-
<i>G</i>	589	10.44	9.00	11.00	12.00	406	10.54	11.00	183	10.22	10.00	-0.32 *	-1.00 **
<i>INSTIT_OWN_DED</i>	616	11.6%	5.2%	10.5%	16.6%	424	11.4%	10.5%	192	12.1%	10.4%	0.6%	-0.1%
<i>INSTIT_OWN_OTHER</i>	616	55.1%	48.1%	54.1%	61.8%	424	55.0%	54.0%	192	55.3%	54.1%	0.3%	0.1%
<i>APPROVAL</i>	620	0.90	-	-	-	427	0.88	-	193	0.93	-	0.05 *	-
<i>VOTES_FOR</i>	620	63.7%	55.5%	61.9%	69.9%	427	62.2%	60.7%	193	66.9%	65.0%	4.7% ***	4.3% ***
<i>OWN_ACTIVIST</i>	616	2.7%	2.1%	2.7%	3.3%	424	2.6%	2.6%	192	3.0%	3.0%	0.4% ***	0.4% ***
<i>N_MAJ_CONS</i>	620	0.49	0.00	0.00	1.00	427	0.43	0.00	193	0.62	0.000	0.18 **	0.00
<i>VOTES_WITHHELD</i>	612	0.22	-	-	-	420	0.19	-	192	0.28	-	0.08 **	-
<i>OWN_PROP</i>	429	0.3%	0.0%	0.0%	0.0%	296	0.2%	0.0%	133	0.6%	0.0%	0.4% *	0.0%
<i>PEER_IMPLEMENTED</i>	620	0.17	-	-	-	427	0.15	-	193	0.23	-	0.09 **	-
<i>SIZE</i>	618	15,215	1,720	6,589	15,257	426	14,590	6,235	192	16,600	7,753	2,010	1,518
<i>ABRET3</i>	618	0.02	-0.08	0.01	0.11	426	0.02	0.01	192	0.01	-0.00	-0.01	-0.01
<i>AFTER_2001</i>	620	0.45	-	-	-	427	0.38	-	193	0.59	-	0.21 ***	-

Notes:

Panel A presents descriptive statistics for the entire sample of shareholder proposals. Panel B presents descriptive statistics and univariate tests for the sample of shareholder proposals that received a majority of votes cast. We test the difference in means (medians) between implemented and not implemented majority-vote proposals with two-sample t-tests (Wilcoxon tests). *** (**, *) denotes significance at the 0.01 (0.05, 0.10) level (we do not test the difference in medians for indicator variables). Variables are defined in the Appendix 2.

Table 3: Correlations (Pearson above diagonal / Spearman below diagonal)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 <i>IMPLEMENTED</i>		0.07	-0.05	-0.08	-0.07	0.03	0.01	0.07	0.21	0.17	0.09	0.09	0.11	0.11	0.02	-0.03	0.20
2 <i>CEOCHAIR</i>	0.07		0.11	-0.08	0.06	0.07	0.06	-0.08	0.06	-0.02	0.08	0.11	0.03	0.06	0.08	0.00	0.04
3 <i>%INDEP</i>	-0.03	0.09		-0.18	0.14	-0.03	0.04	-0.06	0.03	0.02	0.12	-0.03	-0.06	0.04	0.18	0.11	0.12
4 <i>INTERLOCK</i>	-0.08	-0.08	-0.18		0.07	-0.02	-0.08	0.01	-0.03	0.01	-0.10	-0.08	-0.04	0.01	-0.02	-0.03	-0.08
5 <i>G</i>	-0.08	0.06	0.08	0.07		0.14	0.07	0.10	0.12	-0.10	0.06	0.04	0.05	-0.13	-0.11	-0.01	-0.12
6 <i>INSTIT_OWN_DED</i>	0.04	0.07	-0.02	-0.04	0.15		-0.18	0.08	0.09	0.02	0.03	0.05	0.13	-0.06	-0.05	-0.03	0.08
7 <i>INSTIT_OWN_OTHER</i>	0.01	0.04	0.05	-0.09	0.06	-0.12		0.09	0.29	0.29	0.09	0.12	-0.11	0.01	0.01	-0.11	0.15
8 <i>APPROVAL</i>	0.07	-0.08	-0.04	0.01	0.11	0.06	0.09		0.22	0.07	0.07	0.09	0.04	-0.01	0.02	0.05	0.11
9 <i>VOTES_FOR</i>	0.19	0.06	0.02	-0.03	0.09	0.08	0.25	0.25		0.05	0.21	0.22	0.01	0.08	-0.10	0.03	0.14
10 <i>OWN_ACTIVIST</i>	0.20	0.02	0.05	-0.06	-0.11	0.04	0.29	0.11	0.12		0.01	0.14	0.03	0.11	0.08	-0.06	0.41
11 <i>N_MAJ_CONS</i>	0.06	0.09	0.12	-0.11	0.04	0.00	0.09	0.04	0.19	0.03		0.25	-0.28	0.09	0.13	0.00	0.13
12 <i>VOTES_WITHHELD</i>	0.09	0.11	-0.02	-0.08	0.05	0.07	0.12	0.09	0.21	0.21	0.32		-0.14	0.04	0.05	-0.13	0.28
13 <i>OWN_PROP</i>	0.00	-0.11	-0.17	0.03	0.11	-0.01	-0.03	-0.04	-0.08	-0.03	-0.10	0.01		0.04	-0.28	-0.10	-0.04
14 <i>PEER_IMPLEMENTED</i>	0.11	0.06	0.05	0.01	-0.14	-0.05	0.02	-0.01	0.08	0.13	0.08	0.04	-0.10		-0.03	0.03	0.20
15 <i>SIZE</i>	0.02	0.05	0.16	-0.03	-0.13	-0.02	-0.02	0.01	-0.10	0.12	0.12	0.05	-0.50	-0.03		0.04	0.15
16 <i>ABRET3</i>	-0.04	0.00	0.09	-0.02	0.00	0.01	-0.07	0.06	0.09	-0.07	0.06	-0.11	-0.02	0.04	0.03		-0.14
17 <i>AFTER_2001</i>	0.20	0.04	0.13	-0.08	-0.13	0.11	0.15	0.11	0.14	0.62	0.09	0.28	-0.11	0.20	0.13	-0.15	

Notes:

Correlations are shown in bold (italics) where the p-values are less than 0.10 (less than 0.20 but greater than 0.10). Variables are defined in the Appendix 2.

Table 4: Multivariate Analysis of the Determinants of Voting OutcomeDependent Variable: *MAJ_VOTE*

Variable	Pred.	Coef.	t-stat	
<i>Intercept</i>		-3.86	-6.52	***
<i>INSTIT_OWN</i>	+	2.11	4.41	***
<i>INSIDER_OWN</i>	-	-4.38	-3.87	***
<i>PRES1</i>	+	-0.02	-0.15	
Log(<i>SIZE</i>)	-	-0.08	-2.19	**
<i>ABRET12</i>	-	-0.10	-0.75	
<i>UNION_PROP</i>	?	0.42	3.50	***
<i>INSTIT_PROP</i>	+	0.26	1.74	*
<i>TYPE</i> = Defense		2.95	13.18	***
<i>TYPE</i> = Executive Compensation		0.86	4.43	***
<i>TYPE</i> = Shareholder Rights		2.91	9.77	***
<i>TYPE</i> = Other		-0.26	-0.83	
<i>YEAR</i> = 1999		0.26	1.31	
<i>YEAR</i> = 2000		0.61	2.68	***
<i>YEAR</i> = 2001		0.78	3.51	***
<i>YEAR</i> = 2002		1.11	5.15	***
<i>YEAR</i> = 2003		1.13	5.44	***
<i>YEAR</i> = 2004		1.37	6.23	***

Notes:

This table presents results from a probit regression estimated on the entire sample of shareholder proposals. The dependent variable (*MAJ_VOTE*) equals one if the proposal received a majority of votes cast. “Year” is relative to year 1998, and “Type” is relative to “Board Issues”. *** (**, *) denotes significance at the 0.01 (0.05, 0.10) level. Standard errors are heteroskedasticity-adjusted and clustered by firm. Variables are defined in the Appendix 2. Log(*SIZE*) is the natural log of firm market value of equity.

Table 5: Multivariate Analysis of the Determinants of the Implementation DecisionDependent Variable: *IMPLEMENTED*

Variable	Pred.	Probit			Probit with Selection		
		Coef.	t-stat		Coef.	t-stat	
<i>Intercept</i>	?	-1.97	-2.10	**	-4.34	-5.79	***
<i>CEOCHAIR</i>	-	0.23	1.42		0.17	1.30	
<i>%INDEP</i>	+	-0.40	-0.76		-0.20	-0.45	
<i>INTERLOCK</i>	-	-0.65	-1.70	*	-0.50	-1.45	
<i>G</i>	-	-0.03	-0.97		-0.03	-1.18	
<i>INSTIT_OWN_DED</i>	+	0.32	0.34		1.24	1.61	
<i>INSTIT_OWN_OTHER</i>	?	-1.70	-2.70	***	-0.69	-1.25	
<i>APPROVAL</i>	+	0.22	1.16		0.21	1.32	
<i>VOTES_FOR</i>	+	0.03	4.44	***	0.03	3.79	***
<i>OWN_ACTIVIST</i>	+	14.82	1.94	**	12.55	2.08	**
<i>N_MAJ_CONS</i>	+	0.06	0.80		0.05	0.88	
<i>VOTES_WITHHELD</i>	+	-0.01	-0.06		-0.02	-0.12	
<i>UNION_PROP</i>	+	0.45	2.31	**	0.53	3.16	***
<i>INSTIT_PROP</i>	+	0.36	1.80	*	0.33	1.96	**
<i>PEER_IMPLEMENTED</i>	+	0.30	1.68	*	0.30	2.01	**
Log(<i>SIZE</i>)	+	-0.02	-0.46		-0.04	-1.02	
<i>ABRET3</i>	-	-0.36	-0.99		-0.41	-1.40	
<i>AFTER_2001</i>	+	0.31	1.88	*	0.49	3.51	***
<i>TYPE</i> = Defense		0.05	0.11		1.86	5.21	***
<i>TYPE</i> = Executive Compensation		-0.26	-0.48		0.70	1.86	*
<i>TYPE</i> = Shareholder Rights		0.58	1.09		2.31	5.74	***
<i>TYPE</i> = Other		-0.19	-0.21		0.13	0.21	
Pseudo R ²		0.12					
N		484			484		

Notes:

This table presents results from a probit regression and a probit regression with a correction for selection bias estimated on the sample of shareholder proposals that received majority votes. The dependent variable (*IMPLEMENTED*) equals one if the proposal was implemented by management subsequent to receiving a majority vote. “Type” is relative to “Board Issues”. *** (**, *) denotes significance at the 0.01 (0.05, 0.10) level. Standard errors are heteroskedasticity-

adjusted and clustered by firm. A Wald test of independent equations ($\rho = 0$) produces $X^2 = 7.51$ ($p = 0.006$). Variables are defined in the Appendix 2. $\text{Log}(\text{SIZE})$ is the natural log of firm size.