

The Misalignment of Interest between Shareholders and the Board of Directors: A Shareholder Activism Approach

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ABSTRACT:

This thesis investigates whether a misalignment of interest between shareholders and the board of directors relates to a higher likelihood of a change in governance in a firm. By using non-cooperation as a construct to measure this misalignment through comparing the board's voting recommendations with the shareholders' voting results, this paper first looks at the potential causes for this misalignment, and finally at the potential effect of it on director turnover as a proxy for a change in governance. The findings depict that a higher board independency is not related to a higher likelihood of non-cooperation, implying that a more independent board is not necessarily a better steward for its shareholders, contrary to previously written literature. Furthermore, non-cooperation is positively related to a higher likelihood of director turnover, suggesting that a misalignment of interest has real effects regarding the likelihood of a change in governance of a firm. This paper adds to the existing body of literature by using a novel approach in exposing a misalignment of interest between the board and the shareholders, and relating this to potential changes in governance.



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“If I wanted you to understand, I would have explained it better”

~ Johan Cruijff

1. Introduction

Shareholder activism through issuing shareholder proposals has been widely used by individual and institutional shareholders in order to target issues pertaining to corporate governance and performance, and environmental, political, and social problems. Proposals can be issued by shareholders and are put up to vote during the annual shareholders meeting of the firm. Prior to the voting, the board of directors gives a statement regarding the proposal along with a voting recommendation to the shareholders. Usually, the shareholders vote accordingly meaning that the opinion of the shareholders is the same as the board of directors. However, the situation can occur that shareholders do not vote along with the recommendation of the board. In such a case there can be said that there is a misalignment of interest between the board of directors and the shareholders of a firm.

The purpose of this study is to examine what factors cause such a misalignment of interest between the board of directors and shareholders, and to find out what effects it might have on the governance of the firm. More specifically, by using the voting outcomes of the shareholder proposals together with the voting recommendations of the board on these proposals, this paper will measure whether a misalignment of interest explains an increase in the likelihood of director turnover in a company.

RQ: Does the misalignment of interest between the board of directors and shareholders lead to a change in governance of the firm?

Before answering the main research question, however, this paper will first conduct research on where this potential misalignment could come from and takes board independency as a starting point for this. The main function of the board of directors is to monitor the management of the firm and act as steward for the shareholders (Fama & Jensen, 1983). Being a steward for shareholders means that the board of directors defends the interests of those shareholders making these interests being aligned. Previous research finds that more independent boards are more effective monitors (see Weisbach, 1988; Byrd & Hickman, 1991; Ryan & Wiggins, 2003), leading this paper to take this as the base for finding a potential relationship between the having an independent board and the likelihood of the board and shareholders cooperating with each other.

The body of literature on the topic of shareholder activism is quite extensive. Several researchers have tried to find the so-called firm level antecedents of shareholder activism, basically asking themselves what firm characteristics are prevalent when there is shareholder

activism (see e.g. Karpoff et al., 1996; Strickland et al., 1996; Del Geurcio & Hawkins, 1999). Other researchers conducted research to find out whether shareholder activism is actually an effective tool for shareholders (see e.g. Gillan & Starks, 2000; Cai & Walkling, 2011; Ertimur et al., 2011). This thesis takes a different approach towards the antecedents and effectiveness of shareholder. Rather than looking directly at what shareholder activism establishes, it looks at the existing non-cooperating cases and the effects of these on the governance of the firm. This is a novel addition to the existing body of literature on this topic and, above all, important to find out, because through these non-cooperation cases the misalignment of interest between the board and shareholders can be measured and can potentially give more insights in the effectiveness of the stewardship of the board and the possible consequences on the governance of the firm.

This thesis will attempt to answer these questions by creating two hypotheses and empirical models of which the first will dig into the potential causes of non-cooperation, and the second into answering the main research question. To achieve this, most data on for example board characteristics, financials, and firm characteristics will be retrieved from online databases such as Execucomp and Compustat. The data concerning the shareholder proposals and their voting recommendations will be hand-collected from the DEF-14a filings retrieved from the SEC filings database EDGAR. These voting recommendations will be matched with the voting outcomes from then the non-cooperation information will be extracted. From the retrieved data a sample containing 2374 observations is created pertaining to 865 unique firms over the 2007-2014 period on which the models will be executed.

The outcomes of the performed models show mixed results. The first model, which tries to explain a relationship between the independency of the board of directors and the likelihood of cooperation with the board and the shareholders, finds no significant evidence to support this notion. This implies that, even though previous literature states that more independent boards are able to act as better stewards for their shareholders, there is no relation between more or less cooperation with the two parties and having a more independent board. The second model, which looks whether non-cooperation between the board and the shareholders has effects on a potential change in governance in the form of director turnover does show significant results. This thesis finds significant evidence to support the hypothesis that non-cooperation between the board and shareholders has a significantly positive relation to director turnover in the company. This implies that there actually are consequences regarding the

governance of the firm when there is a misalignment of interest between the board and the shareholders in the form of director turnover.

The results of this thesis add to the existing body of literature in two ways. First, the results of the first hypothesis are indifferent on the notion that more independent boards that are better stewards for the shareholders of the particular firm, whereas existing previously mentioned literature depicts that this would be the case. By using non-cooperating shareholder proposals as a proxy for a conflict of interest between the board and shareholders, this result gives another insight in when the board performs as a steward for shareholders. Second, the results of the second hypothesis shows that this misalignment of interest has consequences for the governance of the firm. This finding gives reason to believe that there will be act upon the misalignment of interest in the form that there is a higher likelihood of director turnover. This adds new insights to the agency theory, suggesting that the misalignment of interest leads to significant effects. Overall, these results add to the existing body of shareholder activism literature by giving more information on what the potential effects and consequences of activism. It is the first study to use voting recommendations and their outcomes to expose a misalignment of interest through the non-cooperation variable.

The remainder of this paper is structured as follows. Section 2 presents a thorough contemplation of the existing body of literature on shareholder activism. Section 3 elaborates on the used theories and how the hypotheses are developed. In section 4 describes the data and the used models. Section 5 gives the empirical results and the analyses. Finally, section 6 concludes the paper.

2. Theoretical Background

This paper relates to the literature on shareholder activism. More specifically, this study follows the financial activism literature stream of shareholder activism¹. The financial activism stream originates from the agency theory, where a conflict of interest arises between the principals and agents of the firm (Jensen & Meckling, 1976). With regard to this theory, shareholder activism can be seen as an active monitoring tool that can be used by shareholders to show dissatisfaction with governance or performance issues in the firm. This section will

¹ Shareholder activism can be divided in two streams: the financial activism stream and the social activism stream. Financial activism focuses on the shareholder and concerns shareholder value and governance, whereas social activism has a stakeholder view focusing on social issues (Goranova & Ryan, 2014).

elaborate further on the history of the different players in shareholder activism, the existing body of literature, and will explain the contribution of this study to the existing research.

2.1 History of Shareholder Activists

Shareholder activism finds its origin in 1942, when the SEC effectuated rule X-14-A-7 in which it describes the duty of management to set out proposals that have been submitted by the shareholders of the firm (SEC, 1942). Since the implementation of this rule shareholder activism has been changing fiercely, especially in *who* participated in shareholder activism and *what* their goals are.

In the early ages of activism between 1942 and 1970, it were mainly the individual shareholders, or “corporate gadflies”, that filed proposals and tried to make changes in the performance or governance of the firm. It wasn’t until later in the 1970s that the court ruled in favor of shareholders being able to address social issues, which management of firms were first able to discard prior to the ruling (Gillan & Starks, 2007). This court decision increased the shareholder activism’s field of interest from only being aimed at governance and performance to including social issues. The corporate gadflies remained prominent in filing proxies until the 1980s when they started working in groups. The most well-known example of such a group is the United Shareholders Association (USA), which was established in 1986 as a non-profit organization to advocate shareholders’ rights and mainly had small investors as members. USA used its member base of about 65,000 investors to pressurize companies into working together with investors that were not content with certain issues that were present at particular firms. (Strickland et al., 1996; Gillan & Starks 2007).

Towards the middle of the 1980s the institutional investors became more apparent as activists. The creation of the Council of Institutional Investors in 1985 became the starting point of institutional investors collaborating and tackling corporate issues together. The CII started with mainly pension funds and it has been growing ever since with today’s voting membership with over \$3 trillion of combined assets. The members of the CII use “proxy votes, shareowners resolutions, pressure on regulators, discussions with companies, and litigation where it deems change is necessary”. Even though institutional investors are able to just sell their shares, they often own such a large stake that a sale would most likely decrease the price and thus increase their losses even more. This made it viable for large institutional investors to try and “raise the ocean to lift the boat” through being an activist shareholder and use the above mentioned tools to change policies at companies (Del Guercio & Hawkins, 1999). The

priorities of CII's activities today lie in transparent executive compensation, dual-class stock, and universal proxies².

With the CII in place, institutional investors had the opportunity to make aimed and collaborative changes in corporations' policies. Institutional activists then consisted mainly of union funds and public pension funds. The proxy proposals that these activists issued were mainly focused on issues relating to corporate governance by employing a relatively general target approach in deciding which firms they would go after (Gillan & Starks, 2000). In the beginning of the 1990s this targeting strategy changed towards a more performance-based aim, where the activists were more likely to go for firms with a relatively bad performance. Institutional activism came to a short hold when the SEC passed new legislation in 1992, depicting that shareholders are allowed to communicate with each other. Because of this new rule, institutional shareholders found it cheaper to directly communicate with other shareholders, rather than doing this through proxy statements, which are more costly. The institutions more often chose for going into direct dialogue with companies and took steps to different media in order to let their voice be heard and alert other investors on the issues they found (Gillan & Starks, 2000). As the public pension fund activism decreased, the union fund activism actually became more and more active. The union funds generally had the same activist goals as pension funds, despite their apparent affiliation with issues covering labor (Gillan & Starks, 2007).

During the past few years, a new important player in shareholder activism gained a more prominent place as an activist: hedge funds. There is no generally accepted definition for hedge funds. The SEC's Roundtable on Hedge Funds stated 14 different definitions that would describe what a hedge funds would generally be³. Hedge funds use the same activist tools as the traditional investors such as shareholder proposals and media usage. Gillan and Starks (2007) state that the common goals for hedge funds in shareholder activism are "changing management strategy or board decisions; seeking a board seat for either input, control, or information purposes; effecting corporate governance changes; forcing a buyout or sale of a division; and increasing cash distributions to shareholders through dividends or share repurchases", which are actually fairly similar to the traditional investors. Even though there are many similarities, there are also some differences. Hedge funds mostly do not possess the

² Council of Institutional Investors (2016). Information on CII. Retrieved from: <http://www.cii.org/>

³ See SEC Roundtable on Hedge funds (May 13, 2003). Retrieved from: <https://www.sec.gov/spotlight/hedgafunds/hedge-vaughn.htm>

amount of assets that pension funds have. They are quite large with an aggregate of about \$1 trillion dollars spread out through approximately 8,000 hedge funds. However, they are not subject to many regulations in comparison with the traditional institutions, which can give them certain advantages when investing in companies. Furthermore, they are highly incentivized by gaining high returns, and often have the ability to act in shorter-term trading than their traditional counterparts (Kahan & Rock, 2006).

2.2 Empirical Research on Shareholder Activism

Shareholder activism has been a broadly researched topic throughout the past four decades. However, many different conclusions have been drawn on the drivers of shareholder activism presumed effectiveness of activism in their goal to change policies at the targeted firms. The most common way for measuring *when* shareholder activism occurs and its effectiveness has been to research shareholder proposals and their outcomes that have been issued at the companies. These proposals are disclosed in the company's DEF-14a filings and are voted upon during the annual meetings and are therefore easy to research. It is, however, hard to make sound conclusions from these proposals because of several reasons. Gillan and Starks (2007) state, for example, that while shareholder activists can issue a shareholder proposal to pressurize a certain policy change, they often directly negotiate their terms after which they withdraw their proposal. While this is in fact a result coming from shareholder activism, it is not captured by the majority of research regarding shareholder activism. Furthermore, it is hard to establish a causal inference between shareholder activism and the effectuated change in policy. That is, it is difficult to be certain that a change in governance policies is really determined by the proposal or other shareholder activism, because there are many other factors that could, and most probably would, also play a role. Finally, the shareholder proposals are advisory in nature. This means that even though the proposal might pass with a majority of the votes, management is not obliged to follow the outcome. These limitations are to be taken into account when looking at the empirical results delivered by the many studies in the field.

Research in shareholder activism can be divided in antecedents of shareholder activism and the outcomes or effectiveness of it. Antecedents of shareholder activism can be defined as characteristics that firms possess when they are targeted by shareholder activism such as size, performance, and governance; the characteristics of the shareholder activist such as their

interests, power, and identity; and the macro environment of the firm (Goranova & Ryan, 2014).

2.2.1 Shareholder Activism Antecedents Research

One of the main questions that shareholder activism researchers ask themselves is what types of firms are subject to shareholder activism. There are several studies that looked into the firm characteristics that could be related to shareholder activism. For example, Smith (1996) looked at the 51 firms that CalPERS targeted between 1987 and 1993. He examined what firm characteristics would lead to CalPERS targeting the firms to make changes in their policies. By using CalPERS as the only activist firm in his research, he argues that he is able to cleanly investigate activism targets and control for other activist attributes. He finds that larger firms and firms that have high institutional ownership are more likely to be targeted by shareholder activism. Karpoff et al. (1996) took a similar approach, however they took governance proposals between 1986 and 1990 as their shareholder activism measure. They find a positive relation between firm size and institutional ownership and firm size and shareholder activism. Furthermore, they find that firm performance is negatively correlated with activism. Cai and Walkling (2011) research the “say-on-pay” proposals that are introduced to let shareholders give an advisory vote on management compensation. Again, similarly to the other researches, they find that shareholder activism is positively related to firm size, institutional ownership. Additionally they find that pay-for-performance sensitivity and busy independent directors are also positively related to activism. Ertimur et al. (2011) also research events regarding say-on-pay proposals and find that activists target firms that have a high CEO pay and have excess CEO pay. Furthermore, as with the other studies, firm size, board independence are positively related to activism, and firm performance negatively.

Generally, there is a consensus in the shareholder activism literature regarding the characteristics of the targeted companies. As the above mentioned studies show, it is often found that firm size is a positive driver for shareholder activism in firms and performance is a negative driver for activism. There are several explanations for these characteristics to be prevalent in the activism research. First of all, larger firms are subject to higher agency costs, because it is more difficult to monitor those firms (Jensen & Meckling, 1976). Therefore, shareholder would be able to create more value with larger firms (Strickland et al, 1996; Del Guercio & Hawkins, 1999). Another interpretation can be that larger firms attract more attention, because they are more visible. This could help the activist in for example gaining

more media attention and therefore putting more pressure on the targeted firm. Second, larger firms attract more institutional shareholders, which also increases the chance of being targeted by shareholder activism (Smith, 1996; Karpoff et al., 1996; Bizjak & Marquette, 1998; Walkling, 2001; Ertimur et al., 2011). Second, firms with lower performance are more likely to be targeted by activists. Low performance could be a signal to activists that there are issues going on at the firm, which could trigger them to step in and try to pressure the company into changing their policies. There are, however, studies that do not find a significant relationship between performance and shareholder activism (Bizjak & Marquette, 1998; Ferri & Sandino, 2009), which implies that other factors could be more prevalent.

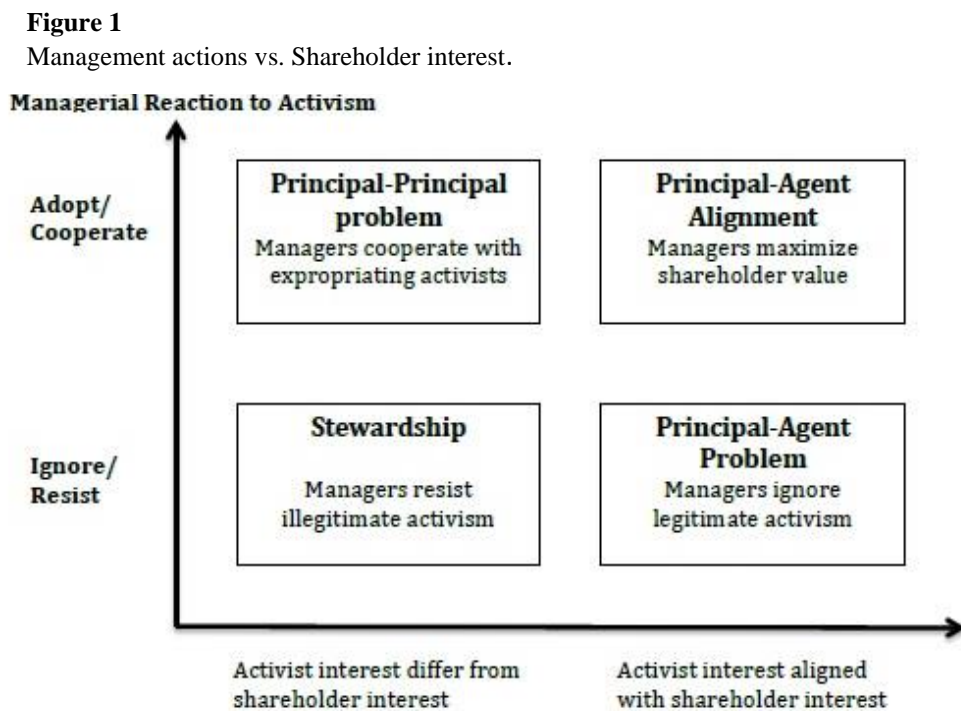
Part of those other factors cannot only be found in the characteristics of the targeted firms. The general line of research assumes that the owners of a firm have homogenous interests with respect to their stake. However, there are some researches that oppose this point of view and state that shareholders have their own different preferences (Hoskisson et al., 2002; Sikavica & Hillman, 2008). This study will not go into more detail with regard to different shareholders' interests, rather it will go deeper into the firm-level antecedents and the outcomes of shareholder activism. It is, however, important to distinguish between different interests of the shareholders.

2.2.2 Effectiveness of Shareholder Activism

After the antecedents of shareholder activism have been examined, one can look at whether the activist actions are in fact effective. In determining the effectiveness of shareholder activism, one has to keep in mind that there are several caveats in making conclusive remarks as described earlier in this paper. Especially the difficulty of making causal inferences from shareholder activism and the advisory nature of the shareholder proposals can cause difficulty in measuring the effectiveness. For example, when a proposal passes the vote with a majority, this would make the activist's actions effective: after all, the activist received enough support, and apparently the majority of the firm owners agree with the issue that the activist raised, which can be seen as an effective campaign by the activist. However, if management does not follow through on executing the demanded policy change, the proposal clearly does not have the desired result.

In determining the effectiveness of shareholder proposals and the potential benefits resulting from them, Goranova & Ryan (2014) argue that the managerial actions and the extent that they accommodate to the shareholders' demands as well as whether the demands are

aligned with the interests of the remaining shareholders are important. The desired outcome would be that management is aligning its behavior with the majority of the shareholders. Management can do this by at the one hand resisting illegitimate shareholder activism, which occurs when the majority of the shareholders is against the issued proposal by the activist. At the other hand, management can maximize shareholder value by cooperating with the shareholders when the issued proposal passes with the majority of the votes. However, when either management resists a proposal that is supported by the majority of shareholders, or cooperates with a proposal that is not supported by a majority of the shareholders, a “principal-agent problem” or a “principal-principal problem” respectively occurs (Goranova & Ryan, 2014).



Several studies have tried to find out whether shareholder activism is effective. Because there are many different types of shareholders ranging from large institutional investors to small individual investors, and different measures of effectiveness there are some differences in the outcomes of the various researches. For example, Gillan & Starks (2000) looked at institutional investors as activists and measured effectiveness by stock market reaction. They find that there is little to no market reaction towards the proxy proposals. Del Guercio &

Hawkins (1999) tried to find a causal relationship between shareholder activism and a change in the companies' policies, thus looking at the effectiveness by identifying a change in the company's governance. They do this by taking proposals issued by pension funds and regress this against amongst others CEO turnover and change in governance. They find that the shareholder proposals have a significant impact on company policies. Strickland et al. (1996), on the other hand, measured the effectiveness of shareholder activism by the voting percentage the shareholder proposals received during the proxy events and stock market reaction. They found that with the collaboration of investors through USA, small investors were able to effectively monitor the firms they owned, however there was no significant market reaction to the proposals. When looking at the different measures of effectiveness, there is no clear conclusion that can be drawn from the research. This amplifies the limitations that have been discussed earlier and shows that measuring effectiveness remains fairly inconclusive.

2.3 Contribution

This study aims to contribute to the literature of shareholder activism by analyzing this misalignment of interest between shareholders and the board of directors, and relating this to a potential change in governance of the firm. This thesis takes a different approach than existing literature by using a more indirect view of shareholder activism and its outcome on corporate governance. By using the board of directors' voting recommendations that are given with the shareholders proposals on the proxy statements and the accompanying voting outcomes as a measurement for misalignment of interests between the two, this paper attempts to explain why there would not be cooperation between the board and the shareholders. Furthermore, this study will examine whether the potential misalignment would affect the directors turnover of a firm, rather than looking directly at what shareholder activism achieves.

3. Theory & Hypotheses Development

As mentioned before, the agency theory depicts that when a company's owners are not also managing the firm a conflict of interest arises between the two (Jensen & Meckling, 1976). In developing the hypotheses used in this thesis I will use this theory as the main starting point. The above stated conflict can expose itself through management that would not be cooperating with the majority of shareholders regarding shareholder proposals creating a "principal-principal problem" or a "principal-agent problem" as discussed above. To address these potential agency problems that might occur in corporations, the shareholders have several tools

to monitor the management of the firm. One of these tools consists of the shareholders delegating the internal control to the board of directors of a firm. The shareholders still have the decision power over for example board membership, auditor choice, mergers and new stock issuance, which is mostly executed via voting at annual meetings. Other issues that arise at the company, however, are delegated to the board which should thus act as a steward for the owners in making the decisions (Fama & Jensen, 1983). This means that within the relationship of the shareholders with the board of directors a conflict of interest might arise that could have an impact on the cooperation between the two parties and eventually in the decision-making of the board with regard to the firm. The potential conflict of interest between the board and directors and the shareholders becomes apparent with shareholder activism. When shareholders issue a shareholder proposal during the annual meeting, the board of directors gives a voting recommendation on these proposals. After the proposals have been voted upon, the voting results can be compared with the initial recommendation (or opinion) of the board. In essence, the board would be acting as a steward to the shareholders when the voting results correspond with the recommendation. After all, this means that the board of directors share the opinion of the shareholders. However, when the board of directors gives for example a *negative* voting recommendation, and the voting results depict that the majority of the shareholders voted *for* the issued proposal, it is clear that a conflict of interest arises. Based on this theory, this study will examine the relationship in which the board of directors and the shareholders have a conflict of interest through shareholder proposals.

A board that works as a steward for their shareholders can be identified as a strong board. An important aspect in the strength of the board is the independence of the board. Existing literature states that a more independent the board of directors is more effective at monitoring and thus at acting like a steward for the shareholders (see Weisbach, 1988; Byrd & Hickman, 1991; Ryan & Wiggins, 2003). Since a more effective board of directors would be acting as a steward for shareholders, it implies that the board would have little to no conflicts of interests with the shareholders. Having few conflicts would therefore logically result in less cases where the board would not be cooperating with shareholders through their recommendations, which would become apparent through the voting recommendations and their eventual outcomes. Another factor that influences a board as being independent is CEO power. CEO power can be explained as that a CEO is able to influence the decision of the board. A way to achieve this as a CEO is to be the chairman of the board and the CEO of the firm at the same time: CEO duality. When there is CEO duality, the CEO can restrict certain

information from reaching the board, and therefore the board members are less able to make a sound and independent decision thus decreasing board strength (Fama & Jensen, 1983; Pathan 2009). Holding this line of thought, I expect that a lower board of directors' independency increases the likelihood of non-cooperation with shareholders through their issued proposals. This leads to the following hypothesis:

H1: A lower independency of the board of directors increases the likelihood of a misalignment of interest with shareholders.

Next, this study will examine whether the degree of cooperation between the board of directors and shareholders influences a change in governance through the turnover of board members. Shareholder activism and its effects on governance have been part of several studies. Most studies, however look at the relation between activism and CEO turnover, rather than directors' turnover. For example, Del Guercio & Hawkins (1999) find that firms that are targeted by institutional investors have a greater CEO turnover. Additionally, Chhaochharia et al. (2012) find significant evidence for a higher CEO turnover when a firm has more local institutional shareholders. Less research has been done on the changes of board members, however some interesting results have been found. For example, Arthaud-Day et al (2006) find that there is more directors' turnover after a firm issues a financial restatement, and Asthana & Balsam (2010) find that when a firm's performances decreases and the firm's riskiness increases, board members are more likely to leave the firm. These findings indicate that when there is questionable performance of a firm, directors are more likely to leave their position. In addition to these factors, it is relevant to add the outcomes of non-cooperation with shareholders and the board in relation to directors' turnover. Recall that a low cooperation occurs when the voting recommendation of the board of directors is not in line with the eventual outcome of the voting on the proposals. Because the board of directors are installed by shareholders to monitor management, such a misalignment indicates a conflict of interest between shareholders and the board. A change in directors is therefore a way for shareholders to restore the legitimacy of the monitoring function of the board (Suchman, 1995). When such a misalignment occurs with the shareholders, I expect that it is more likely that the firm will have an increased directors' turnover reflecting a change in governance leading to the following hypothesis:

H2: When there is no cooperation between the board of directors and the shareholders, the likelihood of director turnover increases.

Both hypotheses are stated in the alternate form. The null hypotheses would depict that there is no relation between the independency of the board and the misalignment of interest between the board and the shareholders, and that there is no relationship between the degree of cooperation of the board and the shareholders and directors' turnover.

4. Research Design

4.1 Sample and Data

The sample data exists of all shareholder proposals that have been issued in the DEF-14a filings of listed US companies between 2007 and 2014 retrieved from the Institutional Shareholder Services database (formerly RiskMetrics). To retrieve the data on cooperation between shareholders and the board of directors, I hand-collected the voting recommendations of the different boards to the issued proposals. These recommendations are found in the DEF-14a filings that are issued by the companies, found through the EDGAR database of the SEC. The voting outcomes and further data on the shareholder proposals such as sponsor type and proposal type are also collected from the ISS database. Together, the voting outcomes and recommendations create the sample set of (non-)cooperating boards and shareholders. Data on the governance characteristics of the firms, such as information about the composition of the boards, the CEO, and ownership are retrieved from Execucomp, ISS and Thomson Reuters. Information about the financial performance of the firms is collected from the Compustat database. The initial sample starts with all data available on directors, consisting of 110.939 observations. After combining the initial dataset with the data on shareholder proposals and the control variables, the final sample consists of 2.374 observations that will be used for both models.

Table 1
Sample Selection

<i>Procedure</i>	<i>Observations Lost</i>	<i>Observations remaining</i>
<i>Data available on directors between 2007-2014</i>		110.939
Less firms not available on ISS w.r.t. proposals	(50.375)	60.564
Less firms with too little data	(3.355)	57.209
Less firms with no Compustat data	(117)	57.092
Less firms with no Execucomp data	(165)	56.927
Less similar year data of firms	(54.553)	2374

This table shows the procedures used in constructing the sample. The final sample pertains to 865 unique firms.

4.2 Measure of Board and Shareholder Cooperation

As mentioned earlier in this paper, cooperation between the board of directors and the shareholders of the firm is established when the board gives a positive voting recommendation on the shareholder proposal, where after the proposal is passed by a majority of the vote and vice versa. It is, however, more interesting to look at when cooperation would *not* occur, since this defines a misalignment of interest between the board of directors and the shareholders. This paper therefore introduces the variable *NonCoop*. *NonCoop* is a dummy-variable that will be “1” when the voting recommendation of the board is to vote “against” the proposal while at the same time the voting outcome depicts a “pass”, or when the board recommends a vote “for” the proposal and the voting outcome is “against”. *NonCoop* will serve as a dependent variable in the first hypothesis, and as an independent variable in the second.

4.3 Measures of Board Independence

The first hypothesis states that with lower board of directors’ independence it would be expected to have a lower chance of cooperation with the shareholders and the directors. In previous literature, the independency of boards is often measured by taking the percentage of outside directors in the board (Weisbach, 1987; Byrd & Hyckman, 1992). Outside directors are reckoned to be more effective monitors, since they have no ties to with the company they are monitoring, whereas inside directors have ties with the CEO, which would make them generally unable to fire CEOs (Weisbach, 1987). A board can be deemed independent when the percentage of outside directors is larger than 50%. In this manner, the outside directors can form a majority block in the board when making decisions and thus overpower the other members in the board that are deemed not independent such as grey directors or inside directors

(Byrd & Hyckman, 1992). This paper takes this line of thought as the basis for operationalizing the independent board structure. When a company's board consists of more than 50% outside directors, and thus is classified as independent, the *BoardInd* dummy-variable will become a "1", and "0" if otherwise.

As another factor of board independence, this paper introduces CEO power. As mentioned before, a high CEO power can exist when the CEO is also the chairman of the board of directors, which influences the information flow to the other members of the board. The moderating construct between the board's independence and the influence of board independence on cooperation with shareholders will therefore be operationalized as the variable *CEOPower*. *CEOPower* interacts with the *BoardInd* variable and will be "1" when a firm's CEO is also the chairman, and "0" otherwise. The interaction variable will define the board's independency, taking into account the moderating factor of the power of the CEO in the board and therefore will be the variable of interest.

4.4 Measure of Director Turnover

In the second hypothesis, this paper will examine whether the non-cooperation between shareholders and the board of directors and the issuance of the proposal that shows the dissatisfaction of the management's actions influence the likelihood of a directors' turnover. Determining director turnover has proven to be quite a challenge in previous studies, because it is hard to distinguish voluntary and involuntary resignation from board of directors (Asthana & Balsam, 2010). Due to this issue, this study only includes the turnovers that results from a termination of the board membership before the pre-specified end-year of the contract. This means that this study does not include potential involuntary turnovers by firms that have tried to "cover up" the involuntary resignation, because this could be bad publicity for the particular firm. In measuring director turnover this study follows the research of Del Guercio & Hawkins (1999). Director turnover will be determined for a certain year of a particular firm as "1" when there is a change in the directors after the issuance of the shareholder proposal, and "0" if otherwise. The dichotomous variable included in the model will be *DirectTurn*.

4.5 Control Variables

For the model used to measure the first hypothesis a set of variables is used to control for other potential effects on the non-cooperation of the board of directors and shareholders. The first control variable will be *SponsorType*. Gillan & Starks (2000) find that different kinds of sponsor types (e.g. individuals or institutions/groups) significantly affect voting results of

proposals. The non-cooperation of the board and the shareholders is linked with the voting results of shareholders proposals: when there is no cooperation, it is almost always the case that the proposal passed, but there was a negative recommendation. *SponsorType* will be “1” if the sponsor is an institution or a group, and “0” if the proposal is issued by an individual. The second control variable is the percentage of institutional ownership in a firm: *%Inst*. Again, Gillan & Starks (2000) find that institutional ownership is significantly related to better voting results, which can also be applied to this study. *%Inst* will be measured as the percentage of shares that is held by institutions. Then several proxies for firm performance will be used. Strickland et al (1996) use the financial performance measures ROE and ROA in their model that determines voting results of shareholder proposals. Since they find that higher performance is significantly negatively related to voting results, it’s reasonable to include this variable as a control in this study. The variables *L.ROE* and *L.ROA* will be measured by the lagged ROE and lagged ROA of the firm, respectively, to capture the prior-year performance of the firm w.r.t. the issued proposal. Additionally, a sales growth variable *SalesGrow* will be introduced to capture the annual change in revenues of a firm. The variable will be measured by the natural logarithm of this annual change. Strickland et al. (1996) also find a significant effect of firm size on voting results. Therefore, the variable *Size* is incorporated. *Size* will be measured as the natural logarithm of the book value of assets of the firm. Then, a proxy for the financial crisis will be implemented. The financial crisis is generally a time wherein shareholders are less satisfied with management due to the decreasing shareholders’ value of the firm. From the collected data regarding the non-cooperation proposals one can see that in the years 2008 and 2009 there are substantially more non-cooperating cases. This leads to this study introducing the variable *Crisis* that will measure whether the crisis influences the degree of disagreement with shareholders and the board. *Crisis* will be “1” for proposals in the years 2008 and 2009, and “0” if otherwise. Finally, the model will control for the firm’s leverage (*Leverage*) and the market-to-book ratio (*MTB*) as proxies for growth potential.

For the second hypothesis another set of control variables will be used. First, regarding the directors’ characteristics, the age and tenure of the directors will be included. Asthana & Balsam (2010) find a positive significant relationship for director’s age and gender, and director turnover, and a negative significant relationship for tenure and director turnover. They will be included as the variable *AGE*, which will be measured as the average age of the board in a particular year, the variable *Tenure*, which consists of the average consecutive years that the board members have been active, and the variable *Gender*, which will be measured as the

percentage of female members in the board. This study will take the average board age and the average board tenure as measures, because the approach taken here is on board-level rather than the individual board members' level. Concerning governance structure, this study includes a measure for the percentage of outside directors, board size and institutional ownership. Arthaud-Day et al (2006) finds a positive significant relationship between these characteristics and a change in governance. The variable included will be *%Outside*. *%Outside* will be measured as the percentage of the board that has no affiliations with the firm. *BoardSize* will be the variable measuring the size of the board through the total amount of board members at the firm. *%Inst* will be measured as the percentage of shares held by institutions. The controls for financial performance in this model will follow the approach of Arthaud-Day et al. (2006), and will be lagged return on assets to reflect prior years' performance: ROA_{t-1} and the sales growth (*SalesGrow*) of the firm measured by the annual percentage change in revenue. Furthermore, the lagged return on equity is added as the variable ROE_{t-1} . The study also includes an indicator variable for high-tech industries, following Henderson (2006) and Asthana & Balsam (2010) who find that turnover is higher in a dynamic environment. The indicator variable *HiTech* will be "1" for industries with SIC codes 3,570 through 3,579; 4,800 through 4899; or 7,370 through 7,379, and "0" if otherwise. (Asthana & Balsam, 2010). The variable *Crisis* is added to measure whether the crisis increased director turnover, which will be measured as "1" for the years 2008 and 2009, and "0" if otherwise. Finally, the *Size*, *Leverage* and *MTB* variables will be the same as the ones used in the first model. To account for fixed industry effects, the *IndustryF.E.* variable is introduced in both models.

Table 2
Definition of variables.

<i>Variables</i>	<i>Measures</i>
<i>Dependent Variables</i>	
Non-Cooperation	Dummy variable that is “1” when there is no cooperation between shareholders and the board of directors, and “0” if there is. (<i>NonCoop</i>)
Director Turnover	Dummy variable that is “1” when there is a change in the directors after the issuance of the shareholder proposal, and “0” if otherwise. (<i>DirectTurn.</i>)
<i>Independent Variables</i>	
% Institutional Ownership	The percentage of shares held by an institution
%Outside directors	Percentage of outside directors in a board. (<i>%Outside</i>)
Board Independency	Dummy variable that is “1” when a board has more than 50% outside directors, and “0” if not. (<i>BoardInd</i>)
Board size	Total amount of board members at the firm. (<i>BoardSize</i>)
CEO Duality	Dummy variable that is “1” for firms that have the same CEO and chairman, and “0” for firms that don’t. (<i>CEODual</i>)
Crisis years	Dummy variables for the years 2008 and 2009. Variable is “1” if year is 2008 or 2009, and “0” if otherwise. (<i>Crisis</i>)
Director’s Age	Average age of the board measured in years. (<i>AGE</i>)
Director’s Gender	Percentage of female directors in a board (<i>Gender</i>)
Director’s Tenure	Consecutive years that the director is active. (<i>Tenure</i>)
Firm Size	The natural logarithm of a firm’s assets (<i>Size</i>)
High-Tech industries	Dummy variable that will be “1” for industries with SIC codes 3,570 through 3,579; 4,800 through 4899; or 7,370 through 7,379, and “0” if otherwise (<i>HiTech</i>)
Leverage	The total amount of debt w.r.t. the total amount of assets of a firm. (<i>Leverage</i>)
Market-to-Book ratio	Market value of the firm divided by its book value. (<i>MTB</i>)
ROA	The lagged return on assets of a firm (ROA_{t-1})
ROE	The lagged return on equity of a firm. (ROE_{t-1})
Sales growth	Annual relative change in revenue of a firm in percentage (<i>SalesGrow</i>)
Sponsor Type	Dummy variable that is “1” when the sponsor is a group or institution, and “0” if it is an individual. (<i>SponsorType</i>)

This table shows the variables used in the empirical models as described in section 4.5. The left side shows the different dependent and independent variables that will be used; the right side shows how the variables are measured. The variable *NonCoop* is both a dependent variable and an independent variable in model 1 and 2 respectively.

4.6 Empirical Models

From hypothesis one and the accompanying variables comes the following model:

$$\begin{aligned} NonCoop = & \beta_0 + \beta_1 BoardInd + \beta_2 CEODual + \beta_3 BoardInd * CEODual \\ & + \beta_4 SponsorType + \beta_5 \%Inst + \beta_6 L.ROE + \beta_7 L.ROA + \beta_8 SalesGrow \\ & + \beta_9 Size + \beta_{10} Crisis + \beta_{11} Leverage + \beta_{12} MTB + Industry F.E. + \varepsilon \end{aligned}$$

The key coefficients in determining whether there is evidence for the hypothesis will be β_1 and β_3 of which I expect that β_1 will be *negative*, because *higher* independency of the board would give *less* likelihood of non-cooperation between shareholders and the board. Additionally, I expect β_3 to become negative too, however less negative than β_1 , due to the moderating effect of CEO and chairman duality.

The second model follows from the second hypothesis and is constructed as below:

Director Turnover

$$\begin{aligned} = & \beta_0 + \beta_1 NonCoop + \beta_2 AGE + \beta_3 Tenure + \beta_4 \%Gender + \beta_5 \%Outside \\ & + \beta_6 BoardSize + \beta_7 \%Inst + \beta_8 L.ROA + \beta_9 L.ROE + \beta_{10} SalesGrow \\ & + \beta_{11} HiTech + \beta_{12} Crisis + \beta_{13} Size + \beta_{14} Leverage + \beta_{15} MTB \\ & + Industry F.E. + \varepsilon \end{aligned}$$

The key indicator in this model will be the β_1 . The second hypothesis states that when there is no cooperate on between shareholders and the board, the likelihood increases. Accordingly, I expect β_1 to be positive, indicating a positive relationship between non-cooperation and director turnover.

5. Empirical Results

5.1 Descriptive Statistics and Correlation Matrix

The descriptive statistics for the key variables and their controls used in both models can be found in Table 3 in the Appendix. All key variables used in this study are dichotomous meaning that they are either “1” or “0”. Table 3 shows that 12,4% of all proposals used in this study ended up with having no cooperation between shareholders and the board of directors. This percentage implies that in most cases there *is* cooperation between the two parties thus suggesting that the interests of shareholders and the board of directors are aligned. Furthermore there can be seen that about 96,6% of all boards in this study are independent. As stated earlier, boards are considered independent when 50% or more board members are outsiders. The statistics suggest that this is the case in almost all boards considered in this study. About 40% of the companies in the observations have a CEO that is also the chairman of the board of

directors. Finally, in 3,2% of the cases there is director turnover in a company. This is a fairly low percentage due to the fact that this study only takes into account the contract terminations during the contract period, thus rendering the potential director turnovers that are “covered up” not included in this study due to the lack of transparency on this issue.

The statistics for the control variables regarding board characteristics give that about 15,6% of the board members are female. This number is quite low and shows that female board members are under-represented in the board of directors of firms. The board size averages at around 10 to 11 members per board with a median of 11. 81,7% of the board members are outside directors. This is a large percentage, which is also in line with the other independent board variable. The average age and tenure of board members are 62,5 and 8,6 years respectively. Regarding the performance measures, the average ROA and ROE of the firms are 5,6% and 11,9% with medians of 5,3% and 13,3% respectively. The average percentage sales growth per year is 4,6% with a median of 3,8%. From the other control variables it shows that 9,2% of the observations are from companies in high-tech industries according to the classification of Asthana & Balsam (2010). The average leverage and market-to-book ratio are 31% and 6,62 respectively. Furthermore, 25,7% of the observations are obtained from the crisis-years 2008 and 2009. The average institutional ownership of the observations is 74,4% with a median of 75,9%. The firm size measured by the logarithm of the firm’s assets has a mean of 9,55 and a median of 9,50. Finally, 54,9% of the proposals in this study are issued by institutions.

For the variables for which it was deemed necessary the outliers were handled by winsorizing at the 1st and 99th percentile. This was done for every variable that is not dichotomous, since their outcomes are already maximized by either a 1 or a 0.

Table 4 in the Appendix shows the Spearman correlations for model 1 and model 2 in Panel A and Panel B respectively. In Panel A there can be seen that there are a couple of variables that are significantly correlated with the dependent variable “non-cooperation” and the main independent variables “independent board” and “CEO duality”. The correlation coefficients, though, are small with a maximum value of 0,206 between CEO duality and Size. There are some more significant correlations between the different control variables, however these give no reason to suspect multicollinearity. Furthermore, in a multivariate setting, the average variance inflation factor of 1,81 imply that there is little to no reason to expect that the results of the model will be biased by multicollinearity. Panel B shows the correlation

coefficients of the variables of model 2. There are again several significant correlations between the main independent variable and the control variables, such as board size, institutional ownership, firm size and leverage. These correlations, however, are again low with a maximum coefficient value of -0,171. Similarly to model 1 there are more significant correlations between the control variables, but this again does not give reason to expect biased results. The average variance inflation factor for model 2 equals 1,38, which suggests a low multicollinearity bias.

Table 3
Descriptive Statistics

<i>Variable</i>	<i>N</i>	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>
<i>Key variables</i>				
Non-cooperation	2374	0,124	0	0,329
Independent board	2357	0,966	1	0,180
CEO Duality	2357	0,400	0	0,490
Director turnover	2374	0,032	0	0,147
<i>Board Characteristics</i>				
% Female directors	2374	0,156	0,162	0,928
Board size	2374	10,597	11	2,318
% Outside directors	2374	0,817	0,833	0,100
Tenure	2374	8,666	8,332	3,249
Age	2364	62,526	62,691	5,305
<i>Performance Measures</i>				
ROA	1840	0,056	0,053	0,068
ROE	1691	0,119	0,133	0,117
% Sales growth	1748	0,046	0,038	0,182
<i>Other Controls</i>				
Hitech industry	2374	0,092	0	0,289
Leverage	2374	0,310	0,269	0,206
Market-to-Book	2374	6,615	3,070	10,667
Crisis	2374	0,257	0	0,437
Institutional Ownership	2374	0,744	0,759	0,147
Size	2349	9,547	9,505	1,591
Sponsor type	2374	0,549	1	0,498

This table presents the distribution of variables showing the mean, median and standard deviation. See Table 2 for variable definitions.

Table 4 - Correlations*Panel A: Spearman correlation of Model 1*

	1	2	3	4	5	6	7	8	9	10	11	12
1 Non-cooperation	1											
2 Independent board	-0,035	1										
3 CEO Duality	-0,005	0,093	1									
4 Sponsor type	-0,106	-0,029	-0,116	1								
5 Inst. Ownership	0,123	0,033	-0,131	0,126	1							
6 ROE	-0,028	0,038	0,106	-0,026	-0,118	1						
7 ROA	0,001	-0,003	0,027	0,005	-0,027	0,769	1					
8 Sales growth	0,012	-0,019	-0,029	0,013	0,073	0,022	0,114	1				
9 Crisis	0,039	0,006	0,013	0,210	0,146	0,068	0,029	-0,249	1			
10 Size	-0,171	0,115	0,206	-0,109	-0,497	0,116	-0,036	-0,060	-0,059	1		
11 Leverage	-0,065	0,071	0,059	-0,035	-0,07	-0,155	-0,318	-0,15	-0,013	0,029	1	
12 Market-to-Book	-0,003	-0,043	0,065	-0,016	-0,103	0,605	0,415	-0,221	-0,250	0,046	-0,121	1

This table shows the Spearman correlations of the first model used in this study. The correlation values that are bold texts indicate statistically significant at the 1% level or better. See **Table 1** for variable definitions.

Panel B: Spearman correlation of Model 2

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Director Turnover	1															
2 Non-cooperation	0,050	1														
3 Average Age	0,000	0,003	1													
4 Tenure	0,180	0,042	0,117	1												
5 Gender	-0,045	-0,053	-0,193	-0,095	1											
6 Outside Directors	-0,174	-0,035	-0,039	-0,078	0,241	1										
7 Board Size	0,010	-0,095	0,073	-0,050	0,210	0,238	1									
8 Inst. Ownership	0,005	0,123	-0,066	0,052	-0,187	-0,067	-0,328	1								
9 ROE	-0,012	-0,029	-0,034	-0,030	0,082	0,061	0,133	-0,118	1							
10 ROA	0,015	-0,001	-0,043	-0,035	0,091	-0,017	-0,005	-0,027	0,769	1						
11 Sales Growth	0,049	-0,013	0,002	0,049	-0,141	-0,080	-0,148	0,075	0,115	0,011	1					
12 Crisis	0,040	0,040	-0,120	-0,017	0,060	-0,060	-0,021	-0,146	0,068	0,029	-0,249	1				
13 Hitech	-0,018	0,014	-0,138	-0,056	-0,073	-0,032	0,004	-0,054	0,011	0,036	0,044	-0,017	1			
14 Size	-0,061	-0,171	0,105	-0,085	0,252	0,287	0,512	-0,495	-0,116	0,036	-0,059	0,059	0,156	1		
15 Leverage	-0,018	-0,065	0,033	-0,002	0,07	0,102	0,097	-0,070	-0,155	-0,317	-0,150	-0,013	-0,036	0,029	1	
16 Market-to-Book	0,009	-0,003	-0,063	0,011	0,055	-0,025	0,044	-0,103	0,605	0,415	0,222	-0,029	0,049	0,046	-0,121	1

This table shows the Spearman correlations of the second model used in this study. The correlation values that are bold texts indicate statistically significant at the 1% level or better. See **Table 1** for variable definitions.

5.2 Univariate Analyses

5.2.1 Non-Cooperation

Table 5 and Figure 2 in the Appendix show the distribution of non-cooperating proposals across the different years available in the dataset of this study. In this study a total of 2374 proposals are collected of which 294 are determined to be non-cooperating, implying that the voting result of the proposals does not match the voting recommendation given by the board of directors. The total amount of proposals has been on a steady non-growing rate for the years 2007 to 2012. From the graph and the table can be seen that the amount of proposals dropped quite heavily in the last two years 2013 and 2014. A more interesting number, however, is the rate at which non-cooperating proposals are apparent. The data shows that in every year except 2007 and 2010 the ratio non-cooperating proposals vs. all proposals is hanging steadily between 12 and 20%. Remarkably, in year 2007 and 2010 there were little to none non-cooperating proposals. It is difficult to find robust reasons for this, however it can be argued that during the start of the financial crisis (years 2008 & 2009) shareholders would be more dissatisfied with the management of the firm, and thus do not vote along with the given voting recommendation, resulting in more non-cooperating proposal results. The trend and ratio is the same when compared to the whole population of shareholder proposals. The numbers of the whole population are not shown in this study for brevity, and because the further analysis is done with only the data that is shown.

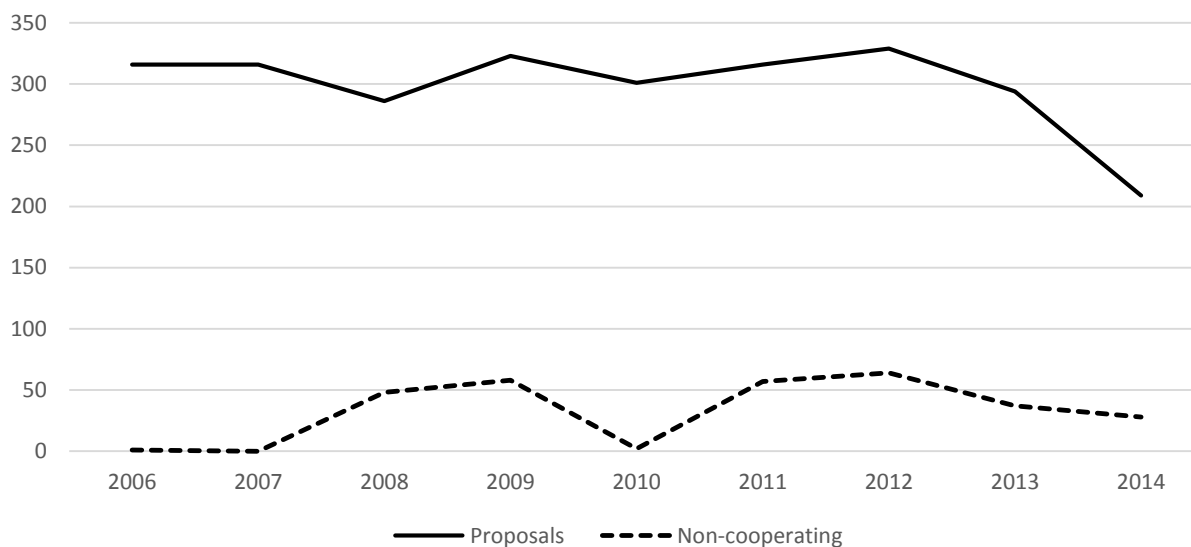
Table 5

Shareholder Proposal Data

<i>Year</i>	<i>Proposals</i>	<i>Non-Cooperating</i>	<i>%</i>
2007	316	0	0,1%
2008	286	48	16,8%
2009	323	58	18,0%
2010	301	2	0,7%
2011	316	57	18,0%
2012	329	64	19,5%
2013	294	37	12,6%
2014	<u>209</u>	<u>28</u>	13,4%
<i>Total</i>	<i>2374</i>	<i>294</i>	<i>12,4%</i>

This table shows the statistics of the shareholder proposals used in this paper. The column "Proposals" shows the total amount of shareholder proposals in a particular year. "Non-cooperating" depicts the proposals in which the board and the shareholders have a conflict of interest. The "%" column defines the percentage of non-cooperating proposals on the total amount of proposals. Figure 2 shows the table in graphical form.

Figure 2.
Proposal Trends



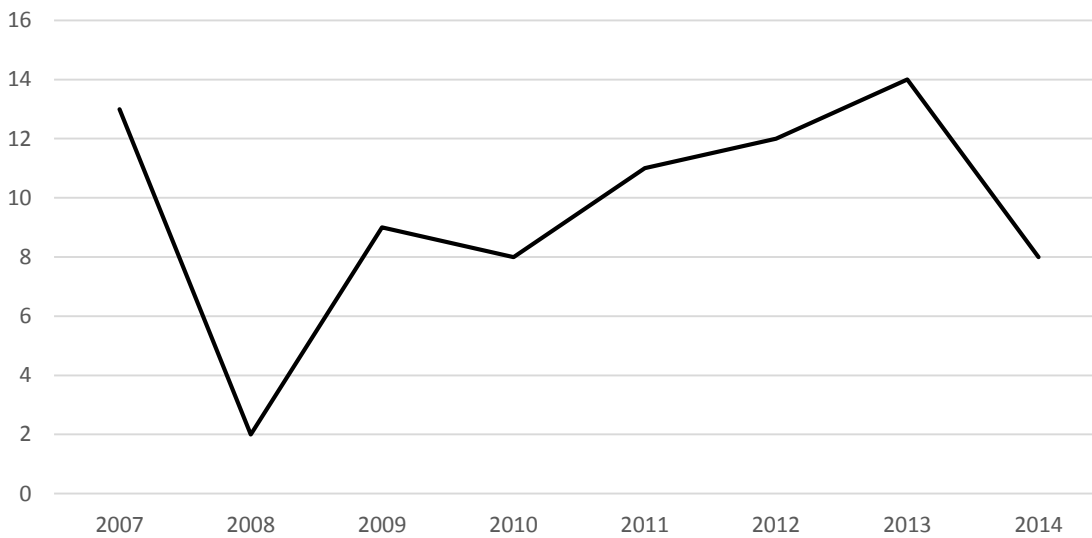
5.2.2 Director Turnover

Table 6 and Figure 3 in the Appendix show the distribution of director turnover across the different years in the dataset. Again, we're looking at a total of 2374 observations in the period 2007-2014. The amounts of director turnover during the years is relatively low. This is due to several reasons. First, as mentioned before, this study only takes into account the director turnover that occurs when the contract is terminated *before* the end-date specified on the contract. This causes the probable exclusion of certain director turnover that is covered up by postponing the termination to the end-date of the contract. Second, this study only takes into account the turnover that occurs in the year after the issuance of a non-cooperating proposal. This is done to isolate non-cooperation as a potential cause for director turnover, rather than other effects. The director turnover rate is fairly steady in the specified period with rates between 2,5 and 5%, with an exception in 2008 where there is only a 0,7% turnover rate.

Table 6**Director Turnover Data**

<i>Year</i>	<i>Observations</i>	<i>Director Turnover</i>	<i>%</i>
2007	316	13	4,1%
2008	286	2	0,7%
2009	323	9	2,8%
2010	301	8	2,7%
2011	316	11	3,5%
2012	329	12	3,6%
2013	294	14	4,8%
2014	<u>209</u>	<u>8</u>	3,8%
<i>Total</i>	<i>2374</i>	<i>77</i>	<i>3,2%</i>

This table shows the statistics of the director turnovers used in this paper. The column "Observations" shows the total amount of observations in a particular year. "Director Turnover" depicts the amount of turnover in the observations per year. Director turnover is registered when at least 1 director of a board terminates his contract before the end-date of the contract.. The "%" column defines the percentage of director turnover on the total observations. Figure 3 shows this table in graphical form.

Figure 3**Directors Turnover Trend**

5.3 Multivariate Analyses

This thesis estimates logistic regressions using the previously specified models in section 4.6 to test both hypothesis regarding the non-cooperation of shareholders and the board of directors, and the director turnover. In both models the industry fixed effects are included, and the models are clustered for firms. The results of the models and their interpretation are presented below.

5.3.1 Results & Analysis Model 1

Table 7 presents the results obtained from the logistic regression of model 1 in which the dependent variable is “Non-cooperation”. The key independent variables in the first model are “Independent board” and “CEO Duality”. The regression has been run three times, in which different control variables are added each time. The first regression performed is one that shows only the effect of the key variables on the dependent variable without any control variables and shows no significant results. In regression (2), the control variables “Sponsor type” and “Inst. Ownership” are added. For the key variables there are still no significant results, however, both Sponsor type and Institutional Ownership show significant coefficients at the 1% level. In the third and final regression for model 1 the rest of the control variables are added. Again, the key variables do not show any significant results. Sponsor type and Inst. Ownership still show significant results, however the coefficient for Inst. Ownership has become less significant being at the 5% level now. None of the performance measures included in the model show significant results. The variables “Crisis”, “Size” and “Leverage” show significant results at the 10%, 1% and 5% level, respectively. Finally, “Market-to-Book” has no significant coefficient. The pseudo R^2 has been slightly increasing throughout the different regressions, where it is 0,04 for regression (1), 0,09 for regression (2), and finally 0,11 for regression (3).

The evidence found in this study with regard to hypothesis 1 does not support the notion that a more independent board leads to less non-cooperation between shareholders and the board of directors. Thus, hypothesis 1 is rejected in this thesis. The results imply that the degree of independency of a board does not increase or decrease the likelihood of the board being a better or worse steward for the shareholders by having an alignment or conflict of interest. This could mean that the influence of having a stronger, more independent board does not necessarily translate into the board being more cooperative with shareholders. Previous literature elaborated on the issue that independent boards are more effective monitors and thus act more like a steward for shareholders (see Weisbach, 1988; Byrd & Hickman, 1991; Ryan

& Wiggins, 2003). Interestingly enough, the results in this paper suggest that this is not necessarily always the case, as board independency does not lower the likelihood of non-cooperation between the two parties. Rather than looking at the independency or the board, the results suggest that non-cooperation is more influenced by other factors. For example, the results depict that there is a lower likelihood of non-cooperation when the proposals are issued by institutional investors rather than individuals. Furthermore, a higher institutional ownership in a firm increases the likelihood of non-cooperation. Size and leverage both decrease the likelihood of having no cooperation between shareholders and the board. Finally, the results imply that during the crisis years 2008 and 2009, there was a higher likelihood of having more non-cooperating proposals, possibly because of many shareholders being dissatisfied with how the company was performing.

5.3.2 *Results & Analysis Model 2*

Table 8 presents the results obtained from the logistic regression of model 2, in which the dependent variable is “Director Turnover”. The key independent variable in this model is “Non-cooperation”, which was the dependent variable in model 1. As with model 1, this regression has been run multiple times in which each time a specific group of control variables was added. The first regression shows the results for the key variable only. The outcome shows no significant results for non-cooperation as the only explanatory variable for director turnover. Regression (2) includes control variables pertaining to board characteristics being “Age”, “Tenure”, “% Outside”, “Board size” and “Inst. Ownership”. This still gives no significant results for the key variable, however tenure and %outside are significant. The third regression includes the three performance measures “ROE”, “ROA” and “% Sales growth”. In this regression, the non-cooperation has a significant coefficient being 0,640 at the 10% level. Finally, the fourth regression includes the remainder of the control variables “Crisis”, “Hitech”, “Size”, “Leverage” and “Market-to-Book”. This regression shows similar results to the third one, where non-cooperation is still significant at the 10% level. %Outside and Board size are also significant at the 1% and 5% level, respectively. The pseudo R^2 is slightly increasing for the different regressions, being 0,03 for regression (1), 0,09 for regression (2), 0,13 for regression (3), and 0,14 for regression (4).

Table 7
Regression Model 1

Variable	<i>Non-Cooperation</i>		
	(1)	(2)	(3)
Independent board	-0,607 (0,200)	-0,763 (0,125)	-0,826 (0,182)
CEO Duality	0,608 (0,315)	0,59 (0,366)	-1,607 (0,144)
Ind. Board * CEO Duality	-0,804 (0,196)	-0,870 (0,191)	1,632 (0,144)
Sponsor type		-1,156*** (0,000)	-1,010*** (0,000)
Inst. Ownership		2,566*** (0,000)	1,421 (0,031)**
ROE _{t-1}			0,178 (0,874)
ROA _{t-1}			-1,717 (0,351)
% Sales growth			0,061 (0,880)
Crisis			0,365* (0,073)
Size			-0,348*** (0,000)
Leverage			-1,362** (0,033)
Market-to-Book			-0,009 (0,478)
Constant	-15,120*** (0,000)	-15,423*** (0,000)	-11,107*** (0,000)
Number of observations	2334	2331	1548
Pseudo R ²	0,04	0,09	0,11

This table shows the estimated coefficients for a logit regression relating to the effect of an independent board and CEO duality on non-cooperation between the board of directors and shareholders over the 2007-2014 period. The markings ***, ** and * indicate a coefficient significant at the level 1%, 5% and 10% respectively where the corresponding p-values are between parentheses below the coefficient. The independent variable in this regression is the dichotomous “non-cooperating” variable that is 1 when there is no cooperation between the board of directors and the shareholders, and 0 otherwise. The regression has been run three times. The (1) regression isolates the effect of an independent board and CEO duality. Regression (2) includes sponsor type and institutional ownership. And finally, regression (3) includes all specified control variables. The main coefficients are the ones for the “Independent board” variable and the interaction between “Independent board” and “CEO duality”. Independent board is a dichotomous variable that is 1 when the board is deemed independent (60% or more outside directors) and 0 if otherwise. CEO duality is 1 when the firm has a CEO that is also the chairman of the board, and 0 if otherwise. The variable “Sponsor type” is included to account for either the institutional or individual sponsor of proposals. “Institutional ownership” is the percentage of institutional holdings in a firm. “ROE_{t-1},” “ROA_{t-1},” and “% Sales growth” are proxies for the companies’ prior-year’s performance. “Crisis” is to account for the financial crisis in the years 2008 & 2009. “Size” is the firm size measured by the logarithm of the firm’s assets. And finally “Leverage” and “Market-to-Book” are added to proxy the firm’s growth potential. All three models utilize every observation for which there was sufficient data. Regression (3) has fewer observations due to limited performance data of several firms.

The results of the final regression suggest that the likelihood of director turnover is higher when there is no cooperation between shareholders and the board of directors. The non-cooperation coefficient is significant at the 10% level with a p-value of 0,079. The coefficient's value of 0,641 translates to an 89,8% chance of having a director turnover when there is no cooperation opposed to when there is cooperation, holding everything else at a fixed value. The second hypothesis expected that non-cooperation between shareholders and the board of directors would increase the likelihood of having a director turnover in the following year. The evidence that is found is consistent with hypothesis 2 and thus it can be accepted. This shows that it is likely that when there is a conflict of interest between the board and the shareholders this translates in a change in governance of the firm in terms of a turnover in the board of directors. Other interesting results from model 2 are the significant values for %Outside and the Board size. For a higher percentage of outside directors, the results imply that there is a smaller likelihood of director turnover in a firm. A reason for this could be that more outside directors in a board would work together better without issues that could arise with dependent board members, and thus lead to less contract terminations before the end date. Finally, the results suggest that a larger board size gives a higher likelihood of director turnover. A potential reason can be that with more board members there is a higher likelihood of having a conflict of interest with several board members, which could eventually lead to a board member terminating is contract out of dissatisfaction.

Table 8
Regression Model 2

Variable	<i>Director Turnover</i>			
	(1)	(2)	(3)	(4)
Non-cooperation	0,351 (0,260)	0,278 (0,395)	0,640* (0,073)	0,641* (0,079)
Age		0,006 (,609)	-0,007 (0,771)	-0,008 (0,732)
Tenure		0,744** (0,031)	0,050 (0,296)	0,041 (0,399)
Gender		-0,091 (0,955)	-1,336 (0,506)	-1,249 (0,527)
% Outside		-5,481*** (0,000)	-6,565*** (0,000)	-6,176*** (0,000)
Board size		0,063 (0,220)	0,111 (0,138)	0,178** (0,048)
% Inst. Own		0,704 (0,401)	0,352 (0,735)	0,251 (0,819)
ROE			-1,766 (0,308)	-2,083 (0,367)
ROA			2,639 (0,355)	2,926 (0,391)
% Sales growth			1,006 (0,211)	0,745 (0,405)
Crisis				-0,587 (0,169)
Hitech				0,806 (0,512)
Size				-0,171 (0,302)
Leverage				-0,289 (0,779)
Market-to-Book				0,005 (0,660)
N	2182	2164	1379	1379
Pseudo R2	0,03	0,09	0,13	0,14

This table shows the estimated coefficients for a logit regression relating to the effect of non-cooperation of board of directors with the shareholders on the director turnover in a firm over the 2007-2014 period. The markings ***, ** and * indicate a coefficient significant at the level 1%, 5% and 10% respectively where the corresponding p-values are between parentheses below the coefficient. The independent variable in this regression is the dichotomous "Director turnover" variable that is 1 when there has been a forced change in the board of directors in the year after the issued shareholder proposal, and 0 if otherwise. Four different regressions have been run gradually introducing more types of control variables to the base model. The first regression (1) shows the effect of non-cooperation on director turnover without any controls. Regression (2) includes the board characteristics "Age", "Tenure", "Gender", "% Outside" and "Board Size". Age and tenure are the averages of the particular board the firm in a particular year. Gender is measured as the % of female board members. % Outside is the percentage of outside directors in the board. Board size is measured by the total amount of board members. In regression (3) performance indicators ROE, ROA and % Sales Growth are added. The ROE and ROA are the prior-year's numbers and the % sales growth is the percentage change in revenue of the firm. In the final regression (4) other control variables are added such as "Crisis", which is 1 for the years 2008 and 2009, "Hitech", which is 1 for high tech industries, and "Size" which is measured as the logarithm of the firm's assets. Finally "Leverage" and "Market-to-Book" variables are added to proxy for the firm's growth potential. All three models utilize every observation for which there was sufficient data. Regression (3) and (4) have fewer observations due to limited performance data of several firms.

6. Conclusion

This thesis examined the question whether non-cooperation between the board of directors and shareholders leads to a higher likelihood of a change in governance. The paper takes non-cooperation as a sign for a misalignment of interest between the board and its shareholders and uses this as the main starting point. Non-cooperation is operationalized by using shareholder proposals and comparing their voting recommendations given by the board of directors with the eventual voting outcomes of the proposals. The first hypothesis was constructed to elaborate more on the potential causes of non-cooperation between the board and shareholders. As a potential cause for non-cooperation this study researched whether board independency would decrease the likelihood of non-cooperation, moderated by the effects of CEO-chairman duality. The second hypothesis is constructed to answer the main research question. Evidence is sought to relate non-cooperation to a higher likelihood of director turnover as a form of change in governance of a firm.

Using a sample of 2374 observation pertaining to 865 unique U.S. Firms, the results for the first hypothesis depict that board independency has no significant effect on the likelihood of non-cooperation, leading to the rejection of the first hypothesis. This result suggests that an independent board does not necessarily mean that the board acts more as a steward for the shareholders. The results for the second hypothesis indicate a significant positive relationship between non-cooperation and a higher likelihood of director turnover. Considering non-cooperation as a way to expose a misalignment of interest between the two parties, the results imply that the effect of this misalignment would be that there is a higher chance of a change in governance.

This paper created a measure for board stewardship by using a new approach to expose a misalignment of interest through examining shareholder proposals. The results give therefore new insights in the academic literature pertaining to shareholder activism and agency theory and show that there are significant effects relating to this misalignment. Additionally, this paper found results that are not confirming previously written literature concerning the stewardship job of the board when looking at board independency.

With these results also a few limitations of this study come to mind. Regarding director turnover, this study only uses contract terminations before the official end date of the contract of the directors. This means that contract terminations that are covered up to for example avoid bad publicity are not included here. Furthermore, this paper looks at a change in governance

regarding the board of directors. It would, however, be interesting to investigate whether this non-cooperation could have an impact in the likelihood of turnover regarding the executive management of the firm.

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