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# SHAREHOLDER PROPOSALS AND ABNORMAL STOCK RETURNS

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A study of shareholder activism



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Shareholder activism is not a privilege - it is a right and a responsibility. When we invest in a company, we own part of that company and we are partly responsible for how that company progresses. If we believe there is something going wrong with the company, then we, as shareholders, must become active and vocal.

Mark Mobius

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## Abstract

I research the success of shareholder proposals on two different ways, through the outcome of the vote on the annual general meeting and the stock market reaction. In line with previous research I find that proposal type and sponsor identity are important determinants of the voting outcome. Corporate governance proposals sponsored by institutional investors receive significantly higher percentages of votes in favor than other proposals and other sponsors. Proposals filed at financial institutions receive significantly lower percentages of votes in favor than those filed in other industries. A potential reason is the additional regulations for shareholders of financial institutions. Though I do find a positive relation between proposal type and sponsor identity and cumulative abnormal returns, the results are not statistically significant, this is in line with prior studies. The only sponsors that have a significantly positive effect on abnormal returns are public pension funds, especially when they sponsor corporate governance proposals. As expected I find a negative relation between the financial industry and cumulative abnormal returns, however this relation is not significant. The number of proposals to be discussed during the annual meeting does have a statistically significant positive effect on abnormal returns. This could indicate that, indeed, the stock market values shareholder proposals as a valuable governance mechanism.

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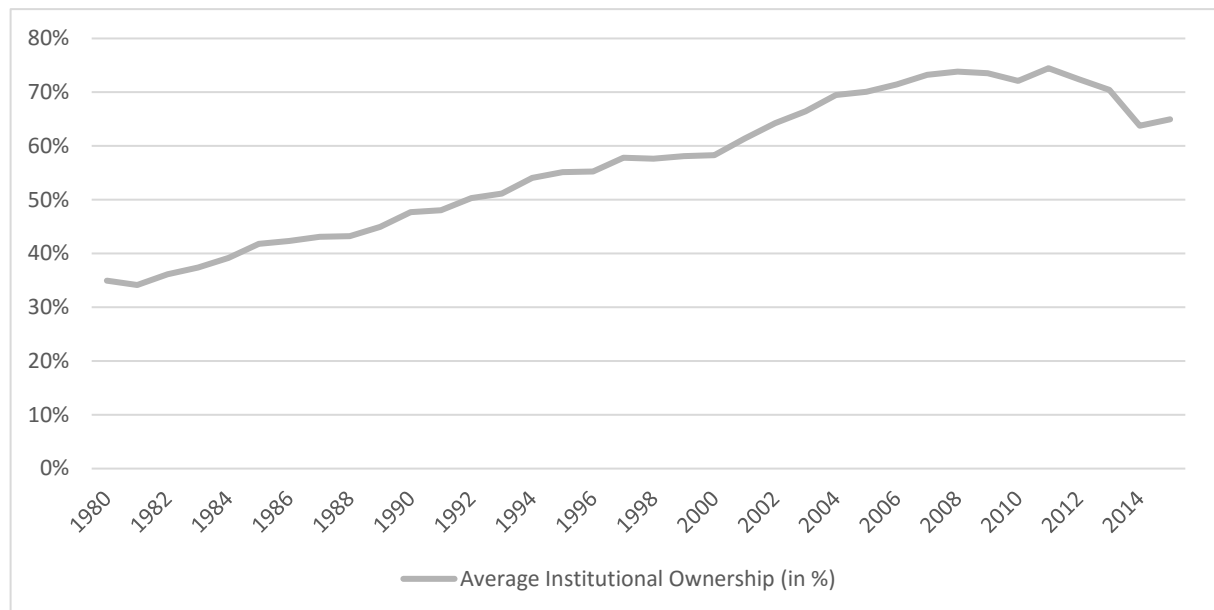
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## 1. Introduction

Shareholder activism is an important topic. The United States have a rich history of shareholders trying to influence the management of the company, also known as corporate governance. In the past fifty years the amount and percentage of institutional investors has grown rapidly and nowadays it is the most important and largest group of investors. Over the period 2011-2015 the 250 largest US companies listed on the S&P 500 had an average of almost 66% of institutional ownership. This shows the importance and size of institutional investors as shareholders in the United States. Figure 1 reports the average percentage of institutional ownership over 1980-2015, as shown the average percentage has an upward trend from 1980-2011, spiking at 74%. In recent years institutional ownership has declined, however it remains steady around 65%. Shareholders become active, because according to the agency theory of Jensen and Meckling (1976), managers pursue their own benefits rather than maximizing shareholders' value. Shareholder activism is not a new topic for institutional investors and they have the power to really influence management of the companies they invest in. One way to influence the management is by "voting with their feet", i.e. to sell their shares. However, large shareholders have a greater incentive and ability to monitor management and perform other governance tasks than smaller, more diffuse shareholders, because the benefits they receive from monitoring are more likely to exceed the costs (Shleifer and Vishny, 1986). Furthermore, large shareholders might not be able to "vote with their feet" as easy as smaller shareholders. A larger amount of shares is harder to sell with a premium and thus the seller will be forced to sell for a lower price. Institutional investors need to make a profit for their investors and will not be too keen on selling with a loss, they will have a strong incentive to enhance firm and share value. Institutional investors often own a large stake of shares of companies and thus can influence management in two ways. Through informal requests and conversations with the board to let them know what is on the shareholders' minds. When management does not listen to the request put forward by the shareholder(s) through informal channels the investor can choose to file a proxy proposal. A proxy proposal can be submitted by a shareholder that holds at least 1% of the shares. This proposal needs to be discussed and voted on during the annual general meeting. The SEC's Shareholder Proposal Rule (Rule 14a-8) requires that companies include shareholder proposals that are to be presented for vote at their annual meetings in their proxy materials. Shareholders who want to propose their own proxy statement and proxy card, must often give the company at least 120 day advance notice of their proposal.

Figure 1. Average percentage institutional ownership.

The graph reports the average percentage of institutional ownership over the period 1980-2015 for the 250 largest S&P 500 companies, as used in the sample. Source: Thomson Reuters 13F filings.



The more than 125 members of the Council of Institutional Investors (CII) control over \$3 trillion and thus have quite some influence on the companies of which they hold shares. Not all institutional investors believe they have a duty to monitor management and promote strong governance. CII promotes strong governance standards at public companies and strong shareholder rights. As stated by CII: “members use their proxy votes, shareowner resolutions, pressure on regulators, discussions with companies and litigation where necessary to effect change” (Council of Institutional Investors, 2016). Because of the size of the assets managed and the amount of members it is believed that CII’s policies and standards are common in the market and thus I believe proxy proposals are a sign of strong governance and the stock market will therefore react positively to the usage of these proposals.

Shareholders have the right and, according to some, the obligation to monitor the management of the company. Shareholders have a number of ways to monitor and influence management, one of the more aggressive is a proxy proposal. Nobody is waiting on a proxy fight and thus a proxy proposal is often used as a last resort. Some conclude that when a shareholder proposes a proxy, management must not be willing to enter the dialogue with the shareholder or the requests put forward by the shareholder have been ignored. In their belief the result will be that the stock market will react negatively to a proxy proposal and thus show negative abnormal returns (Prevost and Rao, 2000; Renneboog and Szilagyi, 2009).

Others believe that a proxy proposal shows that the governing mechanisms in place are working correctly and that there is a good level of monitoring. They say that the proxy proposal

shows good corporate governance and the stock market will react positively to this event (Gillan and Starks, 2000; Renneboog and Szilagyi, 2009; and Dimson, Karakaş and Li, 2015).

The academic literature show no clear answer to which one is correct. Some find no evidence of any relation between proxy proposals and subsequent abnormal returns, others find a positive relation, as well as a negative relation.

I believe proxy proposals have a positive relation with abnormal stock returns and will research this in detail in this thesis. After the recent crisis there has been a call for more and better governance and shareholder activism is a big part of good monitoring. Where previous literature look at the years before 2008, I will use a dataset of 2011-2015.

The key question I will answer in this thesis is the following:

*Is there a positive relation between shareholder proposals and subsequent cumulative abnormal stock returns?*

The idea behind this research question is that investors that use their influence by submitting proposals do this to create value for themselves and that the market responds positively to this increase in governance. Previous research finds that proposal type and sponsor identity are important predictors of voting outcome and abnormal returns. Especially corporate governance proposals sponsored by pension funds and other institutional investors seem to generate abnormal returns.

To better understand shareholder proposals and how effective they are, I will first research voting outcomes of the proposals. Gillan and Starks (2000) and Renneboog and Szilagyi (2009) find that corporate governance proposals sponsored by pension funds are more likely to be successful. In line with their results, I find that corporate governance proposals sponsored by institutional investors receive on average a 13% higher voting outcome.

Most target firms are active in the manufacturing industry and the financial industry receives approximately 16% of the shareholder proposals. This is quite a large amount considering the additional regulations regarding shareholders in the financial industry. These regulations prohibit individual investors to have more than 9.9% of voting power, this includes acting in concert (Castro, 2013) and investors that hold 25% of shares or more become a bank holding company (Meyerson, Rice and Walker, 2008). As far as I know, there is no prior research regarding shareholder proposals at financial institutions. I find that proposals filed at financial institutions on average receive almost 5% lower voting outcome.

In line with Renneboog and Szilagyi (2009), I find that proposal type and sponsor identity have a positive influence on abnormal returns. However, also in line with prior research, these relations are not significant (Smith, 1996; Wahal, 1996; Karpoff, Malatesta and

Walkling, 1996; Carleton, Nelson and Weisbach, 1998; Gillan and Starks, 1998; Del Guercio and Hawkins, 1998; and Prevost and Rao, 2000). Only proposals sponsored by public pension funds and especially corporate governance proposals sponsored by these funds generate significantly positive daily cumulative abnormal returns, namely 0.051%.

According to Roman (2015) shareholder activism at financial institutions enhances risk-taking, which leads to higher shareholder value. I do not find a statistically significant effect that shareholder proposals filed at financial institutions increases abnormal returns.

Most interestingly is that throughout all models, the number of proposals does have a significant positive effect on abnormal returns. This corresponds to the idea that the stock market reacts positively to the filing of shareholder proposals. Apparently the stock market values the amount of proposals filed and perhaps believes more proposals leads to better monitoring of management.

The structure of the paper will be as follows; in the next section a detailed overview of previous literature can be found. In section 3 the hypothesis development is explained, followed by the research design, data, models used and descriptive statistics in section 4. Section 5 will give a detailed overview of the results and in section 6 I will conclude and discuss.



## 2. Literature Review

Shareholder activism as a corporate governance mechanism has become increasingly important in the United States. Institutional investors have an important role in shareholder activism. Institutional investors are nonbank organizations that trade securities in large quantities or dollar amounts and have the resources and specialized knowledge to extensively research investment options and strategies. Institutional investors face fewer protective regulations because it is assumed they are more knowledgeable than other investors. Examples of institutional investors are pension funds and life insurance companies. Sias and Starks (1997) find that large institutions' ownership increased from 24% in 1980 to just under 50% by the end of 1994. And in 2002 institutional investors own 50% of the top 50 U.S. companies and the top 20 U.S. pension funds own 8% of total stock of the 10 largest companies in the U.S (Davis, 2002). The question rises, how can shareholders have an impact on management?

Holmström and Tirole (1993) claim that the stock market is a logical monitor of managerial performance, because stock prices incorporate performance information that cannot be extracted from profit data alone. This however does not explain why shareholders become active. According to Hirschman (1980) shareholders have three choices; exit, voice and loyalty. They can vote with their feet, hold their shares and voice dissatisfaction or hold shares and do nothing. In monitoring management and good corporate governance, voice (shareholders activism) is very important. To better understand shareholder activism, we first need to better understand corporate governance. According to Zingales (1998), corporate governance is the exercise of authority, direction and control. Shleifer and Vishny (1997) agree and add that there is an inherent link to the economic interest of the participants and in particular that it “deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” Though there is not an ambiguous definition of corporate governance, the broad view is that corporate governance pertains to the organization as a nexus of contracts (Gillan and Starks, 1998). Workers, creditors and shareholders all are a part of the organization. Workers and creditors are better protected than shareholders, because they can apply pressure by threatening to withdraw labor and debt finance. Shareholders do not have these means, thus a key to successful forms of corporate governance is mechanisms for legal protection of shareholders (e.g. the right to vote on corporate matters) (Schleifer and Vishny, 1997). However, when there is no good corporate governance in place, the cost of conflicting goals and desires of shareholders and management is borne by shareholders (i.e. agency cost), because they have an information disadvantage (Jensen and Meckling, 1976). Resistance of

managers to takeovers that threaten their positions (Long and Walkling, 1984) and the premium paid for shares with voting rights (Zingales, 1995) are evidence of agency costs. Roll (1986) finds evidence as well; share prices of bidder firms fall when acquisitions are announced. Weakly supervised boards are likely to be captured by management that will act in their interests, rather than those of shareholders (Jensen, 1993). Though takeovers seem to address governance issues (Fama and Jensen, 1983), with the downturn in mergers, acquisitions and other control activities in the early 1990s, the effectiveness has dwindled (Jensen, 1993). Large shareholders have thus been motivated to actively participate in the company's strategic direction (Gillan and Stark, 2000). Jensen and Meckling (1976) add that the rationale behind shareholder activism arises from the need to resolve the agency conflicts, i.e. to incentivize management to make decisions in the shareholders' best interest rather than their own.

One way to express voice is through shareholder proposals. The first way to measure success of shareholder proposals is by looking at the voting outcomes. Gordon and Pound (1993) are the first to analyze voting outcomes. They find that for the 1990 U.S. proxy season the voting support depended on the issue addressed by the proposal, sponsor identity, ownership structure of the company and the past performance of the target firm. Proposals sponsored by institutional investors had the highest average votes and there was higher support for proposals to rescind poison pills and to relax supermajority amendments. Poor long term past performance also had a positive influence on the voting outcomes of shareholder proposals. During the 1994 U.S. proxy season, Thomas and Martin (1998) and Thomas and Cotter (2007) find similar results. Proposals sponsored by labor unions increases the votes in favor. Gillan and Starks (2000) are the first to examine voting outcomes over time. They look at proposals at U.S. public firms over a sample period of 1987 to 1994. While shareholder proposals typically do not get majority voting, over the period the total amount of proposals and votes in favor increase and they find the same drivers of voting outcomes. Gillan and Starks (2000) also are the first to measure success of shareholder proposals by looking at the stock market reaction. A lot of research has been done as to whether shareholder proposals have an influence on abnormal returns. Though researchers do not find an ambiguous answer, Karpoff (2001) finds that the disagreement amongst researchers is more apparent than real. Most evidence indicates that shareholder activism can prompt small changes in target firms' governance structures, but has no significant effect on abnormal returns around the assumed date of information release (Smith, 1996; Wahal, 1996; Karpoff, Malatesta and Walkling, 1996; Carleton, Nelson and Weisbach, 1998; Gillan and Starks, 1998; Del Guercio and Hawkins, 1998; and Prevost and Rao, 2000; Thomas and Cotter, 2007; Ertimur, Ferri and Stubben, 2010).

On the short term, researchers find that shareholder proposals have some positive returns (Opler and Sokobin, 1995; Gillan and Starks, 1996; Gillan and Starks, 2000; Renneboog and Szilagyi, 2009; Renneboog and Szilagyi, 2011; and Dimson, Karakaş and Li, 2015). Gillan and Starks (2000) measure the success of shareholder activism by examining short-term market reactions conditioned on proposal type and sponsor identity. They find that the nature of the stock market reaction is typically small and varies across sponsor identity. Renneboog and Szilagyi (2009) measure success the same way and use a large sample of 2819 proposals at 654 U.S. public firms, between 1996 and 2005 and find significant abnormal stock returns in a three-day period surrounding the proxy mailing date. They also find that proposals targeting anti-takeover provisions and proposals sponsored by public pension funds and investment firms received by far the most votes in favor. Dimson, Karakaş and Li (2015) also look at U.S. public companies, but use more recent data, from 1999 to 2009. They find that successful (unsuccessful) engagements are followed by positive (zero) abnormal returns. Socially conscious institutional investors are more likely to target companies with inferior governance. If the targeted firm has reputational concerns and higher capacity to implement changes success is more probable. The Council of Institutional Investors (CII) used to publish a list of underperformers and other firms that could benefit from shareholder activism. The 96 companies that appeared on the focus list over the years 1991 to 1993 experienced an average share price increase of 11.6% above the S&P 500 in the first year after being listed (Opler and Sokobin, 1995). The key criterion to target a firm is poor performance. Targets often have low insider ownership and poor governance structure (Chew and Gillan, 2009). Investors try to improve governance structures, because good corporate governance leads to higher valuations (Durnev and Kim, 2005). Especially institutional investors and hedge funds use this strategy, however they seem to have other instruments to influence management besides shareholder proposals.

According to Carleton, Nelson and Weisbach (1998) most of the shareholder activism is behind the scenes through private negotiations. In their research they study the direct negotiations between retirement provider TIAA-CREF and target firms. Of the 45 firms contacted by TIAA-CREF, 71% reached a negotiated settlement prior to the vote on the shareholder proposal. These results suggest that the studies mentioned before might substantially understate the real effect of shareholder activism, because they do not observe the full set of proposals. CALPERS also is a pension fund that targets firms directly to try to increase performance by, among other things, improve governance structure. Smith (1996) finds that 72% of targets did adopt proposed governance structure resolutions or made changes

sufficient to warrant a settlement. Moreover, CALPERS gained an estimated \$19 million over 1989 to 1993 at a cost of \$3 million, i.e. there was a statistically significant increase in shareholder wealth. Private negotiations between management and institutional investors prove to be a fruitful endeavor for shareholders as researchers find a significant wealth effect (Wahal, 1996; Strickland, Wiles and Zenner, 1996; and Monks, 1998). To better understand how private negotiations work, McCahery, Sautner and Starks (2016) survey institutional investors about their role in corporate governance. According to their survey, and in line with Levit (2013), behind the scenes negotiations and exit are complementary governance devices. Intervention will generally happen before exit. Bauer, Moers and Viehs (2015) investigate withdrawals of shareholder proposals with a very large sample over the period 1997-2009, consisting of over 12,000 proposals filed at S&P1500 companies. They find that proposals filed by institutional investors are more likely to be withdrawn than those filed by individual investors, and the effect is most pronounced for corporate governance proposals. This underlines the fact that institutional investors have the possibility to influence management through negotiations.

Hedge funds are known to be more aggressively managed in order to earn active return for their investors. Hedge funds actively target firms with poor past performance and governance structures, most of these companies are not (yet) listed and smaller than the U.S. public companies that institutional investors target. On average company performance and governance structure of firms targeted by hedge funds improve and researchers find a positive stock market reaction (Brav et al, 2008; Brav, Jiang and Kim, 2009; Becht et al 2009; Gantchev, 2013; Bebchuk, Brav and Jiang, 2014; and Gantchev, Gredil and Jotikasthira, 2015). Hedge fund activism reaches further than just the target firm. Industry peers with similar fundamentals as the target reduce agency costs and improve operating performance, resulting in a lower probability of being targeted (Gantchev, Gredil and Jotikasthira, 2015). The authors call this “do-it-yourself” activism.

Previous literature does not find an ambiguous answer to the success of shareholder activism through proposals. Private negotiations seem to have a positive wealth effect for shareholders, however prudence is called for the results from hedge fund activism since the target firms are not publicly listed and are mostly smaller firms. Stock returns of smaller firms tend to outperform returns of larger firms (Fama and French, 1993).

### 3. Hypothesis Development

Most studies conducted in the early '90s find no significant effect of shareholder activism on stock returns. However, studies from the late '90s and more recent studies do find significant results on the short term. Over the years the total amount of shareholder proposals has risen significantly, as did the voting success of these proposals (Gordon and Pound, 1993; Thomas and Martin, 1998; Gillan and Starks, 2000; and Renneboog and Szilagyi, 2009). This suggests that shareholder activism through proxy proposals has become an important and more effective way of corporate governance and monitoring. The first way to measure success of shareholder activism is by looking at the voting outcome. Even though a shareholder proposal that would get majority voting is not binding, management seems to listen to these proposals. The voting success of proposals is mostly driven by proposal type and sponsor identity. If the topic of the proposal concerns the removing of anti-takeover devices and limit executive compensation, especially if the sponsor is a public pension fund, the company is more likely to implement the changes (Bizjak and Marquette, 1998; Thomas and Martin, 1999; Thomas and Cotter, 2007). The first hypothesis therefore is:

*H1: There is a positive relation between corporate governance proposals and voting success.*

In line with previous studies, I believe shareholder proposals sponsored by institutional investors will have a higher voting outcome than proposals sponsored by individuals, religious institutions or socially responsible investors. Therefore the second hypothesis is:

*H2: There is a positive relation between shareholder proposals sponsored by institutional investors and voting success.*

Since both proposal type and sponsor identity are the most important drivers of voting success and because Gillan and Starks (2000) and Renneboog and Szilagyi (2009) find that especially corporate governance related proposals sponsored by institutional investors have a higher voting outcome, the third hypothesis is:

*H3: There is a positive relation between corporate governance proposals sponsored by institutional investors and voting success.*

Financial institutions are historically less likely to be the target of shareholder activism. This is mostly due to government regulations, because banks and other financial institutions can have an enormous destabilizing influence on the economy when something goes wrong. We have seen this in the recent financial crisis. One of the regulations prohibits shareholders to

have more than 9.9% of voting power, this also applies to acting in concert (Castro, 2013). This would make it harder for shareholders to collaborate with other shareholders to get majority voting. In addition, if a person or organization acquires 25% or more of voting power of a bank or bank holding company the person or organization becomes a bank holding company itself, this makes it harder for common shareholders and institutional investors to acquire a larger stake in banks (Meyerson, Rice and Walker, 2008). Therefore I formulate the fourth hypothesis:

*H4: There is a negative relation between the financial industry and the voting success of shareholder proposals.*

The market reaction to shareholder proposals can be driven by a positive real effect or a negative signaling effect (Renneboog and Szilagyi, 2009). The market should react positively and mostly in line with the voting outcomes if it believes shareholder proposals are a good corporate governance mechanism and believes the sponsor is a valuable monitoring agent. However, the submission of proposals by shareholders might indicate the shareholder has tried to negotiate with management but failed to settle and send a negative signal to the market. Gillan and Starks (2000) and Renneboog and Szilagyi (2009) find short-term positive effects of shareholder proposals on abnormal stock returns. Especially for corporate governance related proposals they find a positive relation. For sponsor identity, however, the results differ. Gillan and Starks (2000) find that proposals sponsored by individuals garner fewer votes than proposals sponsored by institutional investors, however the stock market reaction to individual sponsors is positive as to a negative reaction when sponsored by institutional investors. Renneboog and Szilagyi (2009) also find that proposals sponsored by institutional investors have a higher voting outcome, however, they find a positive market reaction for (almost) all sponsors.<sup>1</sup> According to these findings, proposal type has more influence on abnormal returns than sponsor identity, therefore the fifth hypothesis is:

*H5: There is a positive relation between corporate governance proposals and abnormal stock returns.*

I believe corporate governance and monitoring became a more important aspect of institutional shareholders after the financial crisis, because institutional investors have the power and perhaps responsibility to influence and steer management when they believe they have taken or will take a wrong turn. The sixth hypothesis is:

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<sup>1</sup> In two out of four models of Renneboog and Szilagyi, proposals sponsored by investment firms are met with negative cumulative abnormal returns.

*H6: There is a positive relation between shareholder proposals sponsored by institutional investors and abnormal stock returns.*

In line with the hypothesis 3 and with Renneboog and Szilagyi (2009), especially corporate governance proposals sponsored by institutional investors will trigger a positive market reaction. The seventh hypothesis therefore is:

*H7: There is a positive relation between corporate governance proposals sponsored by institutional investors and abnormal stock returns.*

As stated before, maximizing shareholder value should not be a goal of financial institutions, because of their importance to stabilize the economy. Roman (2015), however, finds that shareholder activism in banking leads to destabilization and an increase in risk-taking, but also to shareholder value creation. This would suggest that even though I believe the voting success to be less than for other industries, target companies active in the financial industry would have higher abnormal returns. The last hypothesis is:

*H8: There is a positive relation between the financial industry and abnormal stock returns.*

## 4. Research Design and Data

This chapter will provide information regarding the research design, data and methodology used. In the following sections I will first elaborate on the data and sample followed by the variables and the model.

### §4.1 Data and sample

Data regarding proxy proposals is collected from Proxy Monitor. This is a publicly available database, sponsored by the Manhattan Institute, which tracks shareholder proposals in real time for the largest 250 U.S. public companies according to Fortune Magazine. The database includes vote results for all the hot button issues, including political spending and lobbying disclosure, separation of the roles of CEO and Chairman, and board declassification, posted as these companies hold their annual meetings and file vote results. They also record which companies are targeted most and who are the most active and successful submitters of proposals.

The database has very comprehensive information, however data is only available for recent years, namely 2011-2016. From January 2011 to December 2015 a total of 1,567 shareholder proposals are recorded by Proxy Monitor at 215 different companies. The database is updated yearly to consist of the 250 largest U.S. firms. Of the shareholder proposals, 235 are undisclosed, leaving a sample of 1,332 proposals. The database only contains the dates of the annual meeting, not the date of the proxy mailing. This is handpicked from the SEC EDGAR database.

Data regarding industries, net income, revenues and CEO stock ownership percentage is obtained from Compustat. Institutional ownership percentages are obtained from Thomson Reuters 13F filings. I gather the Standard Industry Classification Code (SIC) for every company. This code gives a general and a specific definition of the industry the company is active in. Data on daily stock prices is obtained from the CRSP database. With this data a 230-day average is constructed to use when calculating the abnormal stock returns. I use 250 days before the proxy mailing date to 20 days before the proxy mailing date, this corresponds to approximately one year. Data to construct the Fama and French (1993) three-factors is obtained from Compustat.



## §4.2 Variables

### §4.2.1 Dependent Variables

Two different measurements are used to determine whether a proposal is a success. For hypotheses 1-4 voting outcome of the proposals is the measurement of success and the dependent variable. The second measurement of success is through the reaction of the market. The dependent variable in hypotheses 5-8 is the abnormal stock returns. There are a couple of limitations to this way of measuring success. First, will the reaction on the stock market be at the moment the information is first announced, i.e. at the moment of the proxy mailing or will the reaction be at the day of the annual meeting. According to Bhagat and Brickley (1984) the wealth effect must be examined around the date of the proxy mailing, because the information from the proxies is impounded in the share prices on that date. Proxy mailing dates and annual meeting dates are reasonably predictable and contain important information, therefore expected return and risk may increase around the proxy statement date (Brickley, 1986). The second problem is that this wealth effect is hard to measure, because proxy mailings normally not only contain multiple proxy proposals, but also other information. Renneboog and Szilagyi (2009) argue that even though the effect is hard to measure, this argument “does not explain why activists are actually prepared to bear considerable costs of submitting proxy proposals, if the market expects these to be ineffective anyhow in disciplining management.” In line with Gillan and Starks (2000) and Renneboog and Szilagyi (2009) I believe the proxy mailing date to be the appropriate event date and thus focus on the days surrounding the proxy mailing to capture the market reaction. I use the market model event study methodology developed by MacKinlay (1997) to investigate returns surrounding the proxy mailing. The market model relates the return of a specific security to the return of the market portfolio, thence the expected return of the security can be computed. By subtracting the expected return from the realized return, the abnormal return is calculated. The market model is:

$$R_{it} = \alpha_1 + \beta_1 R_{mt} + \varepsilon_{it}$$
$$E(\varepsilon_{it}) = 0 \quad \text{var}(\varepsilon_{it}) = \sigma_\varepsilon^2$$

Where  $\alpha_1$  and  $\beta_1$  can be used to compute the expected return (ER):

$$ER_{it} = \alpha_1 + \beta_1 R_{it}$$

Gillan and Starks (2000) estimate the market model over 150-day period preceding ten days before the proxy mailing date. Renneboog and Szilagyi (2009) estimate the market model over 200-day period preceding twenty days before the proxy mailing date. I estimate the market model over 230-day period preceding twenty days before the proxy mailing date, using the S&P 500 market return. This period matches roughly one year. The period ends twenty days before

the proxy mailing date, this is approximately one month. This period is chosen because it should not contain any information that will be made public at the proxy mailing date. The daily cumulative abnormal returns (CAR) induced by the proposal announcement is constructed on a nine-day period [-1, +7] around the proxy mailing. I use a larger period surrounding the proxy mailing date, because it appears that in some cases investors receive the information later than the proxy mailing date.<sup>2</sup>

#### §4.2.2 Independent Variables

For the first and fifth hypothesis the independent variable *Proposal type* is a dummy variable equal to one if the proposal is related to corporate governance, or equal to zero if otherwise. The independent variable for the second and sixth hypothesis is the dummy *Sponsor identity* which will equal one if the proposal is sponsored by an institutional investor or else equals zero. *Proposal-Sponsor interaction* is a dummy variable that measures the interaction between proposal type and sponsor identity, it is the independent variable in the hypothesis three and seven, equal to one if the proposal is a corporate governance issue sponsored by an institutional investor. The independent variable in the fourth and eighth hypothesis is *Industry*, which is a dummy variable equal to one if the target company is active in finance, real estate or insurance, or equal to zero otherwise.

#### §4.2.3 Control Variables

In hypotheses 1-4 *Previous stock performance* and *Institutional ownership* are the control variables. *Institutional ownership* controls for the possibility that proposals only receive more support simply because there are more institutional shareholders. In the fourth hypothesis *Proposal type*, *Sponsor identity* and *Proposal-Sponsor interaction* will also be added as control variables.

Control variables that will be used for hypotheses 5-8 are the *Debt-to-Equity ratio* and the *Market-to-Book ratio*, these are two of Fama and French's (1993) three-factors. Size is the third factor, however this variable is dropped due to a very high correlation with other control variables and dependent variables. In line with Renneboog and Szilagyi (2009), I expect debt-to-equity and market-to-book to be negatively related to the actual success of the shareholder proposal, because they are reliable proxies for agency problems (Fama and French, 2001). Other control variables are the *Number of proposals* per proxy mailing, the *Previous performance*,

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<sup>2</sup> I also use CAR [-1,1] as the dependent variable and the results do not differ, the relation only gets smaller and less significant.

*Institutional ownership* and *CEO ownership*.<sup>3</sup> *Previous performance* measures the previous two year daily average stock return. Table 8 in the appendix reports the descriptive statistics for this and the other control variables. *CEO Ownership* is a variable that measures the percentage of stocks owned by the CEO, which is a governance characteristic. In the last hypothesis *Proposal-Sponsor interaction* will also be added as a control variable.

## §4.3 Model

### §4.3.1 Hypotheses 1-4

The measurement of shareholder activism success (the dependent variable) in the first four regression is voting outcome. The regressions for hypothesis 1 will be as follows:

$$(1) \% \text{Votes} = \alpha + \beta_1(\text{Proposal type}) + \beta_2(\text{Previous performance}) + \beta_3(\% \text{ Institutional ownership}) + \varepsilon$$

Where *%Votes* is a ratio variable on a scale of 0-1, where 1 would equal 100% of votes in favor of the proposal. *Proposal type* is a dummy variable equal to one if the proposal is related to corporate governance, or equal to zero otherwise. *Previous performance* is a control variable of the past two-year performance of the company's stock. There is a possibility that poor previous performance will push shareholders to vote in favor of proposals, previous performance will control for this. The percentage of *Institutional ownership* controls for the possibility that proposals filed by institutional investors receive more support simply because they are submitted to firms with higher level of institutional ownership. I expect the coefficient of *Proposal type* to be positive, this would mean that a corporate governance proposal has a higher voting success than other proposals. The results from previous studies support this hypothesis.

For the second hypothesis I use the same model but with a different independent variable. The variable *Sponsor identity* is the explanatory variable in the second regression. Where *Sponsor identity* is a binary variable equal to one if the proposal is sponsored by an institutional investor (i.e. public pension fund or union pension fund) or else equals zero. In line with the hypothesis and previous research I expect the coefficient of the variable to be positive,

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<sup>3</sup> Originally I added Board Size as a control variable, because it controls for the effectiveness in monitoring management. Smaller boards are more effective and result in higher market valuation (Yermack, 1995). According to Jensen (1993) the perfect number for a board is seven or eight. However, due to high correlation with other variables I dropped this variable.

voting outcome is higher for proposals sponsored by institutional investors than for other sponsors.

$$(2) \% \text{ Votes} = \alpha + \beta_1(\text{Sponsor identity}) + \beta_2(\text{Previous performance}) + \beta_3(\% \text{ Institutional ownership}) + \varepsilon$$

The regression for the third hypothesis is as follows:

$$(3) \% \text{ Votes} = \alpha + \beta_1(\text{Proposal} - \text{Sponsor interaction}) + \beta_2(\text{Previous performance}) + \beta_3(\% \text{ Institutional ownership}) + \varepsilon$$

The same control variables as in regression 1 and 2 are used. The independent variable is the dummy variable *Proposal – Sponsor interaction*, which is equal to one if the proposal is corporate governance related and sponsored by an institutional investor. I expect the coefficient of the interaction variable to be positive.

The regression for the fourth hypothesis includes the same control variables as hypotheses 1-3, the independent variables from previous regressions are added as control variables. The regression is as follows:

$$(4) \% \text{ Votes} = \alpha + \beta_1(\text{Industry}) + \beta_2(\text{Sponsor identity}) + \beta_3(\text{Proposal type}) + \beta_4(\text{Proposal} - \text{Sponsor interaction}) + \beta_5(\text{Previous performance}) + \beta_6(\% \text{ Institutional ownership}) + \varepsilon$$

Where *Industry* is a dummy variable equal to one if the target company is in finance, real estate or insurance, or else is equal to zero. I expect the coefficient of the variable to be negative, because historically shareholder activism is relatively rare for financial institutions, the regulatory framework prohibits individual shareholders to have more than 9.9% of voting power (Castro, 2013). These rules also apply for acting in concert and thus make it harder for shareholders to collaborate with others to get majority voting. Furthermore, investors that acquire 25% or more of voting securities gain control of the bank holding company and become a bank holding company themselves (Meyerson, Rice and Walker, 2008).

#### §4.3.2 Hypotheses 5-8

Success of shareholder activism is measured through cumulative abnormal returns surrounding the proxy mailing date (CAR [-1,7]) for hypotheses 5-8. For the fifth hypothesis the regression is as follows:

$$(5) \quad CAR = \alpha + \beta_1(\text{Proposal type}) + \beta_2(\# \text{ of Proposals}) + \beta_3(\text{Debt} - \text{to} - \text{Equity}) + \beta_4(\text{Market} - \text{to} - \text{Book}) + \beta_5(\text{Previous performance}) + \beta_6(\% \text{ Institutional ownership}) + \beta_7(\text{CEO stock ownership}) + \varepsilon$$

Where *CAR* is a continuous ratio variable that can take any value. *Proposal type* is the same dummy variable as in model one and four, equal to one if the proposal is related to corporate governance, or else equals zero. I expect the coefficient of the variable to be positive, just as in model 1. The control variables in models five, six and seven are all the same. The variable *# of Proposals* controls for the number of shareholder proposals that are up for voting at the annual meeting. *Debt-to-Equity* and *Market-to-Book* are financial control variables, where *Debt-to-Equity* is the ratio of long-term debt over common equity and *Market-to-Book* is the ratio of market value of equity over the book value of equity. The continuous variables *Previous performance* and *% Institutional ownership* are the same as in models 1-4. *CEO stock ownership* is a variable that measures the percentage of stocks owned by the CEO. According to Jensen and Murphy (1990) linking CEO wealth to the performance of the company through stock ownership is a way to remedy agency problems, because it will incentivize the CEO to act in the shareholders' interest. However, if stock-based compensation becomes very high it may actually reflect managerial rent-seeking and intensify agency problems (Bebchuk and Fried, 2003). I therefore expect the coefficient of *CEO stock ownership* to be negative.

For hypothesis six the independent variable will be the binary variable *Sponsor identity* equal to one when the proposal is sponsored by an institutional investor (i.e. public or union pension fund) or else equal to zero. The same control variables as in the model of hypothesis five are used. The regression is as follows:

$$(6) \quad CAR = \alpha + \beta_1(\text{Sponsor identity}) + \beta_2(\# \text{ of Proposals}) + \beta_3(\text{Debt} - \text{to} - \text{Equity}) + \beta_4(\text{Market} - \text{to} - \text{Book}) + \beta_5(\text{Previous performance}) + \beta_6(\% \text{ Institutional ownership}) + \beta_7(\text{CEO stock ownership}) + \varepsilon$$

For hypothesis seven the general form of the model is adjusted to include the independent variable *Proposal – Sponsor interaction*. This is a dummy variable equal to one if the proposal is corporate governance related and sponsored by an institutional investor. The coefficient of the variable is expected to be positive, previous research finds corporate governance proposals sponsored by institutional investors to have higher voting outcomes. The regression looks as follows:

$$(7) \quad CAR = \alpha + \beta_1(Proposal - Sponsor Interaction) + \beta_2(\# \text{ of Proposals}) + \beta_3(Debt - to - Equity) + \beta_4(Market - to - Book) + \beta_5(Previous performance) + \beta_6(\% Institutional ownership) + \beta_7(CEO stock ownership) + \varepsilon$$

The regression for the last hypothesis is as follows:

$$(8) \quad CAR = \alpha + \beta_1(Industry) + \beta_2(\# \text{ of Proposals}) + \beta_3(Debt - to - Equity) + \beta_4(Market - to - Book) + \beta_5(Previous performance) + \beta_6(\% Institutional ownership) + \beta_7(CEO stock ownership) + \beta_8(Proposal - Sponsor Interaction) + \varepsilon$$

Where *Industry* is a dummy variable equal to one if the target company is active in finance, real estate or insurance. Whereas the expected coefficient of *Industry* in model four is negative, I expect the variable to have a positive influence on *CAR*. Roman (2015) finds that in normal times shareholder activism at financial institutions leads to more risk-taking and to higher shareholder value, this would suggest that cumulative abnormal returns surrounding the proxy mailing date are higher for financial institutions than for companies active in other industries. In regression eight the control variables are the same as in regressions five, six and seven and the independent variable *Proposal – Sponsor Interaction* from model seven is added as a control variable as well.

## §4.4 Descriptive statistics

### §4.4.1 Descriptive statistics for Proposals

The sample consist of 1,332 shareholder proposals over the years 2011-2015. Proxy Monitor records the proposal type for all shareholder proposals. Panel A of table 1 reports all shareholder proposals per type over the years 2011-2015. The total number of proposals has increased over the years, only proposals regarding voting rules has declined. In panel B the identity of the sponsors is reported, only union pension funds file less proposals over the years. Most proposals are sponsored by individuals and in every year there are some sponsors undisclosed, these are dropped from the sample. The most prominent individual sponsors, often referred to as “gadfly” investors, are John Chevedden, William Steiner, James McRitchie and Evelyn Davis with a total of 392 proposals in the sample period. Panel C shows that manufacturing firms are targeted most. Over the sample period, the amount of proposals filed at transportation and public utilities and services companies has increased, whereas companies

active in finance, insurance, real estate and retail trade have received less proposals. Table 7 in the Appendix reports the average amount of proposals per company and industry over the sample period. The average is close to 6 and does not differ a lot across industries, only construction firms receive very little proposals per company.

Table 1. Descriptive statistics of proposal type, sponsor identity and industry.  
 This table reports the total amount of proposals per type, sponsor and industry of targets over the years 2011-2015.

<b>Proposals</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Panel A: Proposal Type</b>					
Executive Compensation	30	46	56	46	45
Corporate Governance	96	92	86	77	110
Social Policy	88	100	102	124	113
Voting Rules	33	32	18	21	17
<b>Panel B: Sponsor Identity</b>					
Public pension funds	38	52	49	42	51
Union pension funds	50	46	42	29	30
Hedge Fund	0	1	2	2	1
Religious/socially responsible investing funds	62	61	66	78	89
Individual	97	110	103	117	114
Undisclosed	51	45	50	40	49
<b>Panel C: Industry</b>					
Agriculture, Forestry, Fishing	0	0	1	2	3
Construction	1	0	1	1	1
Finance, Insurance, Real Estate	52	39	41	42	42
Manufacturing	98	104	107	115	105
Mining	17	15	12	13	19
Retail Trade	36	46	29	27	25
Services	9	14	17	16	26
Transportation & Public Utilities	31	46	49	48	61
Wholesale Trade	3	6	5	4	3
Total (excluding undisclosed)	247	270	262	268	285



#### §4.4.2 Descriptive statistics for Voting Outcome

Table 2 reports the mean, median and more descriptive statistics per proposal type, sponsor identity and year. The mean voting outcome of the entire sample is 26.2%, which is very low and shows that proxy proposals are not the best way to influence management. However, this thesis looks at the market reaction on proxy proposals. Over the sample period social policy proposals are filed the most, followed by corporate governance proposals. Voting rules receive, on average, the most votes in favor, however the standard deviation is also slightly larger than for the other proposal types. Social policy proposals have a very low success rate in the sample period, with a mean of only 16.9% of votes in favor.

Proposals sponsored by public pension funds and union pension funds (institutional investors) receive the highest mean of votes in favor, with 34.5% and 29% respectively. Surprisingly, individuals do not seem to do much worse than union pension funds and even better than hedge funds and religious or socially responsible investing funds. The average percentage of votes in favor for “gadfly” investors is even 31.8%, which is better than union pension funds. Whereas the average of the other individual sponsors is 23.3%.

The average percentage votes in favor is very low when the target is active in agriculture, forestry or fishing and very high when active in construction and wholesale trade, however the N for these industries is too low to conclude that these industries have an influence on the voting outcome. In line with the hypothesis that the financial industry has a negative effect on voting outcomes, Panel C shows that the average voting outcome of target companies active in finance, insurance or real estate is the lowest of all industries. Furthermore, mining firms have the highest mean voting outcome, followed by the transportation and public utilities industry.

Over the years 2011-2014 there is a clear downward trend for voting outcome mean, however in the year 2015 the mean of voting outcome spikes up and is the highest for the entire sample.

Table 8 in the Appendix reports the descriptive statistics for all the variables used in hypotheses 1-4. All the continuous variables are winsorized at the 1% and 99%.

Table 2. Descriptive statistics of voting outcome on proposal type, sponsor identity, industry and year. This table reports the percentage of votes per proposal type, sponsor identity, industry and year over the years 2011-2015.

<b>Voting Outcome</b>	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>St. Dev.</b>	<b>Min</b>	<b>Max</b>
All	1332	26,2	25,6	18,8	0,0	98,4
<b>Panel A: Proposal Type</b>						
Corporate Governance	461	34,8	36,1	20,7	0,0	98,1
Executive Compensation	223	25,5	26,2	12,7	0,0	69,2
Social Policy	527	16,9	17,1	12,6	0,0	76,3
Voting Rules	121	35,1	31,4	23,6	0,0	98,4
<b>Panel B: Sponsor Identity</b>						
Public pension funds	232	34,5	31,2	21,2	0,0	92,4
Union pension funds	197	29,0	28,9	14,3	0,0	83,1
Hedge Fund	6	19,5	17,5	21,9	0,0	47,3
Religious/socially responsible investing funds	356	17,0	14,4	14,7	0,0	98,1
Individual	541	27,8	27,5	19,2	0,0	98,4
<b>Panel C: Industry</b>						
Agriculture, Forestry, Fishing	6	19,2	13,4	18,6	7,6	53,5
Construction	4	49,9	43,3	24,4	30,7	82,2
Finance, Insurance, Real Estate	216	22,7	22,2	17,0	0,0	98,0
Manufacturing	529	26,1	25,6	19,8	0,0	98,4
Mining	76	33,1	30,5	21,0	0,0	92,4
Retail Trade	163	25,0	23,4	20,0	0,0	97,4
Services	82	23,3	24,3	16,3	0,0	63,8
Transportation & Public Utilities	235	28,2	26,9	16,6	0,0	83,1
Wholesale Trade	21	36,1	40,1	12,7	0,0	52,6
<b>Panel D: Year</b>						
2011	247	27,6	27,3	19,2	0,0	98,0
2012	270	26,7	24,4	20,8	0,0	98,4
2013	262	25,5	25,0	18,3	0,0	85,7
2014	268	22,9	23,8	16,4	0,0	92,2
2015	285	28,3	27,5	18,8	0,0	92,4

#### §4.4.3 Descriptive statistics for Cumulative Abnormal Return

Table 3 reports the descriptive statistics of cumulative abnormal returns. The CAR is winsorized on the 1% and 99%. The mean of the entire sample is -0.75%. This shows that the cumulative abnormal returns are, on average, negative surrounding the proxy mailing date. The median of the entire sample, however, is slightly positive with 0.12%. The median is more robust for outliers than the mean. There were 1,332 proposals in the sample, but after dropping missing values 1,320 observations remain. The standard deviation of the sample is very large indicating that data values do not tend to be very close to the mean.

Panel A reports the cumulative abnormal returns per proposal type. Proposals regarding executive compensation tend to have the largest negative market reaction. Whereas corporate governance, voting rules and social policy proposals all have positive medians, meaning the market reacts positive to these topics.

The stock market reacts very negatively to proposals sponsored by union pension funds and by individuals, with -3.37% and -1.53% respectively, as shown in panel B of table 3. Proposals sponsored by public pension funds have a very positive reaction of 2.37%. In the models stated in §4.3 I specify institutional investors as public and union pension funds and hypothesize these sponsors to have a positive effect on voting outcome and CAR. Public pension funds are state or city specific public employee pension funds, public services employee pension funds or foreign government pension funds. Union pension funds are general private labor union pension funds and company-specific labor union pension funds. The biggest difference between these pension funds is that public pension funds are subject to additional laws, for example local funds are subject to states' laws, as are foreign government pension funds subject to extra regulation. Panel B shows that the reaction on public pension funds is very positive and on union pension funds very negative, this could cancel out the effect in the regression, therefore I will run an extra regression where sponsor identity will be specified as public pension funds only.

Panel C reports the market reaction per industry. As hypothesized the reaction for companies active in finance, insurance or real estate is positive, 2,79%. The N for agriculture, forestry, fishing, construction and wholesale trade is too low to, state that the reaction is generalizable. The stock market reacts very positive to mining companies that are targeted, with 14,02%. The CAR for retail trade and transportation and public utilities is negative with -7,81% and -2.87% respectively. Manufacturing companies tend to have negative cumulative abnormal returns with mean -0.84%, however the median is 2.29%, which is more robust for outliers than the mean.

Panel D reports the CARs over the sample period, per year. Interestingly, in 2011 and 2015 the market reaction is positive with 0.49% and 1.87% respectively. In the years between, 2012-2014, the CARs are negative, with a positive median of 2.16% in 2014.

Table 3. Descriptive statistics of CAR on proposal type, sponsor identity, industry and year. This table reports the descriptive statistics per proposal type, sponsor identity, industry and year over the years 2011-2015. The table shows the percent daily cumulative abnormal returns in the days -1 to +7 surrounding the proxy mailing date. The market model is estimated over a 250-day period, ending 20 days before the proxy mailing, using the market return on the S&P 500 index.

<b>Daily Cumulative Abnormal Returns</b>	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
All	1320	-0,75	0,12	18,70	-44,12	51,49
<b>Panel A: Proposal Type</b>						
Executive Compensation	222	-3,03	-3,32	19,22	-44,12	50,97
Corporate Governance	460	-0,35	1,11	18,58	-44,12	46,73
Voting Rules	121	-1,64	1,16	17,40	-39,15	42,72
Social Policy	517	0,08	0,68	18,83	-42,67	51,49
<b>Panel B: Sponsor Identity</b>						
Union Pension Funds	196	-3,37	-1,20	18,82	-44,12	51,49
Public Pension Funds	231	2,37	2,28	21,63	-43,56	51,49
Hedge Fund	6	6,05	6,68	9,26	-10,65	16,15
Religious/socially responsible investing funds	348	-0,25	0,61	18,62	-42,67	51,49
Individual	539	-1,53	-0,53	17,21	-44,12	43,53
<b>Panel C: Industry</b>						
Agriculture, Forestry, Fishing	6	1,16	2,86	4,20	-7,41	2,93
Construction	4	9,03	9,26	35,38	-33,90	51,49
Finance, Insurance, Real Estate	216	2,79	2,85	18,84	-33,33	46,73
Manufacturing	518	-0,84	2,29	17,64	-44,12	50,97
Mining	76	14,02	15,69	22,47	-32,55	51,49
Retail Trade	163	-7,81	-6,79	20,15	-44,12	37,84
Services	82	-0,35	1,74	16,50	-41,79	51,49
Transportation & Public Utilities	235	-2,87	-4,54	15,84	-44,12	49,84
Wholesale Trade	20	-14,47	-13,73	12,62	-34,53	19,09
<b>Panel D: Year</b>						
2011	246	0,49	2,08	17,64	-40,18	37,84
2012	266	-2,13	-4,63	19,71	-43,56	49,84
2013	259	-2,12	-0,59	17,14	-42,26	51,49
2014	268	-1,94	2,16	20,10	-44,12	50,97
2015	281	1,87	2,21	18,39	-40,51	51,49

## 5. Results

### §5.1 Regression Results

#### §5.1.1 Voting Outcome

*H1: There is a positive relation between corporate governance proposals and voting success.*

With this hypothesis I want to test the relation between corporate governance proposals and voting outcome. The hypothesis is tested by using a simple OLS regression model. The dependent variable in the regression is voting outcome in percentages. The variable *Proposal Type* is a dummy variable equal to one if the proposal is corporate governance related. A positive coefficient would indicate that there is a positive relation and that corporate governance proposals have a higher voting outcome than other proposals.

Table 4 (model 1) shows the outcome of the first hypothesis. The coefficient for *Proposal Type* is 10.66 and statistically significant at 1%. This means that on average corporate governance proposals receive 10.66% higher voting results than other shareholder proposals. This is in line with the hypothesis and with previous research (Gordon and Pound, 1993; Gillan and Starks, 2000; and Renneboog and Szilagyi, 2009). I hypothesized that poor previous performance could push shareholders towards voting in favor of a proposal, though the coefficient of *Previous Performance* is indeed negative, it is not statistically significant. *Institutional Ownership* has a positive coefficient of 0.17, which indicates that if institutional ownership goes up by one percent, the voting outcome will go up by 0.17%.

*H2: There is a positive relation between shareholder proposals sponsored by institutional investors and voting success.*

A simple OLS regression is used to test whether sponsor identity has an influence on the voting outcome of shareholder proposals. The dependent variable is again the percentage of votes in favor. The dummy variable *Sponsor Identity* is equal to one if the proposal is sponsored by an institutional investor (public and union pension funds) or else zero. A positive coefficient indicates there is a positive relation and that proposals sponsored by institutional investors receive, on average, more votes in favor.

Model 2 in table 4 reports the coefficients of the regression. Indeed, proposals sponsored by institutional investors receive on average 7.94% higher voting outcomes than proposals sponsored by others. This is in line with the hypothesis and with previous research (Gordon and Pound, 1993; Bizjak and Marquette, 1998; Thomas and Martin, 1999; Gillan and Starks, 2000; Thomas and Cotter, 2007; Renneboog and Szilagyi, 2009; and Renneboog and Szilagyi, 2011). Just as in model 1, *Previous Performance* has a negative coefficient that is not statistically

significant (-0.78) and *Institutional Ownership* has a positive influence on voting outcome (0.16%).

Table 4. Voting Outcome, hypotheses 1-4.

Estimated coefficients for regressions relating the voting outcome to proposal type, sponsor identity and target firms' industry over the 2011-2015 sample period. A dummy is used to distinguish corporate governance proposals from other proposal types. Sponsor identity is a dummy as well, equal to one if the proposal is sponsored by an institutional investor (public or union pension funds). Industry distinguishes firms active in finance, insurance or real estate from other industries and proposal\*sponsor is an interaction dummy, equal to one if the corporate governance proposal is sponsored by an institutional investor. I include the two year previous performance and % of institutional ownership as control variables. Model 1-4 represent hypotheses 1-4 respectively. (P-values are provided in parentheses and \* = P < 0.1, \*\* = P < 0.05, \*\*\* = P < 0.01).

Variable	Model 1	Model 2	Model 3	Model 4
Intercept	11,83 *** (0,000)	13,38 *** (0,000)	14,40 *** (0,000)	10,04 *** (0,000)
Proposal Type	10,66 *** (0,000)			11,81 *** (0,000)
Sponsor Identity		7,94 *** (0,000)		9,39 *** (0,000)
Proposal * Sponsor			13,24 *** (0,000)	-2,53 (0,310)
Industry				-4,72 *** (0,000)
Previous Performance	-1,37 (0,138)	-0,78 (0,391)	-0,69 (0,443)	-1,04 (0,235)
% Institutional Ownership	0,17 *** (0,000)	0,16 *** (0,000)	0,16 *** (0,000)	0,16 *** (0,000)
Number of observations	1332	1332	1332	1332
R <sup>2</sup>	0,0899	0,0563	0,0626	0,1436
F	36,13	26,01	20,15	30,89

*H3: There is a positive relation between corporate governance proposals sponsored by institutional investors and voting success.*

With this hypothesis I want to examine if there is an interaction between *Proposal Type* and *Sponsor Identity*. More specific, based on previous research, corporate governance proposals sponsored by an institutional investor receive significantly higher voting outcomes than any other proposal or sponsor. The dependent variable is the same as in model 1 and 2, as are the control variables. Model 3 in table 4 reports the coefficients of the OLS regression. The hypothesis seems to be correct, a corporate governance proposal sponsored by an institutional investors receives, on average, 13.24% higher votes in favor. *Previous Performance* again is negatively related to voting outcome, but not statistically significant. A one percent increase of institutional ownership leads to a 0.16% increase in voting outcome, in line with previous models. Sponsors probably deliberately target firms with higher institutional ownership, because that way it is easier to gain support for their proposal.

*H4: There is a negative relation between the financial industry and the voting success of shareholder proposals.*

Traditionally when investing in banks or bank holding companies investors have to be careful not to “accidentally” gain control of the bank and thereby becoming a bank holding company themselves. If a company acquires 25% or more of voting securities, it controls the bank holding company, this also applies for acting in concert (Meyerson, Rice and Walker, 2008). For individual investors even more strict rules are in place, the regulatory framework prohibits individuals from owning more than 9.9% of shares of banks (Castro, 2013). I therefore hypothesize that proposals filed at companies active in finance, insurance or real estate have less success than proposals filed at companies active in other industries. Model 4 of table 4 reports the coefficients for the OLS regression. *Industry* is a dummy variable that is one if the target firm is active in finance, insurance or real estate or else equal to zero. The variables from models 1-3 are added as control variables.

As predicted, there is a negative relation between the financial industry and voting outcome. On average, proposals filed at financial companies receive 4.72% lower voting support than proposals filed at companies active in other industries. Corporate governance proposals again receive higher support than other proposals (11.81%) as do proposals sponsored by institutional investors (9.39%). Surprisingly, the interaction variable *Proposal\*Sponsor* is negative and no longer significant. I believe this happens because both *Proposal Type* and *Sponsor Identity* are in the regression.

### §5.1.2 Cumulative Abnormal Returns

*H5: There is a positive relation between corporate governance proposals and abnormal stock returns.*

As seen from the results of models 1-4, corporate governance proposals have a positive influence on voting outcome. I believe the stock market reaction to the filing of a corporate governance proposal is also positive and regression five is used to test this. The dependent variable is cumulative abnormal returns (*CAR*) surrounding the proxy mailing date [-1, +7]. A relatively large window surrounding the mailing date is used, because some investors do not receive the information immediately, but after a few days have passed. The most important explanatory variable in this regression is the binary variable *Proposal Type*, equal to one if it is a corporate governance proposal or zero otherwise. Eight control variables are added of which *# of Proposals* is the most interesting, because I believe it to have a positive effect on *CAR*. The variable reports the number of shareholder proposals that have to be voted on during the annual meeting. I believe the stock market to react positively when more proposals are filed, because it would indicate that more shareholders are actively monitoring the firm.

The results of the OLS regression are reported in table 5, model 5. Corporate governance proposals do have a positive relation on *CAR*, however the result is not statistically significant. Therefore I cannot conclude that corporate governance proposals are better received by the stock market, than other proposal types. The *Number of Proposals* do have a statistically significant positive effect on cumulative abnormal returns. If one shareholder proposal extra is filed, the daily *CAR* goes up by 0.010%, which is 12% annually. The control variable *Debt-to-Equity* is, other than expected, positively related to *CAR*. *Market-to-Book* and *Previous Performance* have, in line with expectations, a negative effect on *CAR*. A higher M/B ratio results in lower cumulative abnormal returns as does poor previous performance. The variable that controls for CEO entrenchment (*% CEO Ownership*) has a positive coefficient which is not in line with expectations, however it is only significant at 10%. *Percentage Institutional Ownership* is also positively related to *CAR*, but not significant. Overall, I do not find conclusive evidence that there is a positive relation between corporate governance proposals and *CAR*, but I do find a positive relation between number of proposals and *CAR*.



Table 5. CAR, hypotheses 5-8.

Estimated coefficients for regressions relating the cumulative abnormal returns to proposal type, sponsor identity and target firms' industry over the 2011-2015 sample period. A dummy is used to distinguish corporate governance proposals from other proposal types. Sponsor identity is a dummy as well, equal to one if the proposal is sponsored by an institutional investor (public or union pension funds). Industry distinguishes firms active in finance, insurance or real estate from other industries and proposal\*sponsor is an interaction dummy, equal to one if the corporate governance proposal is sponsored by an institutional investor. I include the two year previous performance, % of institutional ownership and % CEO ownership as control variables. The variable # of proposals reports the number of shareholder proposals filed to be voted on at the annual meeting. Other control variables are two of the three-factors of Fama and French (1997), D/E ratio and M/B ratio. Model 5-8 represent hypotheses 5-8 respectively. (P-values are provided in parentheses and \* = P < 0.1, \*\* = P < 0.05, \*\*\* = P < 0.01)

Variable	Model 5	Model 6	Model 7	Model 8
Intercept	-0,029 (0,314)	-0,024 (0,391)	-0,025 (0,370)	-0,025 (0,372)
Proposal Type	0,013 (0,197)			
Sponsor Identity		-0,002 (0,888)		
Proposal * Sponsor			0,024 (0,172)	0,026 (0,149)
# of Proposals	0,010 *** (0,001)	0,010 *** (0,001)	0,010 *** (0,001)	0,009 *** (0,001)
Industry				0,026 * (0,067)
Debt-to-Equity	0,022 *** (0,000)	0,022 *** (0,000)	0,022 *** (0,000)	0,021 *** (0,00)
Market-to-Book	-0,007 *** (0,000)	-0,007 *** (0,000)	-0,007 *** (0,000)	-0,006 *** (0,000)
Previous Performance	-0,109 *** (0,000)	-0,109 *** (0,000)	-0,108 *** (0,000)	-0,109 *** (0,000)
% Institutional Ownership	0,042 (0,253)	0,044 (0,242)	0,040 (0,287)	0,034 (0,359)
% CEO Ownership	0,334 * (0,078)	0,325 * (0,087)	0,320 * (0,093)	0,332 * (0,079)
Number of observations	1315	1315	1315	1315
R <sup>2</sup>	0,1553	0,1542	0,1557	0,1580
F	21,47	21,28	21,41	21,35

*H6: There is a positive relation between shareholder proposals sponsored by institutional investors and abnormal stock returns.*

With this hypothesis I want to test whether proposals sponsored by institutional investors are positively received by the market. The regression follows the same regression as model 5, the dependent variable will again be cumulative abnormal returns. The dummy variable *Sponsor Identity* is the main independent variable and equals one if the sponsor is an institutional investor (public or union pension fund).<sup>4</sup>

In table 5 model 6 the results of the OLS regression are presented. Though the sign of the coefficient of *Sponsor Identity* is indeed positive, it is not significant. All control variables report coefficients that are almost completely equal to the coefficients found in model 5. The  $R^2$  reported for both models is very low, this indicates that neither of the models, and thus sponsor identity or proposal type, are good predictors for cumulative abnormal returns.<sup>5</sup> Interestingly, I do find that *Number of Proposals* still is statistically significant and positively related to CAR.

*H7: There is a positive relation between corporate governance proposals sponsored by institutional investors and abnormal stock returns.*

In line with hypothesis 3, I believe that especially corporate governance proposals sponsored by institutional investors will have a positive market reaction. Models 5 and 6 have shown that *Proposal Type* and *Sponsor Identity* on their own do not have any significant positive effect on CAR, but perhaps the interaction variable does. *Proposal\*Sponsor* is a dummy variable equal to one if the corporate governance proposal is sponsored by an institutional investor, or else equal to zero. Again the same control variables as in models 5 and 6 are used.

Model 7 of table 5 reports the OLS regression results. I find the same results as in the previous two models, the relation between the independent and dependent variable is positive, but not significant. All control variables report (almost) the same coefficients. However, the hypothesis again does not hold, but *Number of Proposals* does remain significant.

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<sup>4</sup> As mentioned in §5.1.3, public and union pension funds probably cancel out the effect of each other on CAR. In §5.3.1 I report the same model with public pension funds as the independent variable.

<sup>5</sup> It must be noted that  $R^2$  always tends to be very low when predicting stock returns.

*H8: There is a positive relation between the financial industry and abnormal stock returns.*

The final regression tests whether shareholder proposals filed at financial institutions are met with a (more) positive market reaction than proposals filed at firms active in other industries. As reported in model 4, I find that proposals filed at companies active in finance, insurance or real estate receive less voting support than proposals filed at companies active in other industries. However, Roman (2015) finds that shareholder activism in the banking industry leads to more risk-taking and higher shareholder value. In model 8 I add all variables used in the previous three models as control variables and use the dummy *Industry* as the independent variable, equal to one if the target firm is active in finance, insurance or real estate, or else equal to zero. The results are reported in table 5 model 8.

Again, the coefficient of the independent variable (*Industry*) is in line with expectations, however only significant at 10%. All other coefficients remain the same compared to models 5-7. Where *Number of Proposals* is significant and positive. Overall, the sign of the coefficients is in line with what I expected, but I find no significant effect of proposal type or sponsor identity on cumulative abnormal returns, which is in line with previous research (Smith, 1996; Wahal, 1996; Karpoff, Malatesta and Walkling, 1996; Carleton, Nelson and Weisbach, 1998; Gillan and Starks, 1998; Del Guercio and Hawkins, 1998 and Prevost and Rao, 2000; Thomas and Cotter, 2007; Ertimur, Ferri and Stubben, 2010).

## §5.2 Additional Analysis

### §5.2.1 Effect of Public Pension Funds

As mentioned in §5.1.3 the mean cumulative abnormal return per sponsor is negative for union pension funds and positive for public pension funds. Since these sponsors together make up the group of institutional investors, the effect might be canceled out. Therefore in this additional analysis I will only use public pension funds as the sponsor identity that explains cumulative abnormal returns. The additional regression will follow model 6 and is as follows:

$$(9) \quad CAR = \alpha + \beta_1(Pension\ Fund\ identity) + \beta_2(\# \ of\ Proposals) + \beta_3(Debt - to - Equity) + \beta_4(Market - to - Book) + \beta_5(Previous\ performance) + \beta_6(\% \ Institutional\ ownership) + \beta_7(CEO\ stock\ ownership) + \varepsilon$$

Where *Pension Fund identity* is a dummy variable equal to one if the proposal is sponsored by a public pension fund, or else is equal to zero. All other variables are the same as in model 6.

To test whether corporate governance proposals sponsored by public pension funds have a positive relation with cumulative abnormal returns I run the following additional regression:

$$(10) \quad CAR = \alpha + \beta_1(Proposal * Public\ Pension\ Fund) + \beta_2(\# \ of\ Proposals) + \beta_3(Debt - to - Equity) + \beta_4(Market - to - Book) + \beta_5(Previous\ performance) + \beta_6(\% \ Institutional\ ownership) + \beta_7(CEO\ stock\ ownership) + \varepsilon$$

Where *Proposal \* Public Pension Fund* is a dummy variable equal to one if a corporate governance proposal is sponsored by a public pension fund, or else equal to zero.

The result of regression 9 is reported in table 6, model 9. *Number of Proposals* is statistically significant and positive in both models. *Pension Fund Identity* has a positive relation with cumulative abnormal returns significant at 10%. This indicates that proposals sponsored by public pension funds, have 0.026% higher CARs than proposals sponsored by others.

The coefficients of regression 10 are reported in table 6, model 10. *Proposal\*Public Pension Fund* has a positive coefficient of 0.049 and is significant. This indicates that corporate governance proposals sponsored by public pension funds have 0.049% higher CARs than proposals sponsored by others.

Table 6. CAR for Public Pension Funds.

Estimated coefficients for regressions relating the cumulative abnormal returns to public pension funds sponsor identity over the 2011-2015 sample period. Public Pension Funds is a dummy, equal to one if the proposal is sponsored by a public pension fund. Proposal\*Public pension fund is an interaction dummy, equal to one if the corporate governance proposal is sponsored by a public pension fund. I include the two year previous performance, % of institutional ownership and % CEO ownership as control variables. The variable # of proposals reports the number of shareholder proposals filed to be voted on at the annual meeting. Other control variables are two of the three-factors of Fama and French (1997), D/E ratio and M/B ratio. (P-values are provided in parentheses and \* =  $P < 0.1$ , \*\* =  $P < 0.05$ , \*\*\* =  $P < 0.01$ ).

Variable	Model 9	Model 10
Intercept	-0,026 (0,365)	-0,026 (0,355)
Pension Fund Identity	0,023 (0,112)	
Proposal * Public Pension Fund		0,049 ** (0,027)
# of Proposals	0,010 *** (0,001)	0,010 *** (0,000)
Debt-to-Equity	0,022 *** (0,000)	0,021 *** (0,000)
Market-to-Book	-0,006 *** (0,000)	-0,006 *** (0,000)
Previous Performance	-0,108 *** (0,000)	-0,107 *** (0,000)
% Institutional Ownership	0,038 (0,308)	0,038 (0,307)
% CEO Ownership	0,315 * (0,098)	0,315 * (0,099)
Number of observations	1315	1315
R <sup>2</sup>	0,1563	0,1583
F	21,54	22,74

### §5.2.2 Meeting Date

As an additional analysis I will investigate the cumulative abnormal returns surrounding the meeting date. The information regarding shareholder proposals is released during the proxy mailing, therefore to investigate the relation between proxy proposals and cumulative abnormal returns the proxy mailing date should be used (Bhagat and Brickley, 1984). However, there probably also will be a reaction of the stock market to voting outcomes at the annual meeting. In this regression I will use the percentage of votes as an independent variable and the CAR [-1, +1] surrounding the annual meeting date. I choose a smaller window, because I believe the information regarding the votes on the annual meeting should reach all investors directly after or during the meeting. An important note to this analysis is that it will be hard to claim causality between percentage of votes and cumulative abnormal returns, because a lot of other information is brought out at the annual meeting. However, the regression is as follows:

$$(11) \text{ Meeting CAR} = \alpha + \beta_1(\text{Voting Outcome}) + \beta_2(\text{Proposal} * \text{Public Pension Fund}) + \beta_3(\# \text{ of Proposals}) + \beta_4(\text{Debt} - \text{to} - \text{Equity}) + \beta_5(\text{Market} - \text{to} - \text{Book}) + \beta_6(\text{Previous performance}) + \beta_7(\% \text{ Institutional ownership}) + \beta_8(\text{CEO stock ownership}) + \varepsilon$$

The results are reported in table 7. As expected there does not seem to be a relation between voting outcome and cumulative abnormal returns surrounding the meeting date. Interestingly, *Number of Proposals* again is positive and statistically significant, as is *Proposal \* Public Pension Fund*. This indicates that the number of proposals and the corporate governance proposals sponsored by public pension funds also have a positive effect on CAR surrounding the meeting date. First, at the proxy mailing date, when the information regarding proposal type and sponsor identity and the total number of proposals is made public and later surrounding the actually vote, both variables have a positive effect on abnormal returns.

Table 7. CAR surrounding annual meeting date.

Estimated coefficients for regressions relating the cumulative abnormal returns to public pension funds sponsor identity and target firms' industry over the 2011-2015 sample period. Public Pension Funds is a dummy, equal to one if the proposal is sponsored by a public pension fund. Proposal\*Public pension fund is an interaction dummy, equal to one if the corporate governance proposal is sponsored by a public pension fund. I include the two year previous performance, % of institutional ownership and % CEO ownership as control variables. The variable # of proposals reports the number of shareholder proposals filed to be voted on at the annual meeting. Other control variables are two of the three-factors of Fama and French (1997), D/E ratio and M/B ratio. (P-values are provided in parentheses and \* = P < 0.1, \*\* = P < 0.05, \*\*\* = P < 0.01).

Variable	Model 11	
Intercept	0,079 **	(0,023)
Voting Outcome	0,009	(0,737)
Proposal * Public Pension Fund	0,038 *	(0,089)
# of Proposals	0,011 ***	(0,000)
Debt-to-Equity	0,020 ***	(0,000)
Market-to-Book	-0,006 ***	(0,000)
Previous Performance	-0,108 ***	(0,000)
% Institutional Ownership	0,040	(0,302)
% CEO Ownership	0,198	(0,280)
Number of observations	1315	
R <sup>2</sup>	0,1637	
F	21,12	

## 6. Conclusion

### §6.1 Conclusion and discussion

The main question I wanted to answer in this thesis is whether there is a positive reaction between shareholder proposals and subsequent cumulative abnormal stock returns? The idea behind this research question is that investors that use their influence by submitting proposals do this to create value for themselves and that the market responds positively to this increase in governance. Previous research finds that proposal type and sponsor identity are important predictors of voting outcome and abnormal returns. Especially corporate governance proposals sponsored by institutional investors seem to generate abnormal returns.

First, I decided to measure success of shareholder proposals in two different ways. In the first four hypotheses I used voting outcome as the measure of success. I find that on average shareholder proposals only receive 26.2% of votes in favor, and only 118 of the 1,332 proposals receive majority voting (50% or more votes). This suggests that shareholder proxy proposals are not that effective. The second problem with shareholder proposals is that they are nonbinding, management does not need to act on the proposals, even when the majority of shareholders is in favor. However, just as Gillan and Starks (2000) and Renneboog and Szilagyi (2009) I find that over the years the number of shareholder proposals has increased as well as the average votes in favor. Karpoff (2001) states that most prior research find that though the proposal is not binding, management does at times listen to it and thus enhances corporate governance.

Proxy Monitor divides proposals in four different types; executive compensation, corporate governance, social policy and voting rules. I find that proposals regarding corporate governance and voting rules on average receive a higher voting outcome than the other two types. The first hypothesis directly tests whether corporate governance proposals receive significantly higher voting outcomes than other proposals, in line with prior research I find that corporate governance proposals receive on average 10.66% higher voting outcomes. Gordon and Pound (1993), Thomas and Martin (1998), Gillan and Starks (2000) and Renneboog and Szilagyi (2009) find that especially proposals sponsored by pension funds and other institutional investors have a higher voting success than other sponsors. I find that proposals sponsored by institutional investors (public and union pension funds) on average receive 7.94% higher voting outcomes. Because both proposal type and sponsor identity have a positive influence on voting outcome, I research if corporate governance proposals sponsored by institutional investors receive more votes. I find that this interaction effect induces on average 13.24% higher voting outcome.



The main contribution of this thesis is to see whether the target firms industry has an influence on voting outcome. The financial industry has additional regulations regarding shareholder ownership. As discussed previously these regulations prohibit certain types of collaboration, which makes it more complicated for shareholders to receive majority voting. I find that on average proposals filed at firms active in finance, insurance or real estate receive 4.72% lower voting outcomes. Another explanation for this effect could be that most financial institutions are systemically important, this could push shareholders towards more reticence regarding shareholder proposals because they fear they do not possess enough knowledge of the financial industry.

In line with Renneboog and Szilagyi (2009), I find that proposal type and sponsor identity have a positive influence on abnormal returns. However, also in line with prior research, these relations are not significant (Smith, 1996; Wahal, 1996; Karpoff, Malatesta and Walkling, 1996; Carleton, Nelson and Weisbach, 1998; Gillan and Starks, 1998; Del Guercio and Hawkins, 1998; and Prevost and Rao, 2000). Only proposals sponsored by public pension funds and especially corporate governance proposals sponsored by these funds generate significantly positive daily cumulative abnormal returns, namely 0.049%. This implicates that investors should follow public pension funds and when they observe corporate governance proposals sponsored by these funds they should buy shares of the target firm.

I do not find a statistically significant effect that shareholder proposals filed at financial institutions increases abnormal returns. In contrast to voting outcome, though not significant, I do find a small positive influence on CAR. This is counterintuitive, because you would suspect the sign to be the same in both measurements of success. However, according to Roman (2015) shareholder activism at financial institutions enhances risk-taking, which leads to higher shareholder value. A second explanation could be that the information effect is larger than the real effect. The stock market reacts positive to shareholder proposals filed at financial institutions, whether they receive majority voting or not, the stock market believes shareholder activism increases corporate governance and monitoring of management.

Most interestingly is that throughout all models regarding CAR, the number of proposals does have a significant positive effect on abnormal returns. If there is one extra proposal to be discussed on the annual meeting, the daily CAR is around 0.010%, which corresponds to an annual CAR of approximately 12%. This is the most interesting finding, because it corresponds to the idea that the stock market reacts positively to the filing of shareholder proposals. Apparently the stock market values the amount of proposals filed and perhaps believes more proposals leads to better monitoring of management. The type of proposal, sponsor identity and

industry does seem to matter regarding voting outcomes, however regarding abnormal returns only the number of proposals has a positive influence. The stock market reacts positively to the number of proposals, regardless of proposal type, sponsor identity and industry.

The implication of this result is that perhaps it is just a numbers game and institutional investors and other shareholders could (ab)use this knowledge by filing a lot of proposals to realize a positive stock market reaction and thus generate profits.

## §6.2 Limitations and further research

The biggest limitation of this research is the claim of causality. In the proxy mailing a lot of other information is released, which makes it hard to state that really the filing of the shareholder proposal is the reason for the spike or drop in CAR. This is not a problem only found in this study, as most studies regarding stock market returns have difficulty regarding causality. The information about the shareholder proposal might be released before the proxy mailing date. Some institutional investors (like CalPERS) publish a list of companies at the beginning of the year that they will target with proposals. The information is then leaked before the proxy mailing date and thus there will not be an effect around the mailing date. I believe though that most shareholders do not publish these kind of lists and thus the days surrounding the proxy mailing date is the correct date to measure the effect.

Renneboog and Szilagyi (2009) simultaneously study the CARs of target and non-target firms, this way they can see whether target firms outperform non-target firms. My research, as most others, does not look at targets and non-targets simultaneously. Most studies do not find a significant effect on abnormal returns, Renneboog and Szilagyi (2009) however do find positive effect for target firms compared to non-targets. Further research could be done to compare target firms with non-target firms.

The sample used only consists of five years, 2011-2015. Though there are enough observations (1,332), it could be interesting to really look at the differences between shareholder activism through proxy proposals before, during and after the financial crisis. I find some evidence of a relation between the financial industry and the success of shareholder proposals. Proposals filed at financial institutions have lower voting success than in other industries, however there might be a positive stock market reaction. I have given some potential explanations for these differences, however further research should be conducted to better understand why shareholder proposals filed in the financial industry behave different than in other industries. Is the lower voting success really because of regulations that prohibit certain actions that are available in other industries? I do not find a significant effect regarding the

stock market reaction, could the reaction actually be negative just like the voting success? It could also be that the reaction actually does not differ from other industries.

Hedge funds are a relatively new type of investors, known to be more aggressively managed in order to earn active return for their investors. Hedge funds actively target firms with poor past performance and governance structures, most of these companies are not (yet) listed and smaller than the U.S. public companies that institutional investors target. Prior research finds that on average this investment strategy seems to pay off and result in a higher shareholder value (Brav et al, 2008; Brav, Jiang and Kim, 2009; Becht et al, 2009; Gantchev, 2013; Bebchuk, Brav and Jiang, 2014; and Gantchev, Gredil and Jotikasthira, 2015). In my data I only have six observations of proposals sponsored by hedge funds over the sample period, therefore I have not used hedge funds as the independent variable. As reported in the descriptive statistics in section four, the average percentage of votes in favor for proposals sponsored by hedge funds is only 19.5%, which is lower than average. The cumulative abnormal return reported in the descriptive statistics is higher than for the other sponsors. Due to the small amount of observations I cannot conclude anything about these results. Further research should be done regarding hedge fund activism.

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## 8. Appendix

Table 7. Average number of shareholder proposals per firm and industry.

The table reports the number of firms per industry, the total number of proposals filed in that industry and the average number of shareholder proposals per firm per industry. Most firms receive on average between five and seven shareholder proposals, only construction firms seem to receive significantly less, however there are only three construction firms in the sample.

Industry	# of Firms	Proposals	Avg. Shareholder proposal/firm
Agriculture, Forestry, Fishing	1	6	6,00
Mining	12	76	6,33
Construction	3	4	1,33
Manufacturing	86	529	6,15
Transportation & Public Utilities	40	235	5,88
Wholesale Trade	4	21	5,25
Retail Trade	26	163	6,27
Finance, Insurance, Real Estate	31	216	6,97
Services	12	82	6,83
<b>Total</b>	<b>215</b>	<b>1332</b>	<b>5,67</b>

Table 8. Descriptive statistics of financial characteristics and control variables.

This table reports the descriptive statistics for the financial characteristics of target firms and control variables over the years 2011-2015.

	Mean	Median	St. Dev.	Min	Max
<b>Panel A: Financial characteristics</b>					
Assets (in million \$)	97.869	31.199	267.828	231	2.573.126
Sales (in million \$)	36.030	18.605	48.642	423	483.521
Debt (in million \$)	14.860	6.160	32.954	0	279.618
Equity (in million \$)	19.465	9.257	33.627	-13.244	255.550
Market Value (in million \$)	45.103	23.342	65.435	0	626.550
<b>Panel B: Control variables</b>					
Debt-to-Equity	0,97	0,68	1,63	-5,07	8,99
Market-to-Book	3,72	2,40	5,56	-10,28	34,52
Previous Performance	0,36	0,27	0,57	-0,53	3,82
Institutional Ownership (in %)	65,76	66,54	13,55	17,04	94,50
CEO Ownership (in %)	0,83	0,05	3,58	0	33,68
Number of Proposals	2,94	3	1,76	1	8

Table 9. Spearman correlation of variables used in hypotheses 1-4.

This table reports the Spearman correlation of the variables used in the first four models. Only Proposal\*Sponsor and Sponsor Identity and Proposal\*Sponsor and Proposal Type are correlated, which is as expected because the variable Proposal\*Sponsor is simply the multiplication of these variables.

	Votes	Industry	Sponsor Identity	Proposal Type	Proposal * Sponsor	Previous Returns	Institutional Ownership
Votes	1						
Industry	-0.079 ***	1					
Sponsor Identity	0.212 ***	0.019	1				
Proposal Type	0.266 ***	-0.012	-0.049 *	1			
Proposal * Sponsor	0.175 ***	-0.021	0.484 ***	0.464 ***	1		
Previous Returns	-0.024	0.034	-0.076 ***	0.013	-0.093 ***	1	
Institutional Ownership	0.106 ***	0.086 ***	0.100 ***	0.037	0.080 ***	0.101 ***	1

Table 10. Spearman correlation of variables used in hypotheses 5-8.

This table reports the spearman correlation of the variables used in the models five to eight. There are a couple of variables moderately correlated. Previous Performance is correlated with CAR, this is as expected since CAR measures the abnormal returns against previous performance. Proposal \* Sponsor is highly correlated with Proposal Type and Sponsor Identity, this is as expected because Proposal \* Sponsor simply is the interaction between Proposal Type and Sponsor Identity. I do not use these variables simultaneously in models. The high negative correlation between Market-to-Book and Industry could indicate that the financial industry has a lower Market-to-Book ratio than other industries. The correlation is insoluble and I do not believe it to have an effect on the outcome of the models.

	CAR	Industry	# of Proposals	Proposal Type	Sponsor Identity	D/E	M/B	Previous Performance	Institutional Ownership	CEO Ownership	Proposal * Sponsor
CAR	1										
Industry	0.076 ***	1									
# of Proposals	0.109 ***	0.094 ***	1								
Proposal Type	0.026	-0.002	-0.047 *	1							
Sponsor Identity	0.002	0.021	0.016	-0.063 **	1						
D/E	0.069 **	0.140 ***	0.075 ***	0.040	-0.062 **	1					
M/B	-0.216 ***	-0.444 ***	-0.001	-0.009	-0.157 ***	0.197 ***	1				
Previous Performance	-0.437 ***	-0.004	-0.108 ***	0.015 ***	-0.070 **	0.019	0.212 ***	1			
Institutional Ownership	-0.040	0.066 **	-0.232 ***	0.039	0.104 ***	-0.052 *	-0.069 **	0.104 ***	1		
CEO Ownership	-0.045	-0.026	-0.123 ***	-0.037	0.049 *	-0.158 ***	-0.045	0.037	0.244 ***	1	
Proposal * Sponsor	0.049 *	-0.029	-0.025	0.457 ***	0.478 ***	-0.046 *	-0.119 ***	-0.117 ***	0.088 ***	0.033	1