Master Thesis

The Upcoming Value of Shareholder Proxy Access

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Abstract

Current attempts to reform financial markets presume that shareholder empowerment benefits shareholders. In this study, I will analyze the wealth effects for shareholders through shareholder proxy access proposals submitted since the Securities and Exchange Commission (SEC) has introduced the final rule on proxy access in 2012. Enthusiasm for proxy access seems moderate when examining the market reaction to the announcement and the voting on such proposals. Proposal and firm determinants of voting outcomes are identified but these had no influence on shareholder value. The results provide some advice for the evaluation of the SEC's rule and successful use by shareholders, the board of directors and management.

Keywords: proxy access, shareholder value, board of directors, voting, SEC, final rule

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1. Introduction

The purpose of this master thesis is to investigate the influence of shareholder proxy access proposals on shareholder value since the Securities and Exchange Commission's (SEC) final rule on proxy access went into effect. Proxy access is the concept that shareholders can require the corporation to include a director nominated by shareholders in the proxy statement (Larcker, Ormazabal, & Taylor, 2011). The SEC conducted years of debate on a proxy access proposal rule, which was finally accepted in 2011 and could be used in shareholder proposals for the first time in 2012. This rule provided a company-by-company approach for proxy access proposals against the previously proposed rule that defined requirements for proposals. The main purpose stated by the SEC is the reduction of agency problems and increase of the accountability of directors to shareholders (Akyol, Lim, & Verwijmeren, 2012). When this goal is in range, the shareholder value will increase according to the agency theory.

Above situation has led to the following research question in this thesis:

RQ: Is the shareholder value of firms influenced by shareholder proxy access proposals?

Prior literature contains only event studies on the wealth effect of the initiated SEC proxy access rule, covering a period until the end of 2011. This thesis fills an interesting and blank field of research to the actual implementation of proxy access proposals in companies. It evaluates the actual proxy access proposals that have been made in the United States (US) since 2012 and their impact on shareholder value. Do investors change their expectations about the value of the firm because they believe the potential proxy access will result in economic changes for the firm? Measuring such a change in expectations can be done by examining changes in stock prices around important event dates for proxy access (Gillan & Starks, 1998). If I would measure changes in shareholder value, this could happen at two important dates: (1) the proxy statement mailing date when information about the proposal is released and (2) based on the voting outcome of the proposal in the annual meeting. Second, factors that could influence voting outcomes are tested to get a complete picture of proxy access proposals in the last years. Finally, it will be tested if the outcome of the ballot is acting as a mediator in de relation between the various proposal- and firm characteristics and the shareholder value.

Following the results, minimal shareholder value is created in response to the announcement of the proxy access proposal but not in reaction to the both positive and negative voting outcome. The voting outcome is associated with the proxy advisor recommendation, ownership requirements for proxy access, Chief Executive Officer (CEO) equity power and past firm performance. And finally, there is no evidence for a mediating effect of voting outcome on the market reaction.

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This master thesis contributes to the academic debate on the empowering of shareholders. It is innovative because this study examines the real effect of proxy access proposals, in contrast to the earlier prediction of this influence on the basis of the upcoming introduction of the proxy access rule. The results are in the interest of shareholders, the board of directors, top management and policymakers because the evaluation of proxy access proposals provides advice for each group of stakeholders. Proxy access proposal sponsors should adjust proposals to ISS policies to get a recommendation to vote for the proposal. Shareholders rely heavily on these recommendations and a positive recommendation will increase voting outcome. Voting outcomes and market reaction show that the enthusiasm among shareholders about proxy access in the current form is not evident. Shareholders consider empowerment through proxy access not immediately as valuable and the SEC's rule seems to be ineffective. This can provide policy makers insight in developing the SEC's rule on proxy access to maximize value for investors. A first important improvement could be made on the non-binding character of proxy access proposals. It would be helpful to make these proposals binding so that votes will actually have an impact. This will trigger shareholders to vote more explicit for or against a proposal and shareholder value can be significantly influenced. Thereafter, the real value of proxy access proposals can be determined. Finally, board members and management can use the determinants of proxy access proposal success to set the impact on their position.

The remainder of this thesis will be organized as follows. Section 2 will provide an overview of the relevant theoretical and empirical literature on shareholder activism through shareholder proposals and in specific proposals on proxy access. Section 3 will describe the development of hypotheses that will be tested and how they relate to each other in conceptual models. Section 4 will provide the research design including the description of statistical tests, variables, operational measures, the main regression equation, sample selection criteria, and data sources. Section 5 will summarize the descriptive statistics and empirical results of the tests where Section 6 will discuss the main findings, conclusion and puts apart the contribution to the current debate on proxy access.

2. Theoretical Background

Since there is little literature specifically written in the area of proxy access, the theoretical framework is drawn to the wider perspective of shareholder proposals in general as an expression of shareholder activism. In the literature, shareholder activism is framed as part of the agency problem, created when ownership and control are separated. Therefore, this problem is defined first. After that, this chapter will elaborate on the theory of shareholder and board primacy, the development of regulation around shareholder proposals and the existing theoretical and empirical evidence on shareholder proposals and proxy access.

Theory on Shareholder Activism

Jensen and Meckling (1976, p. 308) define an agency relationship as: "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent". Because of the separation of ownership and control in public listed companies, the shareholders are the principals of the managers (agents) that have decision-making authority in the day-to-day business of the firm. The goal of maximizing long-term value for the shareholders is not aligned with the interest of the managers resulting in a loss of value for the shareholders caused by the behavior of management. These so called "agency costs" form the need for mechanisms to resolve the agency conflict. Two mechanisms are in place: creating incentives for managers that align with the interests of shareholders or active monitoring management by assuming all monitoring costs (Jensen & Meckling, 1976). Here the role of the board of directors arises to resolve the agency problem. Members of the board have a fiduciary duty to the firm and serve as the shareholders' guardians. They shape incentives of management by selecting the right CEO and top executives and setting their compensation arrangements. After the selection process, the board monitors the strategy and performance of executives and replace them if necessary (Bebchuk, 2007). In the US, there is the sole board system, which means that in practice board of directors have an advisory function besides the monitoring function. This dual role arises a new problem because the manager faces a trade-off in sharing information for advice and the risk of losing his job because of the monitoring by the board based on that information. To fulfil their fiduciary duty to shareholders, boards may prefer to be management-friendly and reduce the monitoring to encourage the manager to share information (Adams & Ferreira, 2007). The relationships are even more complex than only suggested by the agency theory due to top management's influence in the nomination process of directors (e.g., Chidambaran, Liu, & Prabhala, 2010; Kumar & Sivaramakrishnan, 2008; Shivdasani & Yermack, 1999; Westphal & Zajac, 1995). So the co-optation of directors by top management can compromise the monitoring function of the board.

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Fama (1980) and Fama and Jensen (1983) emphasize the fact that board members have incentives to build a reputation as expert monitors to secure their job prospects. A director who does not cause any trouble for CEOs has a reputation of a potentially valuable director as well. Other research shows that top management is sensitive to elect directors who are sympathetic to their wishes or with whom they have other ties (Shivdasani & Yermack, 1999; Wade et al., 1990). But Bainbridge (2002) indicates that strong links between management and new board members have become less and boards became more independent, own more stock and are better informed which stimulates shareholder wealth maximization. Regulatory changes after the Sarbanes-Oxley Act require nomination committees to examine new board members and the work of the current board, that composite of independent directors. However, management influence is still suspected by informally consult with and accede to the CEO's preference about possible candidates (Clark, 2005). A director nominated by the shareholders will not be integrated to the CEO and unlikely to be sympathetic to management's agenda unless that agenda is aligned with shareholders' interest (Campbell, Campbell, Sirmon, Bierman, & Tuggle, 2012).

The models of shareholder and board primacy describe, together with the agency theory as set out in the previous paragraph, the importance of shareholder proxy access. Bainbridge (2002) describes the nexus of the contracts model where managerial and shareholder primacy are the opposite and he looks for a middle ground by explaining the board primacy model. In the hierarchical organization there is monitoring of employees by top management. As described above the board of directors has a monitoring duty of top management. Question remains who will monitor the monitors to ensure firm productivity without himself having to be monitored? Because shareholders claim the corporation's residuals, they should act as the ultimate monitors according to the shareholder primacy model. And that's not how modern publicly-held companies are structured in the US. Shareholders have neither legal rights nor the practical ability to exercise the necessary control through the restrictive law. Shareholder primacy assumes exclusive and strong voting rights which are necessary to constrain agency costs. On the other hand, the director primacy model accepts shareholder wealth maximization as the decision making norm but gives shareholders neither direct or indirect decision-making authority. The limited influence of shareholders in the modern companies is suggested for the good reason that ultimate control of shareholders will be inefficient. If shareholders can review every board decision, directors will no longer have power and their role becomes merely advisory, rather than authoritative. The board primacy model describes board of directors acting as Platonic guardians for shareholders and management (Bainbridge, 2002). These models combined explain the demand for regulation to improve shareholder primacy and board efficiency.

Development of Regulation around Shareholder Proposals

The corporate law of the United States requires corporations to hold an annual meeting to elect directors. Shareholders have had the right to discuss corporate governance issues with management starting from 1932 when Lewis Gilbert, his brother and associates started attending annual meetings and asking questions to management about the lack of communication to the company's owners (Talner, 1983). From 1943 on, when the shareholder proposal Rule 14a-8 was adopted, 92 stockholders submitted 607 shareholder proposals in ten years. Although Rule 14a-8 allows some shareholder proposals to be included in the company proxy material, it excludes key areas like director nominations and solicitations in opposition to management proposals. In the 1980's and 90's large institutional investors became dominant in the equity market and take an active role as shareholders. They started submitting shareholder proposals, individually and in collaboration with each other. But still the amount of shareholder proposals was not significant to a variety of reasons. First, the high costs of filing, delay and the risk of being disapproved together with the "free-rider" problem may not be rational for any owner to monitor managerial performance and submit a shareholder proposal (Gillan & Starks, 1998; Gillan & Starks, 2000). The SEC largely moderated the strict requirements in 1992. Since that year there has been a significant rise in shareholder activism (Gillan & Starks, 2007; Bradley, Brav, Goldstein, & Jiang, 2005). Second, even if a shareholder proposal has a majority support, voting outcomes in the US are still not legally binding and management may therefore ignore the outcome. Third, shareholders have extra agency costs due to private interests that may deviate from those of other shareholders, thereby leading to different voting behavior (Romano, 1993; Anabtawi, 2005). Last, since Rule 14a-8 limits the amount of information on shareholder proposals to 500 words, shareholders must accept high costs to persuade other shareholders, where management proposals are mandated with a wealth of information (Gordon & Pound, 1993).

The present term "proxy access" is related to "the idea that shareholders can require the corporation to include in the proxy statement a director (or slate of directors) nominated by shareholders to run against incumbent board members" (Larcker et al., 2011, p. 434). The optimal magnitude of proxy access is difficult to determine and reflected in the long debate around the proposal for mandatory proxy access. In 2003, after decades of discussion and after the corporate scandals at Enron, WorldCom and other large US public companies, the SEC proposed a proxy access rule. The proposed rule entails that shareholders holding five percent of company's stock for a minimum of two years to make nominations for board seats for two years following a triggering event. They define a triggering event as a 35% or more withhold vote in a director election or a majority vote for a shareholders'

proposals to make the company subject to proxy access (Kahan & Rock, 2011). These requirements are set to allow only those nomination procedures that have sufficient support among shareholders to indicate significant dissatisfaction with the incumbent directors (Bebchuk, 2003). There was a lot of lobbying against this proposed rule (Becker, Bergstresser, & Subramanian, 2012). By 2005 the SEC issued a sign of withdrawing their proposed rule and Republican Chairman Donaldson resigned. His successor was not a protagonist of proxy access and so proxy access faded in the SEC's agenda until 2007. In April, 2007 the SEC announced a roundtable discussion regarding their proposed changes to the 2003 proxy access rule. A new proposal provided a reasoned basis for the position that shareholder proposals to implement proxy access for a single company can be excluded under Rule 14a-8 (Kahan & Rock, 2011). In addition, the "eProxy Rules" allow shareholders to post their proxy materials online and simply mail shareholders a "Notice of Internet Availability of Proxy Materials". This should reduce the costs of proxy solicitation and increase the number of proposals to nominate directors. Meanwhile in March, 2009 the Delaware House of Representatives passed a bill to change the General Corporation Law of Delaware to make proxy access voluntary. This bill was seen as an effort to pre-empt or at least shape the SEC's considerations and to prevent a federal proxy access regulation (Becker et al., 2012). But the SEC noted on April 6, 2009 that they were still discussing proxy access. Shortly after that speech on May 12, 2009 the SEC posted an announcement regarding a new proposed rule and disclosed its intention to vote on the federal proxy rule during its open meeting on May 20, 2009. In this new proposed rule, the SEC listed two main changes to strengthen shareholder rights in nominating directors. First, the requirement of a triggering event was removed. The percentage ownership requirement for making a nomination lowered to l%-5%, depending on firm size, and the holding period became one year. In addition, shareholders must meet other requirements about their intentions to hold the company's shares through and after the annual meeting and declare that they have no arrangements with the firm concerning the nomination of candidates. Second, under the amended rule, the companies are required to include shareholder proposals that are consistent with proposed Rule 14a-11 and state law, which was not required before under Rule 14a-8. On May 20, 2009 the SEC voted by a 3-2 vote in favor of issuing the proposed rule. Again, the SEC started a period for comments on the proposed rule that would close on August 17, 2009. However, the comment period was reopened on December 14, 2009 suggesting the Commission needed more time and pushed implementation further forward (Akyol et al., 2012). The SEC adopted the shareholder proxy access Rule 14a-11 on August 25, 2010, and it was planned to go into effect on November 15, 2010 with a uniform level of ownership requirement of 3% holding for the preceding 3 years eligible to nominate candidates for up to 25% of the company's board seats (Kahan & Rock, 2011). But the Business Roundtable, an association of CEOs of leading US companies working to promote

solid public policy and a thriving economy in the US, filed a petition against Rule 14a-11, alleging that it would reduce overall shareholder wealth. The court accepted the arguments of the Business Roundtable. Surprisingly after that, the SEC announced on October 4, 2010that it would delay the implementation until the protest had resolved. Finally, in September 2011, the SEC announced that it would re-instate the amendments to Rule 14a-8 instead of the rule proposed in 2010. They changed from the comprehensive proxy access to a company-by-company approach which would allow shareholders to vote on a resolution recommending or requiring the inclusion of shareholder-sponsored board candidates in the next year's corporate proxy statement (Becker et al., 2012). [1]

Alternatives for proxy access

Before proxy access proposals are done a number of alternatives are available. If shareholders are dissatisfied with management, they can sell their shares as the easiest way. A more active way is a proxy contest in accordance with the SEC's proxy rules (Akyol et al., 2012). They had to file Schedule 14A with the SEC, hire a proxy solicitor and set up an expensive public campaign to support their proposal. A big disadvantage for shareholders, relative to incumbents, are the costs that are only covered by the company if the shareholder gains control of the board. Together with the benefits of any improvement in corporate governance that will be shared with their fellow shareholders, these obstacles clarify the negligible electoral challenges to directors (Bebchuk, 2003). The third option is an aggressive proxy fight with hostile bidders and direct negotiation with management. Because the US law developed poison pills that make it very expensive for shareholders to purchase a large block of shares, the only option for a shareholder is to put an attractive offer on the table and persuade shareholders to replace the incumbent directors with a majority of directors in favor of the acquisition bid. The acquisition is only possible once the board is elected because the directors would redeem the poison pill (Bebchuk, Cohen, & Wang, 2011). This method also involves high costs and risks. The fourth way is suggested by Kahan and Rock (2011). In general, they think that "withold vote" campaigns are easier, cheaper and more effective measures than proxy access proposals. Withhold vote campaigns are a form of activism without real activists. A significant withold voting outcome does not affect the outcome of an election but is often a trigger for governance changes, especially in the prestigious and well compensated board rooms of the very largest public firms (Del Guercio, Seery, & Woidtke, 2008). This shows that many boards care about it. Other alternatives used to a lesser extent due to its costs are recommending a director nominee during a shareholder meeting, talking to management and using the media to send information to other investors about the required changes at the firm (Akyol

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[1] For the exact final rule, I refer to Final Rule Release No. 33-9136, https://www.sec.gov/rules/final/2010/33-9136.pdf.

et al., 2012; Gillan & Starks, 1998). Concluding, a proxy access proposal can be the result of the alternative previous failed attempts to gain access to the management.

Evidence from Prior Research

There are arguments in favor of and against shareholder proposals, assisted by a given theory or empirical evidence of stock market reactions or voting outcomes. First, an overview of theoretical articles and their views on shareholder proposals and the proposed SEC rule is set out. Thereafter, empirical results of studies are discussed and compared.

Theoretical Evidence

One side of the debate advocates that shareholders might not be in the position to optimally identify specific directors capable for the company. Lipton and Rosenblum (2003) deposit openly on the SEC proxy access rule as a "serious mistake". This rule only focuses on shareholders as a monolithic body. It forgets the diverse and always-changing composition of shareholders and assumes a simplistic model of shareholders as "owners" of the corporation, like individuals owning a building and hiring a building manager to serve the will of the owner. The ease and frequency of election contests in the SEC rule influences the public companies in a negative way without clear benefit. A number of issues are raised Most of the proposals are initiated by institutional shareholders. The analysts and money managers employed by these institutions are skilled in financial result analysis, not in analyzing the management of business operations. A second argument is the risk of a flow of special interest directors. Each shareholder has its own interest and agenda but no legal duties against the public company and other shareholders to nominate the right directors. Besides the lack of knowledge, skills and integrated agendas of the shareholders create a threat for the company and board itself. When contested elections become annually, threatened managers and directors are disrupted from their daily activities to invest in their election contest that includes high costs. And there is a risk that high-quality directors may be less willing to take a board seat when they must face competition from nominees sponsored by shareholders. They refer to the already existing methods to make shareholders' viewpoint known to management. Concluding, they state that the proposed rules prioritize the interests of shareholders in modern public companies and the rule should be deferred until the impact of the more complex Sarbanes-Oxley Act is understood.

On the other side, at that time, Bebchuk (2003) documents that incumbent board of directors do not feel the pressure of being replaced via the ballot system and that providing shareholders access to the nomination of directors would improve board accountability. Right after the proposed rule of the SEC, Bebchuk evaluated main concerns expressed by opponents of shareholder access. There are two

interesting arguments against the value increasing effect of proxy access that he successfully refutes. First, he discusses the argument of Lipton & Rosenblum that elections disrupt the company's activities. It is not expected that time consuming contests become the norm, but only in case firm performance are poor and there is widespread dissatisfaction among shareholders. The second argument is about good individuals who would be excellent directors but are not prepared to stand for election drop out and as a result, the pool of well-qualified directors willing to serve on boards becomes smaller. But Bebchuk argues that incumbent director incentives improve and that is the overall goal, and thus more valuable. He concludes that none of the objections provide a good basis and that available empirical investigations are supportive of proxy access. However, it would be desirable to create a supplement of measures like ownership requirements that only give the nomination power to meaningful shareholders. In his later writings, he refutes additional arguments against proxy access. Bebchuk (2005) argues that even if the argument of lacking knowledge of shareholder holds, shareholders have the capabilities to replace management with a team that will make changes in accordance with value maximization. Furthermore, the mechanism of shareholders that have power to replace the board generally will move management to shareholders' interest and shareholders will not need to exercise their replacement power. Using external empirical research on staggered board during the period 1997-2003, the problem of insufficient power to remove directors is put forward again. Strine (2006) commented on the Bebchuk (2005) article with an open-minded corporate law "traditionalist" point of view and predicted no great enthusiasm among the traditionalists for his proposal. These traditionalists lack the incentives to gather information about how management and board of directors are doing. As long as a company's stock price rises faster than average, institutional investors are satisfied with the company's board and do not invest their time and money in proxy access. However, the investors might embrace reform that is consistent with Bebchuk's call for greater managerial accountability. But then, Strine proposes a more cost-effective election process where investors can put a proposal in the proxy statement on an ad hominem basis and not to replace entire boards. The SEC's "eProxy Rules" that was introduced after the year was exactly the solution that he brought.

The Bebchuk article in 2007 offers proposals for proxy access pursuing that directors are made truly accountable to shareholders. Issues that arise when designing a proxy access rule are discussed. For example, the argument of directors seeking refuge to short-termism because the fear of being replaced, supports the adjustment of having elections only every two or three years. A second argument against proxy access is the destroyed interest of other stakeholders. Under the existing rules, directors may take stakeholders interest into account although they are not required to do so.

But, it is also in shareholders' interest that interest of stakeholders is taken into account in order to induce the stakeholders to invest in their relationship with the firm which creates value for shareholders. So, proxy access will not directly decrease the stakeholders interest within the board of directors (Bebchuk, 2007). More recently, Bebchuk and Hirst (2010) concluded that they still support the replacement of a no-access rule by a proxy access rule.

Kahan and Rock (2011) compare alternative methods to gain access to management decisions with proxy access. In general, they think that the net effect of proxy access will be close to zero because they predict only a few shareholder nominations, most of these nominations that will be defeated and the nominee who will be elected, will have little impact. Important shareholders like large pension funds have not shown much interest in proxy access. The cost savings of proxy access are overstated because proxy election expenses still exist and were already the largest part of the costs incurred for traditional contests. They also come up with the negative effects of private agendas of different shareholders and rising costs for the firm and conclude that this along with any positive effects of appointed shareholder nominees has an insignificant net effect. Therefore, they suggest the easier, cheaper and more effective measures such as the "withhold vote" campaigns.

Harris and Raviv (2010) find a way of efficient shareholder primacy with the use of modeling. They state that when shareholders are not misinformed in an efficient market, it is optimal to give them the delegation decision that allow them to decide ex ante which decisions to leave to management and which to make directly. Decisions where management's information advantage outweighs the agency costs will then be delegated to managers. The models account for private information, delegation, communication and agency considerations and as a result, arguments that previous articles opt for and against direct shareholder control became ineffective. The argument that private agendas provide ineffective decision making does not apply because even then, shareholders can still have control on some decisions. This is due to the fact that management and shareholders improve communication when agendas are not value-maximizing. But if shareholders have private information, then they don't delegate the decisions optimally.

Empirical Evidence
So whether shareholder activism is beneficial for investors is still an empirical question. Many studies have investigated shareholder proposals in general and, especially in the last few years, events surrounding the issuance of the SEC rule on proxy access. The vast majority of empirical research in the field of shareholder proposals has focused on the valuation effects and factors affecting the

development and success of different shareholder sponsored proposals in the US. Several attempts have been made to address valuation effects as a result of shareholder proposals.

First, articles that are written during the 90's are summarized. Within the effect on shareholder value, there are differences across sponsor identity, time and success of the activism. Several studies failed to find significant effect of firm characteristics, but a few can find which firm characteristics are common among proposal sponsors or targeted firms and what factors determine the success of a proposal.

Karpoff et al. (1996) compared performance and wealth effects for targeted firms with their identified control firm. The results on four different measures of firm performance indicate that poorly performing firms have a high probability of receiving a shareholder proposal. They used three different event dates for the wealth effect testing part: the date of articles in the Wall Street Journal referring to the proposal, the proxy mailing date and the annual meeting date. The first two dates show abnormal returns not significantly different from zero. For the annual meeting dates, there was only a small subset of proposals that shows significant positive returns. Long-term performance tests show the same insignificant pattern, even among proposals that win. More recently, Gillan and Starks (1998) only used proxy mailing dates to look at the effects on shareholder wealth and firm performance. They used a research period of seven years, 1987–1994 and found insignificant abnormal returns, although they could split this in negative abnormal returns for institutional sponsors and positive returns for noninstitutional sponsors. So this study contributes to the research in distinguish the different proponents but failed to find real effects. Together, these researches on shareholder proposals in the late 1980's and in the 1990's find less evidence that shareholder proposals impact firm value and performance, in the short as well as in the long-run.

Strickland, Wiles, and Zenner (1996) describe the valuation effects of a special conduit of United Shareholders Association for which small shareholders together target large companies. They were very successful in the period of research 1990-1993. Mean abnormal returns for shareholder meeting dates were not significant but the voting support for the proposal is significant, minimal, positively related to the abnormal returns around the annual meeting dates. They give the increase of the likelihood that management adopt the non-binding proposal as an argument for the shareholder value increase. Firm performance, governance characteristics and year were also variables conducted in the multivariate regression on shareholder value but these variables were not significantly related. These results suggest that small shareholders together can successfully propose for corporate governance changes of large firms.

Wahal (1996) studies another special group of activists; pension funds. In the period 1987-1993, he found no evidence for significant valuation effects when firms were being targeted by these investors. This is quite surprising given the successful adoption rate of 40 percent of proposals initiated by pension funds. When searching for long-term improvement in stock prices and performance for targeted firms, Wahal has no evidence of a significant effect. This combined means that the effectiveness of pension fund activism through shareholder proposals is doubted. Del Guercio and Hawkins (1999) analyzed the impact of the same group of sponsors; the largest and most active public funds during a period in accordance to Gillan & Starks and Wahal. In terms of results they can also join the previous articles because they found no market effects on the long term and on the performance. But, Prevost & Rao (2000), found contrary strong negative wealth effects surrounding the proxy mailing date of proposals initiated by two highly visible publicity-seeking pension funds. Theory behind the negative wealth effect is that the proposals act as a signaling mechanism for the market that management and the public pension funds are unable to negotiate a settlement in order to prevent the submission of the proposal. In the line of these findings more studies are suggesting a signaling effect by the substantial amount of shareholder activism that takes place, unnoticed by the market, through direct negotiation with management (Carleton, Nelson, & Weisbach, 1998; Prevost & Rao, 2000; Becht, Franks, Mayer, & Rossi, 2010)

An important institution that is more likely to introduce shareholder proposals is the local institution. Because of the effective local monitoring mechanism, local institutions attend more on shareholder meetings and indirectly try to influence the selection of board members. This monitoring is successfully as firms with high local ownership are more profitable and have better internal governance (Chhaochharia, Kumar, & Niessen-Ruenzi, 2012). Black (1998) finds that shareholder activism is mostly initiated by institutional investors rather than individuals but they achieve little influence or value effects because of their minimal effort on activism. The firms targeted by the institutional investors tend to be the large, underperforming firms with high institutional ownership. Gillan and Starks (2007) confirm the displacement of individual shareholders by institutional shareholders in the last decades of shareholder proposals. Because of the free-riding problem, the time effort to act independently for a shareholder proposal is not cost-effective for small shareholders.

Thomas & Cotter (2007) investigated trends in shareholder proposals in a later period. They found some big changes in voting patterns, board reactions and market responses in the period 2002-2004

contrasting to earlier periods. One measure of the success of shareholder proposals is the voting outcome of the proposals. In that period, more proposals received a majority of shareholders vote and board of directors implemented a greater percentage of the actions called for by these majority vote proposals, especially those on anti-takeover defenses. As an evaluation of Rule 14a-8's effectiveness, they concluded that it has an emerging role in reducing agency costs by increasing director responsiveness to shareholders. In a separate section, they ran an univariate analysis on stock price behavior around the proxy mailing data and the shareholder meeting date and represented the results per type of sponsor and proposal. Only average cumulative abnormal returns for the annual meeting were significant positive. As with this research, they tried to find a positive wealth effect around the annual meeting for proposals with high shareholder voting support but failed to. As Romano (2001) calls for keeping Rule 14a-8 intact, so do Thomas & Cotter. Gillan & Starks (2000) analyzed voting outcomes as indicator for success before. Together with the short-term market reaction, proposals sponsored by institutions or coordinated groups show more support for the proposal than individual sponsored proposals. Gordon & Pound (1993) tried to examine how information and ownership structure influence the voting outcome of shareholder proposals in the field of corporate governance structure. As in different studies described before, this study found many significant determinants of voting outcome in one regression model. Higher votes are among two classes of sponsor: institutional investors and members of the USA. And there is a clear path of higher support if proposals are in the area where state law and management actions reduced those rights before. This evidence could simulate a similar effect for proxy access proposals. Other significant factors were structure of share ownership and firm size. That the final adoption of the proposal is detrimental for the increase of shareholder value is raised by Smith (1996). He found significant increase in shareholder wealth only for targeting events that successful changed the governance structure.

Several event studies try to come to a common thought about the influence of the introduction of a rule on proxy access. Events increasing or decreasing the likelihood of shareholder proxy access until the final introduction of the company-by-company approach in 2011 was investigated but the results are quite mixed. Larcker et al. (2011) examined the market reaction to executive pay events and proxy access events. Thirteen key events relate to the proposed proxy access, the one with the ownership requirement of 1%, in the period between March, 2007 and June, 2009. Eight events are hypothesized to be value increasing, while the other five tend to be value decreasing. The general theory behind these hypotheses is that the 1% ownership requirement transfers wealth from all shareholders to the sponsors of proxy access proposals. These blockholders strive for their own interest and boards

become ineffective, which is not in line with the aim to create value for all shareholders. Abnormal returns around the day of the event are calculated by using a value-weighted CRSP market index and firm's existing pay practices, institutional ownership, and board structure are examined whether they associate with the market's reaction to each event in the cross-sectional analysis. The findings do not reject the hypothesis and show a weak reaction on the proposed proxy access rules, especially on the day the SEC announced the final rule on amendments to Rule 14a-8 and the day of the Delaware law passed. This negative reaction is stronger for firms with a higher degree of large institutional block holders and smaller for firms by which small institutional investors have access to the proxy process. This effect is substantiated with the claim that the low ownership requirement of 1% leads to an increase of the power of blockholders nominating directors that are not in the interest of other shareholders. The conclusion of this article proposed the idea of a voluntary company-by-company approach to which shareholders could determine the ownership requirements by themselves. This would be better for all shareholders and thus will be value increasing.

Akyol et al. (2012) rejects their hypothesis that shareholder empowerment increases firm value after studying seventeen events relevant to proxy access. Four events differ from the Larcker study and they use the Dow Jones Global Index (excluding the US) and a Canadian market index to determine abnormal returns. This study examines, similar on Larcker et al. (2011), if companies more vulnerable to the rule showed stronger abnormal returns. This vulnerability is defined by firms operating in the financial sector due to the increased media attention on executive compensation in the financial sector. Based on the studies of Smith (1996), Gillan and Starks (2000) and Karpoff et al. (1996), poorly performing firms are predicted to be the second vulnerable type of firm. Finally, many shareholders eligible to proxy access predict stronger wealth effects. The overall reaction to the empowering SEC's rule is negative for shareholders suggesting the new rule is perceived to be costly. Especially financial firms and firms with more eligible investors tend to have stronger negative wealth effects. The end of the conclusion suggests that the SEC might change the specifics of the proposed rule or look for other ways to improve board effectiveness.

Cohn, Gillan and Hartzell (2013) focused on four, more recent event dates than the Larcker and Akyol studies and found contrasting evidence. The first three events show a positive correlation between proxy access and shareholder wealth. The wealth effect was stronger for two types of firms; poorly performing firms and firms where acquiring the shares needed for access is relative inexpensive. In the last type this is because of their shareholders whom are more likely to exercise control. The magnitude of shareholder reaction increases for firms owning more shareholders eligible to the proxy

access rule. But it is muted for firms with shareholders whose interest may differ from value maximization, like labor unions and pension funds, for the same reason stated in the Larcker article. The combination of shareholders likely to use proxy access and poor performance is especially significant. An additional note here is that the results only hold for medium and large firms and are insignificant for small firms. The fourth event is individually tested to see the effect of a potential increase in the ownership requirement for proxy access. Consistent with the previous results, this has a negative effect on firms with shareholder stakes between the one and three percent ownership that are no longer able to use the new proposed rule. So this is strong evidence that the ownership requirement influences the shareholder value around proxy access.

Becker et al. (2012) had some points of criticism on the events used in the Akyol and Larcker study and picked two event dates that in their view are unexpected, unconfounded, directionally clear and highly meaningful with respect to proxy access: the announcement of the delayed implementation of proxy access on October 4, 2010 and the day the Business Roundtable ruled in favor by the court. There were significant negative abnormal returns for these events that indicate the delay of shareholder access. So the findings are consistent with Cohn et al. in the view that shareholders put a positive value on the in 2010 proposed proxy access rule.

The article of Campbell et al. (2012) investigates the stock market reaction to The SEC's adoption of a new proxy access rule on August 25, 2010 with the 3% ownership requirement for 3 years and develops a theoretical model that explains market reactions based on firm's governance characteristics. They state the theory of providing more power and influence to the shareholders to nominate directors with the aim to create value. This helps to form a board that better serves the owners' interest, which reduces agency costs and thus creates value. The market reaction was positive significant on the day of the proxy access rule announcement so shareholders appraise this proxy access rule as valuable. In this article the response was more positive as more shareholders in a company are eligible to benefits the rule. From the model drawn, firm-specific factors were ascertained that are determinative to firm value in the event of proxy access. Less independent boards, higher levels of CEO control and greater levels of intangible resources are all conditions for management to pursue their own agenda's and therefore are related to more positive shareholder value changes. And Campbell et al. (2012) made distinctive research into the influence of proxy access to another group of stakeholders, namely bondholders. They speak against the value-destroying effect for bondholders after increasing power of shareholders. Bondholders perceive the proxy access rule as positively influencing their value, contrary to the zero-sum game prediction.

Last, the Cziraki, Renneboog and Szilagyi (2010) study is a comparable study to this thesis in a different geographic setting: the European proxy access proposals. Like in the US, proposals are relatively rare and have limited voting success but in most of the European countries proposals are legally binding. In addition, there is another composition of shareholders, activists and the board between the US, UK and continental Europe. The investigation is about target firm characteristics, success in terms of voting outcome and stock price reaction. The sample consists of 290 proposals from nine countries in the period 1998-2008. The results show that sponsors of proposals are valuable monitors because they target poorly performing firms with low leverage. Target firms are more vulnerable if they have high stake of institutional investors. The proposals have a significant negative abnormal return around their voting at general meetings. They attribute this to the low vote success and the proposals used a signaling effect of governance concerns that is indicated by the stronger reaction for poorly performing firms.

Conclusion
The existing research on shareholder activism has mainly concentrated on the US and shows moderate mixed results on the relation with shareholder value. Shareholder proposals are generally seen as positive, unless shareholders put their own interest above those of value maximization. Several firm characteristics make firms vulnerable to proposals but the outcome of ballots are not very successful. The introduction of a rule on proxy access was in principle not received enthusiastically but the market reaction turned to be positive when the ownership requirement of the proposed rules increases. The company-by-company approach has allowed shareholders since 2012 to develop a proposal with their own requirements and companies are still free to include or exclude proxy access as governance mechanism independent of voting outcomes. The number of proposals was minimal but has made a big leap in 2015. Research on proxy access proposals made since 2012 is not conducted yet. This period is an interesting and blank field of research to evaluate the actual implementation of proxy access proposals in companies. Do proposals for proxy access give shareholders positive feeling of participation or is it a negative signal for improvements in corporate governance needed? The distinction can be made between the date the proposal is announced and the date of actual voting on the proposal. Proxy access proposals will be further probed by looking at the impact of voting outcomes on shareholder value and factors influencing the voting outcomes and maybe the reaction of shareholders. In the next chapter, these conceptual links will be translated to hypotheses, which will help to answer the research question.

3. Hypotheses Development

In the literature review shareholder activism, in specific proxy access proposals, and the influence on shareholder value are discussed. In this part I will state hypotheses about the correlation between proxy access proposals and shareholder value. I will review factors that influence voting outcomes and investigate if voting outcome acts as a mediating variable, put these in a conceptual model and state hypotheses.

Shareholder Value

Based on prior literature proxy access proposals can have one of three outcomes on the date of the proxy statement and the date of the actual ballot: (1) an increase in shareholder value, (2) a decrease in shareholder value or (3) no significant change in shareholder value. Based on the agency theory, shareholder primacy and director primacy model, the power between shareholders, the board and management need to be in balance. If shareholders experience too much friendly ties between the board and management, they experience failure in monitoring of the board in their interest and increase the need for independent board members. But because shareholders cannot affect the quality and independence of members put forward for election, they always have to choose for a 'second best' option without being able to nominee a board member who best represents their vision. Therefore, proxy access proposals can be a good solution and are experienced as positive by shareholders. There could be an increase in shareholder value as a result of the proposal, because this gives shareholders the opportunity to exercise a greater influence over future board members that can take their voice in monitoring management. The benefit of proxy access is not associated with the number of nominee's shareholders would like to elect in near future. But the opportunity to have the power to nominate board members creates incentives for the board to behave more in the interest of shareholders. It could be that no actual nominations are made because the right incentives are created by the proxy access (Bebchuk, 2003). In that way even shareholders that have no incentives to nominate people, could react positive on the proposed rule. But as seen in the literature, theories for decreasing shareholder value are realistic as well. This decrease in shareholder value could be the result of the signaling mechanism proposals have about concerns on corporate governance and the unsuccessful prior dialogue with the firm's management. If there are no issues monitored by the shareholders or unsuccessful direct negotiations, there is no need for a proxy access proposal. There should be dissatisfaction among the shareholders and that is why they put effort into a proposal to obtain benefits from it, otherwise the costs don't outweigh the expected benefits if the proposal is adopted. The effect is a signal of the sponsor shareholder to the other shareholders. The signaling effect could counteract the positive real effect and the stock market's reaction could be zero. Or as

opposed by de Jong, Mertens and Roosenboom (2006), shareholders will not respond at all since they do not find it valuable because of motivations other than enhancing value. Therefore, hypotheses of zero-sum effect are adopted:

H1a: shareholder value is not influenced at the date of publishing the proxy access proposal

H1b: shareholder value is not influenced at the date of the ballot on the proxy access proposal

The hypotheses are stated in the null form. The alternative hypotheses are that the shareholder value is influenced at the dates of the two events, either positive or negative.

Voting Outcome

Although voting outcomes are not legally binding in the US, the outcome can send a signal to management and other shareholders (Strickland et al., 1996). Management will experience pressure in case of a widespread support pro proxy access among shareholders. If voting outcomes are high, the adoption of the proposal will become more potential and the shareholder value will increase. However, only a small minority of shareholder proposals receive majority support (Black B. , 1998). In case of low voting outcomes, the proposal is not valuable for a majority of the shareholders and there will be no significant reaction on shareholder value. But, two out of the three referenced studies found a positive relation between voting outcome and the market reaction. Strickland et al. (1996) follows the first hypothesis above and found no general abnormal returns around shareholder meetings. Besides this zero-effect, there was a significant positive relation between voting support and abnormal returns. Thomas & Cotter (2007) failed to find a significant effect but did find that proposals with substantial support are implemented more by directors. So given this outcome, shareholders should vote for because the chance of implementation will increase. The study on European proposals found significant negative abnormal returns and attributes this to the low voting successes (Cziraki, Renneboog, & Szilagyi, 2010). So the hypothesis is formulated as:

H2: Shareholder value is positively influenced by higher voting outcomes

Voting outcomes for shareholders' proposals vary by characteristics of the proposal and firm characteristics as first investigated by Gordon & Pound in 1993. I hypothesize the statistical relation to the voting outcome for two characteristics of the proposals and three firm characteristics after controlling for three proposal characteristics.

Proxy Advisor Recommendation

An important development in shareholder proposals has been the growth in using proxy advisors (Bethel & Gillan, 2002): private consulting firms that provide proxy voting advice and voting services

to institutional investors (Black B. , 1998). Choi, Fisch and Kahan (2010) find that Institutional Shareholder Services (ISS) is the most powerful proxy advisor and that it shifts 6%-10% of voting outcomes. This power is partially due to the fact that ISS bases its recommendations on factors that shareholders consider important and so they act more as information intermediary[2]. Bethel and Gillan (2002) even find 14%-21% fewer votes for proposals in favor of management if ISS recommends to vote against. As a result of ISS' influence Black (1998) indicates that shareholder proponents develop proposals aligned with the ISS guidelines and devote significant effort to convince ISS to support their proposals. The expectation is that shareholders follow the proxy advisor recommendation and so H3a will be:

H3a: The recommendation of the proxy advisor about the proposal has a positive relation on the voting outcome in enhancing shareholder value.

Ownership Rule

Kahan and Rock (2011) claim that even large institutional investors will not own the shares needed to reach the ownership rules in proxy access proposals. For Bebchuk (2003), only ownership requirements that give power to meaningful shareholders are desirable. As prior literature shows, the success of the rule, here measured as the change in shareholder value, will be greater for firms where multiple owners are able to benefit from the enhanced shareholder power (Campbell et al., 2012; Cohn et al., 2013). That means that the greater number of shareholders that meet the ownership rules, the greater the number of shareholders that will respond and vote for the proposal to enhance shareholder value. This is the case when the ownership requirement is low. This threshold is included in proposals to ensure shareholder access works well. That means, only shareholders with long-term incentives and significant stake are entitled to nominee potential directors. This is because of the long-term value maximization as the target of the SEC. So both holding period and stake of the share are important to value maximization. Hypothesis 3b is formulated as follows:

H3b: The number of owners eligible for proxy access has a positive relation on the voting outcome in enhancing shareholder value.

CEO Equity Power

The majority of firms issue equity compensation to top executives, which creates a separate class of manager-shareholders (Westphal & Zajac, 1995). This phenomenon has two sides. The stock ownership gives executive officers the incentive to monitor managers carefully to run the firm efficiently and take actions that are less likely to reduce shareholder wealth (Brickley, Lease, & Smith,

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[2] For more information about the ISS and their policies, see http://www.issgovernance.com/about/about-iss/

1988; Cornett & Tehranian, 2007). They will act more from the point of a shareholder because they are one of the shareholders, so it reduces agency costs. On the other hand, the stockownership gives a granted status that exerts the power over other owners and the nomination of directors (Westphal & Zajac, 1995). Thereby, Campbell et al. (2012) argue that CEOs can motivate and support key decisions with their ownership share and keep the board at a distance. They indirectly try to influence the monitoring by sayng 'I'm a shareholder, therefor I act as a shareholder'. But with their private information from their management role, they can steer decisions to their interest. Finally, if the power of executives decreases the power of other owners, then the other owners are more likely to vote for proxy access to get a majority since the CEO will vote against proxy access in most cases. These arguments together seem stronger from the side of the shareholder than the first argument about CEOs in the interest of shareholders. The hypothesis is:

H3c: CEO equity power has a positive relation on the voting outcome in enhancing shareholder value.

Board Composition

Rosenstein and Wyatt (1990, p. 177) define an outside director as "a director who is not a present or former employee of the firm and whose only formal connection with the firm is his duties as a director". A greater proportion of outsiders on the board is associated with stronger corporate governance (Prevost & Rao, 2000). A number of studies have linked the proportion of outside directors to better stock returns and operating performance (Rosenstein & Wyatt, 1990; Bryd & Hickman, 1992; Subrahmanyan, Rangan, & Rosenstein, 1997). However, careful modeling by Kumar & Sivaramakrishnan (2008) shows opposite results. Dependent directors generally design inefficient incentive-contracts for top management and therefore shareholder value decreases. If dependent directors hold equity in the firm, they will increase firm value because they offset their wealth with improved monitoring related independent directors. Brickley, Coles and Terry (1994) and Black and Bhagat (2002) find similar unambiguous results. Campbell et al. (2012) use Haynes and Hillman (2010) to formulate their hypothesis about the effect of "true outsiders" on the board on shareholder value in reaction to the initiation of the proxy access rule. True outsiders are outside directors appointed before the CEO assumed position. Independent, outside directors are not necessarily unintegrated with the CEO because CEOs influence the process of new director selection. So a real independent board member is one that is appointed before the CEO took his function. Boards with a greater ratio of true outsiders will have lower agency costs due to lower indebted feelings towards the CEO for their position. These boards are thus more effective at monitoring and controlling the CEO in the interest of shareholders. Therefore, shareholders will attach less importance to nominate future directors when the true number of outsiders on the board is higher. Formally:

H3d: The percent of true outsiders on the board has a negative relation on the voting outcome in enhancing shareholder value.

Past Firm Performance

It is known that proxy access proposals are used as a valuable monitoring instrument for targeting underperforming firms (Cziraki et al., 2010) so they improve performance and enhance shareholder value (Gillan & Starks, 2000). Gillan and Starks (1998), Gordon and Pound (1993) and Strickland et al. (1996) find that voting outcomes of shareholder proposals are higher for underperforming firms. Shareholder proposals should gain more votes for when the firm's performance has been worse, because this may signal a potential quality problem with incumbent management. Bebchuk & Hirst (2010) based the theory that firms with directors that face a higher risk of removal increase shareholder value in the event of under-performance on their empirical evidence. This theory implicates that shareholders should vote for a proxy access proposal in case of low performance to put the directors in an unstable position. That way, the shareholder value will be increased. Therefore, the hypothesis is:

H3e: The past firm performance has a negative relation with the voting outcome enhancing shareholder value.

Finally, there could be an interaction between past firm performance and true outsiders on the board by confluence of two relations. First, the probability that independent directors are added to the board increases when the firm is performing poor. Second, boards tend to become less independent over time when CEOs are in the firm (Hermalin & Weisbach, 1998). This interaction term should have a positive influence on the voting outcome, therefore the last hypothesis is:

H3f: The percentage outsiders on the board when firms past performance are low has a negative relation with the voting outcome enhancing shareholder value.

Control Variables

Beside the variables of interest explained above, the selected control variables which might affect the market reaction and voting outcome are: the recommendation of the board of directors for or against the proposals, the arrangement on how abstentions are counted, targeting by the Boardroom Accountability project and three other commonly used control variables. If the board recommends voting for the proxy access proposal, then they support shareholders and it will give additional confidence in the implementation of proxy access. This could result in a higher voting outcome because the prospect that the board will take the voting outcome seriously and actually implement

proxy access, is greater. In contrast, if the board recommends against the proxy access proposal, shareholders will be triggered to put pressure on the board and show that they don't agree with the board's opinion. Shareholders can vote "for", "against" or "abstain" to a proxy access proposal. The abstention votes may be disregarded or taken as a vote against the proposal, depending on what is agreed on the voting procedure in a company. Abstentions counted as "no" votes directly influence the voting outcome in a negative way. But there may also be an indirect response to this arrangement where abstained voters prefer to cast their votes as "for" if otherwise counted against the proposal. Finally, The Boardroom Accountability Project is launched in November, 2014 by New York City Comptroller Scott Stringer and the New York City pension funds. By submitting proxy access proposals to 75 companies at once in the fall of 2014, and working close with other major institutional investors, Comptroller Stringer and the City's pension funds aim to take an important first step to proxy access across the US market. All proposals had an ownership requirement of three percent for at least three years to nominate up to 25 percent of the board to ensure that short-term investors will not be able to manipulate corporate governance at the expense of those seeking long-term value. The companies targeted are selected based on three classes: (1) companies that failed to align executive compensation with business performance, (2) companies with little or no diversity in gender or racial on their board and (3) carbon-intensive energy companies that are most vulnerable to long-term business risks because of climate change.[3] But from the literature it is known that union pension funds may use the proxy access proposals to pursue their own political interests in conflict with the interest of other shareholders (Prevost, Roa, & Williams, 2012). Based on prior literature, the multivariate analyses are controlled for firm size, year of voting on the proposal and leverage (Akyol et al., 2012; Gillan & Starks, 2000; Thomas & Cotter, 2007).

These concepts form a conceptual model where voting outcome act as a mediator. Therefore, this additional relation is also tested. H2 tests the relation between voting outcome and the market reaction and the factors impacting voting outcome are formulated in H3a to H3f. Voting outcome is the dependent variable in H3, and the independent variable in H2. So the variable is between H2 and H3, and thus may be a mediator. It may be that the H3 factors have a direct impact on the market reaction but that this is reflected through voting outcome in H2. Therefore, it is tested whether voting outcome has a direct relationship on market reaction or that this explains the relationship between factors and market reaction. Now the conceptual model of the different relations that will be tested is complete with Figure 1: Conceptual Model

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[3]For more information about the Boardroom Accountability Project, see
http://comptroller.nyc.gov/boardroom-accountability/

Figure 1: Conceptual Model
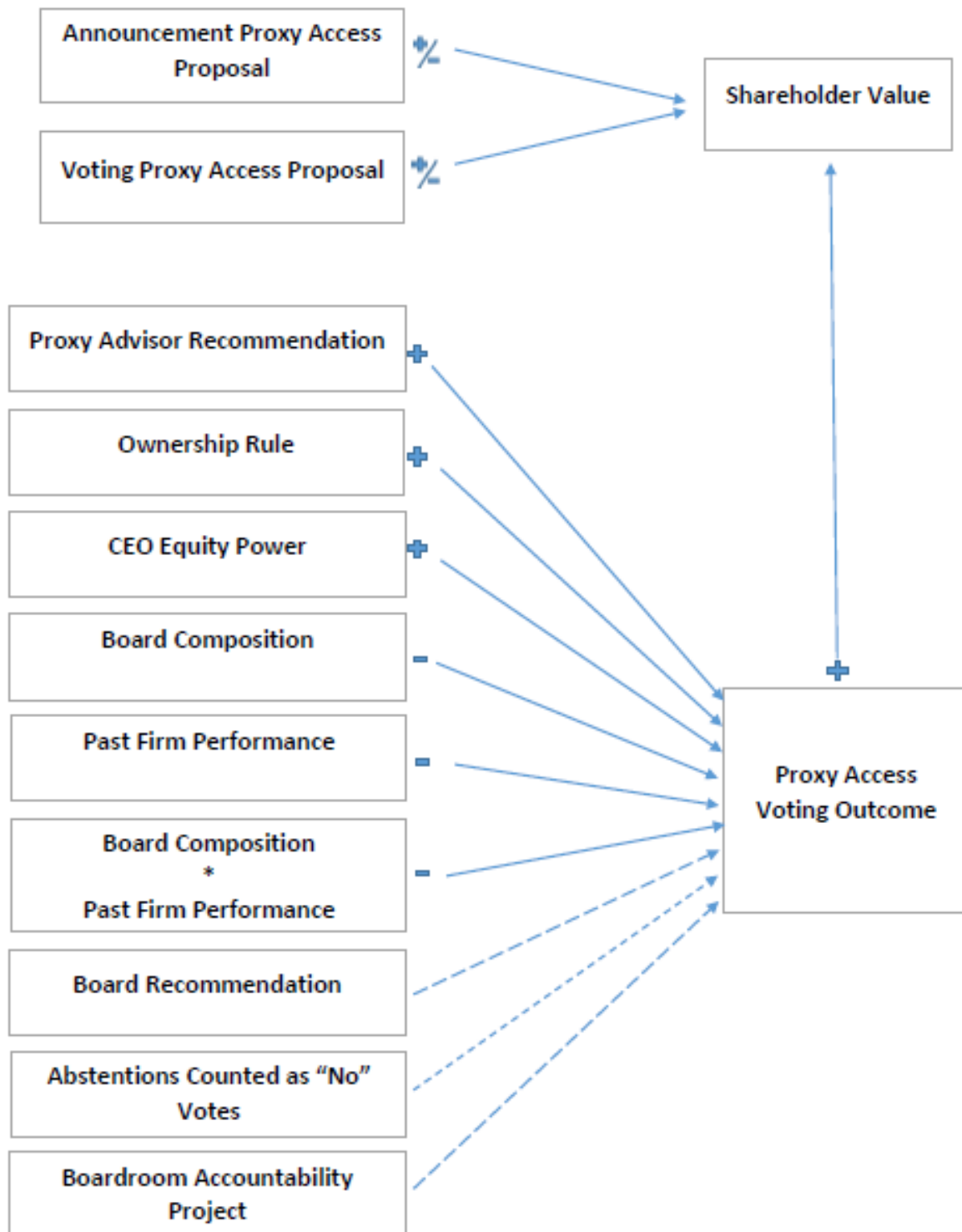
4. Research Design

Event Study

The main part of the research will consist of an event study. Events are defined as one that either significantly changes the market expectation of likely outcomes or alters the market's expectation of a specific outcome (Schipper & Thompson, 1983). An event is often related to the release of information to market participants through the financial press or corporate releases, or is related to specific company actions or governmental actions. In this study, the first event relates to the release of information to the market participants by corporate filings. And the second one is related to a company action:

1. The publication of the proxy access proposal for the particular firm. The mailing date of proxy statements is generally considered to be the earliest release date of information concerning shareholder proposals (Gillan & Starks, 1998).

2. The actual ballot on the proxy access proposal at the annual meeting for the particular firm. The motivation is that investors may change their expectations based on the voting outcome of the shareholder proposal (Gillan & Starks, 1998).

The change in shareholder value for each individual firm serves as the dependent variable for both events. There are several measures of shareholder value like earnings or stock prices. Earnings are a function of current management only and stock returns reflect both expectations of current management and future management changes (Hermalin & Weisbach, 1998). Therefore, the last measure is the best way to ascertain changes in shareholder value because especially expectations of future management changes by a proxy access proposal. The operational measure of changes in shareholder value are the cumulative abnormal returns (CAR's), "the total unexpected percentage change in the stock price surrounding the event" (Godfrey, Merrill, & Hansen, 2009, p. 433). The Efficient Market Hypothesis (EMH), which implies that all new information and price relevant information is immediately included in the stock price, is the theory behind event studies. This EMH predicts that new information about proxy access proposals is directly included in the stock price. Therefore, abnormal returns can isolate the impact of an event by controlling the expected return during the event window. The expected return is the return that would be expected without the event. I choose to base the calculation of abnormal stock returns on the market model. The market model uses residuals from the ordinary leas squares (OLS) regression. All non-zero residuals are abnormal returns related to the identified events. To determine the abnormal returns for firm *i* on the event date *t*, the following market model equation is used:

$$AR_{it} = R_{i,t} - (\alpha_i + \beta_i R_{m,t})$$

Where $R_{i,t}$ and $R_{m,t}$ are the actual returns for firm i and the market index, and α_i and β_i are coefficient estimates from an OLS regression of $R_{i,t}$ on the market index over the estimation period before the event (MacKinlay, 1997). The events affect only one company at a time, so the rest of the US stock market is not affected by a proposal for one particular firm. Therefore, the Standard & Poor's 500 firms can be used as a market index for calculating the expected return. Specifically, the market index is calculated as a value weighted portfolio of all S&P 500 firms with nonmissing returns in Datastream for both the estimation and event periods. The event window is a 3-days window around the publication of the proxy access proposals and the ballot at the annual meeting. I chose this period of time because it appears that investors may not have received the proxy statement on the same day that it is filed. It can also occur that information for the proposal can be leaked before it is published. This will affect the stock price before the event. Therefore, enough time before and after the events has to be included in the event window in order to capture the whole effect. The final cumulative abnormal return for firm i is calculated by the sum of the abnormal returns over the event window dates. The estimation window for computing the expected return for each firm during the event window is 125 trading days till 5 trading days before the event. A disadvantage of this window is that in most cases, the publication of the proposal is included in the estimation window of the ballot through which the effect of the ballot is influenced by the effect of the publication of the proposal.

Multivariate Analyses

Besides the event study on the publication and voting, it's interesting to do additional cross-sectional analyses on factors that influence voting outcomes to enhance shareholder value. Voting outcomes are calculated as the percentage votes for the proposal, with abstentions excluded following Gordon and Pound (1993). All voting data are converted into this form to insure consistency. I have chosen the corresponding operational measures following the proposal- and firm factors formulated in the hypotheses;

- *Proxy Advisor Recommendation:* ISS provides three types of recommendations on proposals: for, against or abstain. Generally, the abstention advice is used sparingly and is intended to signal that ISS has reservations about a resolution. Because in practice abstentions practically count as votes against management (Bethel & Gillan, 2002) the dummy variable equals 1 if the ISS recommends voting FOR or refrains from a recommendation for the proposal, 0 if they recommend voting AGAINST (*ISS*).

- *Ownership Rule:* The lower the ownership rules, the more shareholders are eligible to proxy access. So this factor is split in a continuous measure for the ownership percentage (*OWN%*) and a continuous measure for ownership holding period (*OWNY*) proposed as a condition for proxy access.

- *CEO Equity Power:* dummy variable equals 1 if the percentage control of voting power by the CEO is higher than the ownership rule, 0 if not (*CEO%*).

- *Board Composition:* the percentage true outsider on the board, calculated as the percentage of outside directors appointed before the CEO assumed the position to the total number of directors (*TRUE%*).

- *Past Firm Performance:* the Return on Equity (ROE) for the fiscal year prior to the proxy access proposal announced (*PERF*).

I mention the six control variables in the conceptual model together to a variable called CONTR. This leads to the following regression equation:

$$VOTE_j = \beta_0 + \beta_1 ISS_j + \beta_2 OWN\%_j + \beta_3 OWNY_j + \beta_4 CEO\%_j + \beta_5 TRUE\%_j + \beta_6 PERF_j$$
$$+ \beta_7 TRUE\% * PERF_j + \beta_8 CONTR_j + \varepsilon_j$$

According to the formulated hypotheses it is predicted that $\beta_{1,2,3,4}$ are positive and $\beta_{5,6,7}$ are negative.

To test whether the voting outcome is a mediating variable, a path analysis will be done with shareholder value as dependent variable. The independent variables included will depend on the results from the multivariate regression on voting outcome. The three paths will be explained. The first path is to determine the direct influence of the independent variables on the dependent variable. Here, a multivariate regression of the significant factors from the regression above on the market reaction is done. The second path contains the inclusion of the mediating variable into the first model to see if significant direct relations are muted by the inclusion of the variable voting outcome. When this holds, path three is the one concluding the relation of voting outcome. This reviews the direct relation of voting outcome on the market reaction in a simple regression. If this relationship is significant, one can assume that voting outcome is the mediating variable between the significant variable(s) from path one and shareholder value.

Sample Selection and Data Sources

After identifying the events and variables for the cross-sectional analysis, it is necessary to determine the selection criteria for the inclusion of a given firm in the study (MacKinlay, 1997). The sampling frame consists of public firms in the Unites States which are targeted by activist shareholders with a proxy access proposal. Therefore, only firms that are listed on the American stock exchange are included. To identify targeted firms, I will search for proxy statements that contain a proxy access proposal in the time period from 2012 till April 2016. This period started right after the introduction of the final SEC rule on proxy access proposals and contains most actual proposals. The Proxy Monitor database contains facts about shareholder proposals for the largest 250 US companies and the SEC

Analytics Suite contains filings for all public companies in the US. After selecting only proxy access proposals, Proxy Monitor gives 56 results for proxy statements that contain a proxy access proposal conducted by shareholders. This is the starting point of our sample. Using the key words "proxy access" in the filing search tool of SEC Analytics Suite, the sample is expanded with a list of proxy statements containing a proposal for proxy access. Proposals on behalf of management or shareholder proposals containing an amendment to an already accepted proxy access rule are disregarded. A total sample of 166 proxy statement mailing- and annual meeting-date observations representing 137 firms are used for the analysis. Of these 137 firms, 113 were targeted one time, while the remaining 24 were targeted again in years following the initial proposal that was not accepted by management. The most a firm was targeted was 4 years (Nabors Industries Ltd.). Data on the proposal announcement date, annual meeting date, board recommendation, ownership rule and any agreement on abstentions is obtained from the proxy statement. The New York City Comptroller Scott Stringer published a list of all sponsored proxy access proposals, which is used for the dummy variable Boardroom Accountability Project. The ISS voting recommendations are found in proxy season reviews from analysts and data on director independence and CEO equity power are from the ISS Risk Metrics Directors database. The firm size and the measures to calculate REO and leverage are subtracted from Compustat. The firms report voting outcomes in the first 8-K report after the annual meeting. Daily market model adjusted abnormal returns for the event-window are calculated using Thompson Reuters Datastream given the event dates, event window, estimation window and the market index. By adding these daily abnormal returns per company per event, the cumulative abnormal results can be obtained. Appendix 1. gives an overview of the variables and their description.

5. Empirical Results and Analysis

Table 1 represents the descriptive statistics for the dependent variables and numeric, continuous independent variables. The correlation matrix for the independent variables used in the multiple regression models appears in Appendix 2. There are only correlation coefficients above 0.8 for *OWN%*, *OWNY, YEAR2014, YEAR2015, LEVERAGE* and *LEVERAGE²*. These are all variables that are transformed from each other and not used in the same regression model or variables that predict the same concept, so this is a good starting point. Assumptions that restricted the used variables from the list of variables proposed in the research design are explained later in the regression section. First, the market reaction to the announcement and the voting on the proposal are evaluated. Then the regression on voting outcomes determines which factors affect the success of the proposal. In the third subsection, the path analysis reviews for mediating effects. And finally, some robustness tests give extra power to the results. All tests are completed with a 95% confidence interval and significant p-values are stressed as they are shown in boldface.

Table 1. Descriptive Statistics for numeric, continuous dependent and independent variables

Variables	N	Mean	Stand. Def.	Mean $_{2012}$	Mean $_{2013}$	Mean $_{2014}$	Mean $_{2015}$	Mean $_{2016}$
CAR proxy statement date	164	0,010	0,055	-0,006	0,008	-0,013	0,018	0,002
CAR annual meeting date	159	-0,004	0,052	-0,029	0,001	0,015	-0,008	0,001
VOTE	160	49,31	21,15	30,35	41,20	34,91	56,11	49,78
OWN%	166	2,73	0,72	1,42	1,82	2,62	3,02	3,00
OWNY	166	2,78	0,54	1,67	2,18	2,76	2,99	3,00
TRUE%	120	41,25	35,32	49,05	29,50	31,32	44,44	-
PERF	164	0,260	3,035	-0,732	0,033	0,098	0,508	0,054

This table presents summary statistics for the entire sample (166 proposals, 137 firms) for the period 2012-april 2016. Cumulative Abnormal Returns are calculated using the market model with expected returns calculated using a estimation window of 120-5 days before the event date, using the Standard & Poor's 500 firms for the market index. Voting outcome is the percentage of votes for to total votes without abstentions. Ownership percentage and ownership holding period are the requirements for proxy access in the proposals. The percentage true outsider on the board is calculated as the percentage of outside directors appointed before the CEO assumed the position to the total number of directors. Performance is the ROE, the ratio of net income to total equity, for the fiscal year prior to the year of announcement.

Market Reaction to Announcement Date

Hypothesis 1a predicted that shareholder value will not be influenced by the publication of the proxy access proposal. The continuous data on cumulative abnormal returns are independent and so suitable for a univariate t-test. Using a quantile-normal plot, two outliers were detected. To prevent that these outliers have a negative effect on the accuracy of the results, they were removed. The histogram showed an approximately normally distributed cumulative abnormal return pattern, so the tests can be interpreted as reliable. The first three rows in Table 2 contain the results of the univariate t-test on cumulative abnormal returns for a 3-days event window using the market model to estimate normal returns and the S&P 500 index as a proxy for the market. The two-tailed t-test for the market's reaction indicates that the abnormal return is significantly different from zero, rejecting Hypothesis

1a. The one-tailed test demonstrates that it is a significant positive abnormal return ($t_{d.f.160}$= 1.681, p= .047) with a mean of 0.5961%. So shareholders value proxy access proposals as positive when they are publicized in the proxy statements with an average increase in shareholder value of 0.5961 percent. This indicates that the signaling effect about corporate governance concerns or unsuccessful negotiations is not, or in lesser extent, present and shareholders assess the success of the proposal positively, otherwise they would not respond at all to a proxy access proposal.

Market Reaction to Ballot Date

Hypothesis 1b predicts that shareholder value is not influenced at the date of the ballot for the proxy access proposal. Also this hypothesis is tested using a univariate t-test. There are three outliers detected and removed using the quantile-normal plot. The histogram shows an approximately normally distributed cumulative abnormal return pattern, so the tests can be interpreted as reliable. The fourth, fifth and sixth row in Table 2 contain the results of the univariate t-test on cumulative abnormal returns for the 3-day event window around the annual meeting with conditions similar to the test on the announcement date. Both the one-sided ($t_{d.f.155}$=-0.726, p=.469) and two-sided tests indicate no significant response on the ballot day. So there is no reaction as response on the voting on proxy access proposals, such as the hypothesis also predicted. This could be the case because of average minority vote results which indicate low successes of proxy access proposals. Due to low support, boards will not likely implement proxy access and their incentives do not change. Therefore, there will be no change in expected future performance of management and the firm, which are included in the valuation of shareholder value. Another interpretation of the insignificant CAR's is that the event date of the annual meeting is noisy so that the abnormal return being captured reflects information more importantly than that related to the voting outcome of one shareholder proposal. To test the predicted positive relation between higher voting outcomes and shareholder value, the sample is split in a sample with a majority vote for the proposal and a sample with a minority vote. The sample with a majority voting outcome showed a negative but insignificant market reaction ($t_{d.f.82}$= -1.505, p= .068) and the sample with the minority voting outcome showed an insignificant positive market reaction ($t_{d.f.75}$=0.187, p=.852). This indicates there is no direct relation between the voting outcome and the market reaction. To be sure, this is tested with the simple regression figured in table 4, model 1. Voting outcome here has an insignificant negative coefficient (t=-0.49, p= .628), in a model with a low F-statistic (0.24) and explicability (Adjusted R-squared= -0.49%). These tests together reject hypothesis two. The non-binding character of proposals could be an issue for shareholders to react insignificant on the actual outcome of the proposals, although management could be threatened by a high voting support. It could be that they feel relieved that a shareholder puts concerns up to public

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by proposing for proxy access because that makes them alert for monitoring management and therefore react on the proxy statement day. But in the end, they think that management ignores the proposal itself and so they do not react on the voting outcome. Maybe, they already think about other options to change management incentives as they do not count proxy access proposals as realistic to be adopted.

Table 2. Univariate t-test mean cumulative abnormal returns around events

Event	Test mean CAR	Sample	Actual mean CAR	t	p-value
Proxy statement	= 0	full	0,006	1,681	0,095
	< 0	full			0,953
	>0	full			**0,047**
Annual meeting	= 0	full	-0,002	-0,726	0,469
	< 0	full			0,235
	>0	full			0,766
Annual meeting	= 0	votes "for" >50%	-0,009	-1,505	0,136
	< 0	votes "for" >50%			0,068
	>0	votes "for" >50%			0,932
Annual meeting	= 0	votes "for" <50%	0,001	0,187	0,852
	< 0	votes "for" <50%			0,574
	>0	votes "for" <50%			0,426

This table shows mean cumulative abnormal returns with an eventwindow (-3, +3) around the proxy statement mailing dates and annual meeting dates for the full sample proxy access proposals in the period 2012-2015 and subsamples of proposals getting a minority or majority voting outcome. The market model parameters are estimated over the 120-day period ending 5 days before the event date, using the Standard & Poor's 500 firms for the market index. The significance of means is tested using a cross-sectional t-test, bold p-values denote significance at the 5% level.

Regression on Voting Outcomes

For each year, Table 1 reports mean voting percentages in favor of the proxy access proposals. Two aspects of this distribution are important. First is the lack of support for the shareholder-submitted proxy access proposals. The mean percentage of votes in favor of a proposal over the sample period is 49.31%, not even a majority of all the votes. This indicates that the enthusiasm for proxy access is not very high. The second important aspect is the general increase in the number of proposals submitted that is not in line with an increasing voting pattern. There is a notable jump in the percentage votes received in 2015 compared to the 2014 mean voting outcome. But there is no clear upward trend in the number of votes for a proposal.

Hypothesis 3a to 3f predict the influence of factors within the proposal and the firm on the outcome of the ballot during the annual meeting. These hypotheses were tested using hierarchical multiple regression analyses. The base model predicts voting outcome using the variables mentioned in the

research design. Several assumptions are tested on the base model to identify necessary changes and thus obtain a final model with the greatest possible significance and explicability. The base model consists of 91 observations due to 21 observations with missing firm characteristics for the year 2016, 32 missing recommendations from the ISS, sixteen missing values for board composition and four missing values in other variables. Due to the missing values of 2016, the sample period is restricted to 2012-2015. To search for unusual and influential observations the added-variable plot, also called a partial-regression plot, shows an independent variable by the dependent variable adjusted for all other independent variables in the model. The line plotted can be tugged upwards or downwards due to influencing observations. The added-variable plots for most of the variables show Wal-Mart as an unusual observation. Excluding Wal-Mart from the regression gives a significant improvement of the model. To interpret a regression model it should first meet the four assumptions on normality and homoscedasticity of the residuals, linearity and multicollinearity. The kernel density estimate of the residuals, a smoothed variance of a histogram, is nearly identical to the normal distribution. The Cameron & Trivedi's and the Breusch-Pagan statistic test the null-hypothesis of homoscedasticity. Both tests are insignificant so the hypothesis of homoscedasticity is not rejected which means this condition is adopted. Linearity might be a problem for some of the variables. Augmented component-plus-residual plots are used to identify nonlinearities in predictors. Some variables might need a transformation to a logarithmic scale or exponential distribution in order to improve the linearity, and thus the power of the model. The dummy variables can't be transformed and the variable firm size already has a logarithmic scale. The linearity of the variables and power of the model increase after a transformation of the variable performance into a quadratic formula of performance. This allows the transformation of the associated interaction term *TRUE%*PERF*. Also, the linearity of the interaction term and the power of the model improved once a quadratic variant was added to the model. Multicollinearity between independent variables in the model is a last characteristic that the model should not have. This can be tested using the variance inflation factors (VIF). The first overview show VIF-values above the critical value of 10 for the variables $PERF^2$, $TRUE*PERF^2$ and *OWNY*. The only solution to decrease multicollinearity and improve the model is to eliminate one of the variables with a high mutual correlation. I chose to eliminate the interaction term, because this one had the second highest VIF-value and it is logical that the correlation with performance decreases if this variable is removed. The new regressed model showed some improvement but the dummy variable for firms targeted by the Boardroom Accountability Project now had a high VIF value. So this one was eliminated, together with the omitted dummy variable for the year 2013. After these two last eliminations the model meets all the assumption and is ready to be interpreted as reliable with 90 observations, an overall significance F-test of 19.77 (p-value .000) and adjusted R-square of 73.27%.

This implicates a strong model where independent variables declare much of the voting outcome changes between firms.

The results of the model are shown in Table 2. Hypothesis 3a predicts that the recommendation of the proxy solicitor has a positive influence on the voting outcome of the proposal. The dummy variable *ISS* is highly significant (t = 7.71, p= .000) with a positive coefficient of 47.1771. This is in line with the hypothesis formulated and the prior literature. ISS seems to be a very important institution of whom recommendations are regarded as very reliable and usable. When ISS recommends to vote 'against', which has not happened often, this seriously indicate potential issues in the proposal that shareholders could not identify and therefore rely on judgement of the ISS. This gives a big shift in the voting outcome as indicated by the high magnitude of the coefficient. The 3b hypothesis predicts that the number of owners eligible for proxy access has a positive effect on the voting outcome. The dummy variables *OWN%* and *OWNY* predict this relation. Only *OWNY* is significant with a 95% confidence interval (t= 3.36, p= .001). The coefficient is positive and is therefore contrary to hypothesis 3b. In this case, shareholders view proxy access as a success to vote for only if shareholders with a long-term perspective are eligible to nominate directors which is a logical explanation and a good condition to aim for long-term shareholder value maximization. The coefficient of *OWN%* is, in line with the expectations, negative but insignificant (t= -1.75, p= .083). The number of shareholders that can propose therefore appears not to be of great importance. It is likely more important that shareholders' view is from a long term perspective, because they may represent the interest of all shareholders in the long term. Hypothesis 3c formulated the prediction of a positive relation between CEO equity power and voting outcome. The coefficient on the dummy *CEO%* is negative and significant (t = -2.23, p= .028), which rejects hypothesis 3c. The situation in which CEOs are acting more like a shareholder when they have larger equity holdings. This gives other shareholders reduced need for proxy access because they trust the CEO that he will take into account the interests of shareholders better. Hypothesis 3d predicts the relation between the percent of true outsiders on the board and the voting outcome as negative. This relation is negative but insignificant (t = -0.98, p= .329) and can neither support nor reject the hypothesis. Surprisingly, shareholders do not care about the real independence of the current board or do not put much effort to monitor the independence of current board members. As suggested by Bebchuk (2003), the proxy access proposal is not directly related to the current board members but to the opportunity to create the right incentives, or otherwise execute the proxy access. Hypothesis 3e predicts that the past firm performance has a negative relation with the voting outcome. The coefficient for P*ERF²* in the year before the proposal was voted on, is positive but insignificant (t= 1.69, p= .095). So the hypothesis is not supported and contradicts prior research.

We have to interpret these results carefully due to endogeneity issues. As prior literature appoints, targeted firms are merely good performing firms. So there is smaller range between the targeted firms because in general they all perform poorly and that is a starting point for higher voting outcomes. So the insignificant effect could be attributed to the small differences in performance within the sample. The last hypothesis about the interaction between the true outsider on the board and the performance of the firm couldn't be tested because of the elimination of the variable due to multicollinearity. The only control variable that has significant influence on the voting outcome is the recommendation of the board. This has a positive coefficient (t= 5.39, p = .000) so a recommendation from the board in favor of the proposal increases the voting outcome. This has the logical explanation that the likelihood of implementation is higher if the board recommends voting for together with the actual great support of shareholders.

Table 3. Multiple regressionmodel voting outcome

Variable	Coefficient	t	p-value
Constant	-38,572	-2,520	**0,014**
ISS	47,177	7,710	**0,000**
OWN%	-8,380	-1,750	0,083
OWNY	23,107	3,360	**0,001**
CEO%	-7,296	-2,230	**0,028**
TRUE%	-0,035	-0,980	0,329
PERF^2	8,919	1,690	0,095
BOARD	30,829	5,390	**0,000**
ABST	3,887	1,720	0,090
BAP$_{no\ target}$	-4,289	-1,510	0,135
SIZE	1,416	0,700	0,487
YEAR2014	-3,769	-0,510	0,609
YEAR2015	-4,022	-0,590	0,555
LEVERAGE	0,174	0,370	0,713
F	19,77		
R^2	77,17%		
Adj R^2	73,27%		
N	90		

The table report the results of a linear OLS regression relating voting outcomes to proxy advisor recommendation, ownership rule, CEO equity power, board composition and past firm performance controlling for board recommendation, arrangement on the counting of abstentions, targeting by the Boardroom Accountability Project, firm size, year of announcement and leverage. The sample consists of 90 proposals voted on between 2012 and 2015. The dependent variable is the percentage votes for to total votes without abstentions. The significance of variables is tested reporting t-statistics, bold p-values denote significance at the 5% level.

Path Analysis

To examine the real influence of voting outcome on shareholder value changes around the annual meeting date, a path analysis is executed. To determine if voting outcome is the mediating variable that influenced the market reaction, three paths are run through. As described in the research design, the proxy access voting outcome could be the mediating variable between the significant factors in from hypothesis 3a to 3f and shareholder value. So shareholder value is the predicted dependent variable, voting outcome the predicted mediating variable and as a consequence of the regression results from Table 3 the ownership period rule, CEO equity power, the proxy advisor recommendation and the board recommendation are the independent variables in this path analysis. Besides these variables, firm size, year of voting and leverage still are the control variables. The first step is to determine the direct influence of the independent variables on the dependent variable. Model 2 in Table 4 contains results of this multiple regression after testing the assumptions, excluding one observation and transform Leverage into the quadratic variation as a result of these tests. The model is quite infirm in the significance and explicability with a F-test of 1.78 and an adjusted R-squared of 6.51%. It is not surprising that all variables of interest have insignificant influence on the cumulative abnormal return. Only the control variable *LEVERAGE^2* has significant negative influence on the cumulative abnormal returns (t= -2.64, p=.010), which is a quite normal relation and is therefore not special for firms targeted by proxy access proposals. The second path contains the inclusion of the mediating variable into the first model, which creates Model 3 in Table 4. An important sign of the presence of a mediating variable is the increase in power of the model when the mediating variable is added. Both the F-statistic and adjusted R-squared decrease to 1.60 respectively 5.76% which rejects the prediction of voting outcome as a mediating variable between leverage and the market reaction to proxy access proposals. Although the decreasing significance of *LEVERAGE^2* (t= -2.47, p= .016) gives the possibility of the presence of a mediating variable, voting outcome is not significance in this model (t= -0.59, p= 0.557). This is extra evidence for rejecting the idea that there is influence of a variance of factors of firms and proposals on the market reaction through the voting outcome. While testing the third path has become redundant, this also provides additional evidence to reject the hypothesis that voting outcome has a mediating effect on the association between the proposal properties and shareholder value. A last condition for a mediating variable is the presence of a significant effect of the independent variable on the mediating variable. This procedure is done in the regression model on voting outcomes and therefore only the significant variables and control variables were tested in the first and second path. The significant effect of *LEVERAGE* is not present in the regression results in Table 3 so therefore even this condition for a mediating variable does not hold. The results of the

simple regression give that shareholders little react to the outcome of votes which doesn't make it surprising that there is no effect of other factors via the outcome on the shareholder value.

Table 4. Path analysis regression models

	Model 1: Simple		Model 2: Independent		Model 3: Full	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Constant	0,001	0,934	0,097	0,119	0,092	
VOTE	0,000	0,628			0,000	0,557
ONWY			-0,019	0,255	-0,015	0,375
CEO%			-0,016	0,204	-0,017	0,179
ISS			0,002	0,951	0,012	0,691
BOARD			0,019	0,363	0,027	0,281
SIZE			-0,009	0,223	-0,009	0,222
YEAR2014			0,019	0,522	0,018	0,545
YEAR2015			-0,008	0,771	-0,009	0,736
LEVERAGE^2			0,000	**0,010**	0,000	**0,016**
F	0,24		1,78		1,60	
R^2	0,15%		14,92%		15,29%	
Adj R^2	-0,49%		6,51%		5,76%	
N	158		90		90	

The table report the results of linear OLS regressions relating cumulative abnormal returns around the annual meeting date to voting outcome, ownership rule, CEO equity power, proxy advisor recommendation controlling for board recommendation, firm size, year of announcement and leverage. The sample consists of proposals voted on between 2012 and 2015. The dependent variable is the cumulative abnormal returns around the annual meeting, computed using the market model with expected returns calculated using a estimation window of 120-5 days before the event date and using the Standard & Poor's 500 firms for the market index. The significance of variables is tested using t-statistics, bold p-values denote significance at the 5% level.

Robustness Checks

To test the results for robustness, I examined a smaller event window, transformed measures of the dependent and independent variables and performed the tests on a subset of the full sample and to the full sample with clustered standard errors. Overall, all significant variables did not change and turned to be robust but extend with some significant variables in some tests. I thus report the final-form full-sample results in the tables. Only the results on the proxy statement event and multivariate analysis of voting outcome did change with three of the robustness checks and are explained in the text.

The market return results are tested for extra power using an alternative return generating model: the Market-Adjusted Return Model. This model is easier in calculating CAR's and is often used for

situations where data is limited available. The difference with the market model return model is that the expected return is equal to the market return and is not calculated using an OLS regression and estimation window. The model only adjusts for market wide movements that occur at the same time the sampling firms experience the event, not for firm-specific and market-wide events outside the event window. Subtracting the market returns from the individual returns for the event window, gives the abnormal returns (Fernando & Guneratne, 2009). The event window (-3, +3) and the market index for S&P 500 firms are unchanged for the calculation of this model returns. Now, for both the proxy statement mailing date and the annual meeting date, the univariate t-test shows insignificant positive returns and so hypothesis 1a and 1b can't be rejected. By splitting the sample, the influence of the voting outcome on the market reaction is taken into account. These results are robust to the market model returns but the CAR for low voting outcomes changed from a negative to positive insignificant market reaction. The simple regression shows that the voting outcome did not significantly affect the market reaction around the ballot day (t= -1.54, p= .125). The path analysis is performed in the same way and also here only leverage has a significant impact on the market reaction that, partly due to the weakened power of the model in relation to the market-model, disappeared upon the addition of the possible mediating variable *VOTE*. There is no single way of evidence that proposal- or firm characteristics are influencing market reaction through the voting outcome.

The results for the announcement date do differ qualitatively if a shorter window of (-1, +1) is employed. With the used (-3, +3) longer window, the noise-to-information ratio increases and so the results can be influenced (Bhagat & Romano, 2002). This noise could be the reason for the earlier found statistic positive return on the initiation of proxy access proposals. The market reaction to the announcement date is insignificant positive ($t_{d.f.161}$= 1.027, p= .153) when measured in a shorter event window. But it is logical to assume that proxy access proposals need more time to get a reaction started in the market and therefore are only significant in a wider event window. This is because publication of these proposals requires some time to reach the shareholders. The results for the annual meeting date didn't change significantly with the smaller event window, for both the group having a high voting outcome as the group with the low voting outcome. As a consequence, the simple regression shows an insignificant relation, although the coefficient turned from negative to positive (t= 0.70, p=.485). The smaller event window is applied to the path analysis. In general, the models have become more significant, but the results are not unlike the (-3, +3) event window. Besides, the result can be different for firms receiving a proposal for the first time because these proposals may be more of a surprise. Prevost & Rao (2000) find transitory negative wealth effects for firms receiving a first time proposal while firms targeted repeatedly have a negative wealth effect over a wider event

window. The table in Appendix 3 provides the results for the tests when only first time proposals are included in the analysis. The results are similar to those of the full sample, with substantially better explicitly and significance of variables in several tests. Especially, the positive reaction on the proposals announcement is stronger for first-time targeted firms. This is not surprising because these shareholders are more surprised in a positive way. Shareholders of firms targeted for the second time can react disappointed if the same proposal is initiated or positive if some good adjustments are done and the expected success increases. In another extra test, the annual meeting event is replaced for the issue date of the first 8-K after the annual meeting. This date can tell whether the results of the CAR around the ballot are robust, because the result of the ballot are included in the 8-K and thus become publicly at this date. Most 8-K filings are published between the annual meeting date and two weeks after. The results for the univariate t-test are not different from that of the CAR around the annual meeting ($t_{d.f.155}$=-0.192, p=.847). The market reaction stays insignificant, for high voting outcomes ($t_{d.f.80}$=-1.570, p=.120) as well for low voting outcomes ($t_{d.f.75}$=1.124, p=.265). The path analysis shows not a single significant variable in the first and second model. So now there is no independent variable for which voting outcome can be a mediating variable. Finally, the multivariate analyses were performed again with an adjustment for clustered standard errors to deal with any concerns about failure to meet assumptions. The coefficients are exactly the same as in the normal OLS but the standard errors take into account issues concerning heterogeneity and lack of normality. I use the cluster option to indicate that the observations are clustered into industries and that there may be correlation within industries, but independence between industries. These results show the same significant effects as the normal OLS but with extra significance for the variables *OWN%* (t= -4.68, p= .000) and *PERF²* (t= 2.27, p= .028) within the regression on voting outcomes. Therefore, these two variables are also taken into account in an extra path analysis. But *VOTE* still has no significant effect on the market reaction (t= -0.60, p= .175), so there couldn't be a mediating effect. One additional finding is there. Namely, *OWNY* has a direct negative effect on the market reaction, contrary to the result at the OLS regression on voting outcome.

6. Conclusion

This thesis evaluates the influence of shareholder proxy access proposals on shareholder value as a result of the SEC's final rule on proxy access. This rule provides a company-by-company approach where shareholders are free to fill in the proxy access and voting requirements for the proposal. The main purpose stated by the SEC is the reduction of agency problems and increase of the accountability of directors to shareholders (Akyol et al., 2012). When this goal is in range, the shareholder value will increase. The results provide answers to the following questions: Is the shareholder value of firms influenced by shareholder proxy access proposals? And if so, which factors do influence this change? To answer the first question, two event studies are performed. Only the announcement of the proxy access proposals shows a significant improvement of shareholder value. So there is a positive attitude towards the announcement of proxy access in the firm because it expects more power for shareholders over board and firm performance, even without exercising the proxy access, by shaping the intensives. One interpretation of the insignificant CAR's around the voting is that the event date is noisy, so that the abnormal returns captured reflect information other than that related to the voting outcome, like other import information emerged from the annual meeting. Second interpretation could be the low attention of management to proxy proposal voting outcome because of the non-binding character. Thus, the first contribution to the knowledge of proxy access is making a proposal elicits a positive thought to shareholders but shareholders consider voting outcomes not as valuable. However, this corresponds to the mixed results of past studies on the introduction of the SEC rule (Larcker et al, 2011; Akyol et al, 2012; Cohn et al, 2013; Becker et al, 2012; Cziraki et al, 2010). Besides this primary effect, there is evidence which factors determine successful support for proxy access among the shareholders. Two sets of factors are examined to explain the magnitude of votes for the proposals. First, factors around the proposal were analyzed. As hypothesized, the recommendation of the proxy solicitor has a positive influence on the voting outcome. Shareholders rely heavily on the recommendation of the ISS. This is simultaneously an additional indication of many shareholders not actively make an effort to their vote. The required ownership percentage was significant after clustering standard errors and has a negative effect on the voting outcome. That means that the greater number of shareholders that meet the ownership rules, the greater number of shareholders vote for the proposal to enhance shareholder value. Higher ownership period requirements are positively associated with voting outcome because it seems valuable for shareholders that only the one with a view from a long term perspective are eligible for proxy access and represent the interest of all shareholders in the long term. This real time effect is confirmed in the empirical studies on the proposed introduction of the proxy access rule. The rule of 2010 contained higher ownership requirements for the holding period and was considered positive with respect to

the previously proposed rules. So the ownership rule has two sides which have contradicting influence. Together, they summarize higher success rates for proxy access proposals when shareholders with long-term perspective can use it. The second set of factors was about firm characteristics. Are there special types of firms that receive higher votes for the proposals or not? The theory that states lower need for proxy access when CEOs with more equity power act more in the interest of shareholders appears to work on voting outcomes. After adjusting for clustered observations, prior performance showed contradictory significant results with the hypothesis that past firm performance has a negative relation with voting outcome but this has to be taken with caution because of endogeneity. As such, a second contribution of this study is identifying proposal and firm-specific factors that are determinative in support for the proposal among all shareholders. In total, there is a positive change in shareholder value in response to the announcement of the proxy access proposal and the success of proxy access proposals is associated with proxy advisor recommendation, ownership requirements, CEO equity power and past firm performance.

Limitations

The event study has some disadvantages. First of all, the events have to be unexpected by the market, otherwise share prices have already adopted the news. The initiation of a proposal by shareholders may already be known before the proxy statement mailing date, for example through the published list of firms targeted by the Boardroom Accountability Project at the beginning of the proxy season. This is linked to the fact that it is difficult to determine the point at which shareholders first receive information on the proposal. As a second pitfall, the success of an event study depends on the hypothesis of efficiency of markets, but in reality it is not that simple. Third, the events are likely to coincide with the release of other information, like other proposals and executive compensation in proxy statements and the release of other corporate news and voting outcomes on other proposals around the annual meeting. This makes it difficult to sort out the market reaction to proxy access proposals. Finally, the normal returns for the annual meeting date could be troubled by event clustering, which happens if other firm specific events occur in the estimation windows. For most of the observations, the proxy statement mailing takes place within the event window of the annual meeting event, so the positive effect of the announcement is taken into the calculated normal return for the voting outcome.

Contribution and Further Research

This study contributes to the general debate on shareholder empowerment. The results of this study give practical insights because it implicates specific advice to stakeholders of proxy access:

- When shareholders would like to gain great support to their proposal, they have to adapt it to the ISS policies so this proxy advisor gives a recommendation to vote for the proposal. Shareholders rely heavily on these recommendations and the voting outcomes will be higher.

- The research on the real effect of proxy access proposals distinguishes from earlier studies on the proposed rules by the SEC. Results of voting outcomes and market reaction show that the enthusiasm about proxy access among all shareholders is not great. Shareholders consider empowerment through proxy access not immediately as valuable and the SEC's rule seems to be ineffective. This can provide policy makers insight in helping to determine the appropriate approach to give shareholders their part in proxy access where they need and making the SEC's rule effective. A first important improvement would be made on the non-binding character of proxy access proposals. It would be helpful to make these proposals binding so that votes will actually have an impact. This will trigger shareholders to vote more explicit for or against a proposal and shareholder value can be significantly impacted. Thereafter, the real value of proxy access proposals can be determined.

- Finally, board members and management can be better prepared for the proposal's success due to the known determinants of voting outcomes. This allows them to better see the impact on their own position and accommodate on that.

In order to determine whether the SEC's rule is really ineffective in reaching its goal of agency cost reduction and increase of the accountability of directors to shareholders, further research needs to be done in the future. Because of the short term which many proposals have been made, this thesis can't suggest on long-term effects of proxy access proposals. Are there noticeable changes in board structure after high voting outcomes? Or does management really disregard the non-binding results and there is zero effect? And what about the market reaction to management actions? Do adopted proxy access rules represent a cause for better performance in the long run? And, like Campbell et al. (2012) suggests, do other stakeholder benefit when shareholders gain greater control on director nominations? This research seems only the beginning.

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Appendix 1.

Table 1. Variable description for the dependent and independent variables

Variable	Proxy	Measurement	Literature	Data Source	Acronym
Change in Shareholder Value	Cumulative abnormal return (-3, +3)	$AR_{it} = R_{i,t} - (\alpha_i + \beta_i R_{m,t})$	Gillan & Starks (2000), Campbell et al. (2012)	Datastream	CAR
Voting outcome	Votes in favor of proxy access without abstentions	$\dfrac{votes\ for}{(votes\ for + against)} * 100\%$	Gillan & Starks (2000), Thomas & Cotter (2007)	8-K filing after annual meeting	$VOTE$
Proxy Advisor Recommendation	ISS recommendation	dummy variable equals 1 if the ISS recommends to vote FOR or refrains from a recommendation for the proposal, 0 if they recommend to vote AGAINST	Choi, Fisch and Kahan (2010)	Proxy season reviews	ISS
Requirements for proxy access	Ownership rule proposed	Ownership percentage	Campbell et al. (2012)	Proxy statement	$OWN\%$
		Ownership holding period	Campbell et al. (2012)	Proxy statement	$OWNY$
CEO Equity power	Shareholder ownership of CEO	Dummy variable equals 1 if the % control of voting power by the CEO is higher than the ownership rule, 0 if not	Campbell et al. (2012)	ISS Risk Metrics Directors	$CEO\%$
Board composition	Percentage true outsiders	$\dfrac{number\ of\ directors\ assumed\ before\ CEO\ take\ position}{total\ number\ of\ board\ members} * 100\%$	Campbell et al. (2012)	ISS Risk Metrics Directors	$TRUE\%$
Past firm performance	ROE for the fiscal year prior to the proxy access proposal announced	$\dfrac{net\ income\ FY_{t-1}}{total\ stockholders\ equity\ 31-12-FY_{t-1}}$	Gillan and Starks (1998), Gordon and Pound (1993) and Strickland et al. (1996)	Compustat	$PERF^2$
Board recommendation	Board recommendation	dummy variable equals 1 if the BOARD recommends to vote FOR or refrains from a recommendation for the proposal, 0 if they recommend to vote AGAINST	-	Proxy statement	$BAORD$
Arrangement on the counting of abstentions	Abstentions counted as "No" votes	dummy variable equals 1 if abstentions are counted as "No" votes, 0 if not counted or counted as "YES" votes	Kahan & Rock (2011)	Proxy statement	$ABST$
Boardroom Accountability Project	Firms targeted by the New York City Comptroller Scott Stringer in the year 2015,2016	dummy variable equials 1 if targeted by the BAP, 0 if not	-	publicated lists from New York City Comptroller Scott Stringer	$BAP_{no\ target}$
Firm size	Total assets	$\log total\ Assets\ 31-12-FY_{t-1}$	Akyol et al., 2012; Thomas & Cotter, 2007	Compustat	$SIZE$
Year of proposal	Year of proposal	fiscal year in which voted on proposal	Gillan & Starks, 2000	Proxy statement	$YEAR2014, YEAR2015$
Leverage	Leverage	$\dfrac{total\ liabilities\ 31-12-FY_{t-1}}{total\ stockholdersequity\ 31-12-FY_{t-1}}$	Thomas & Cotter, 2007	Compustat	$LEVERAGE, LEVERAGE^2$

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Appendix 2.

Table 2. Correlation matrix independent variables used in regression models

	VOTE	ISS	OWN%	OWNY	CEO%	TRUE%	PERF^2	BAORD	ABST	BAP$_{no\ target}$	SIZE	YEAR2014	YEAR2015	LEVERAGE	LEVERAGE^2
VOTE	1,00														
ISS	0,71	1,00													
OWN%	0,54	0,47	1,00												
OWNY	0,43	0,28	**0,89**	1,00											
CEO%	-0,21	-0,08	-0,07	-0,12	1,00										
TRUE%	-0,08	0,04	-0,24	-0,21	-0,41	1,00									
PERF^2	0,03	0,04	-0,19	-0,26	0,10	0,15	1,00								
BAORD	0,39	0,06	0,23	0,06	-0,10	-0,18	-0,05	1,00							
ABST	0,15	0,13	-0,03	-0,11	0,10	0,06	-0,09	0,16	1,00						
BAP$_{no\ target}$	0,04	0,13	0,12	0,14	-0,14	-0,02	-0,05	0,04	0,10	1,00					
SIZE	-0,36	-0,45	-0,48	-0,36	-0,14	0,21	-0,15	0,01	-0,01	0,11	1,00				
YEAR2014	-0,48	-0,65	-0,28	-0,13	0,26	-0,14	-0,08	-0,10	-0,05	-0,21	0,13	1,00			
YEAR2015	0,50	0,53	0,55	0,54	-0,36	0,10	-0,07	0,12	-0,08	0,25	-0,19	**-0,81**	1,00		
LEVERAGE	-0,11	-0,17	-0,47	-0,48	-0,05	0,11	0,52	0,01	0,02	0,01	0,33	0,03	-0,18	1,00	
LEVERAGE^2	-0,08	-0,13	-0,39	-0,41	-0,04	0,10	0,64	0,00	-0,02	-0,03	0,19	0,02	-0,16	**0,93**	1,00

This table represents the correlation coefficients for all independent variables used in regression models. Correlation coefficeints >8 are shown in bold.

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Appendix 3.

Table 3. Summary test results for subsample first time target firms

Test	N	R^2	Adj R^2	F	Variables	t	p-value
Univariate t-test	135				CAR proxy statement date	2,19	**0,030**
2-tailed	130				CAR annual meeting date	-1,42	0,158
Multiple regression	75	76,07%	70,97%	14,92	ISS	5,81	**0,000**
voting outcome					OWNY	2,62	**0,011**
					CEO%	-3,47	**0,001**
					BOARD	5,12	**0,000**
Simple regression	128	0,13%	-0,66%	0,16	VOTE	-0,40	0,686
CAR annual meeting							
Path analysis	74	25,46%	14,97%	2,43	VOTE	-0,71	0,481
CAR annual meeting					ONWY	-0,34	0,735
					CEO%	-1,93	0,057
					ISS	1,16	0,252
					BOARD	1,31	0,195
					SIZE	0,64	0,528
					YEAR2014	0,64	0,526
					YEAR2015	-0,92	0,360
					LEVERAGE[2]	-2,56	**0,013**

This table represents a summary for results of univariate t-tests and OLS regressions previously performed for subsample consisting of firms that are targeted by a proxy access proposals for the first time. The number of observations, model specifications, summary of important test variables are disclosed. The significance of variables is tested reporting t-statistics, bold p-values denote significance at the 5% level.