Proxy Rules and Proxy Practices:
An Empirical Study of US and UK Shareholder Proposals*

Bonnie Buchanan
Department of Finance
Albers School of Business
Seattle University
Seattle, WA 98122-1090
Ph: (206) 296-5977
Fax: (206) 296-2486
Email: buchanab@seattleu.edu

Jeffry M. Netter
Department of Banking and Finance
Terry College of Business
University of Georgia
Athens, GA 30602-6253
Ph: 706-542-3654
Fax: (706) 542-9434
Email: jnetter@terry.uga.edu

Tina Yang
Department of Finance
School of Business
Villanova University
Villanova, PA 19085
Ph: (610) 519-5460
Fax: (610) 519-6881
Email: tianxia.yang@villanova.edu

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Corresponding author: Jeffry Netter, University of Georgia, jnetter@terry.uga.edu

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Abstract

In May 2009, the SEC proposed the most significant amendments to proxy rules since 1942. We build comprehensive samples of US and UK shareholder proposals for the period 2000-2006 to study the relation between proxy rules and proxy practices and the effect of shareholder proposals on firm performance. We find that, despite perceived negligible power, US shareholder proposals have more significant and positive impact on firms than UK ones, which have greater legal power to effect changes. US shareholder proposals have a significant impact on long-term stock performance, CEO turnover and board structure.

JEL Classification: G32; G34; K22

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Shareholder-initiated proposals occupy a unique place in corporate law, as they provide the shareholder with a mechanism by which to initiate corporate action, as opposed to merely reacting to the actions of management.
-- Aaron A. Dhir (2006)
American Business Law Journal 43 (p. 374)

I. Introduction

Recent corporate collapses such as Enron and BCCI and regulatory initiatives such as the US Sarbanes-Oxley Act and the UK Combined Code have fueled a new wave of global shareholder activism, particularly in the form of shareholder proposals. In May 2009, the Securities and Exchange Commission (SEC) proposed the most significant series of amendments to proxy rules since it first adopted Rule 14a-8, which would permit shareholders to nominate directors using corporate proxy materials (Wall Street Journal, 8/26/2009, *Fight brews as proxy-access nears*). In August 2009, UK implemented the Shareholder Rights Directive designed to promote shareholders' rights to vote and ask questions at shareholder meetings. The growing importance attached to shareholder proposals by regulators and investors are in contrast with the existing empirical evidence, which has historically found that shareholder proposals have minimal effect on corporations. [1] The natural questions thereby are: Do shareholder proposals play a more important role in the post-Enron, governance-conscious environment? What steps may be taken to make this governance device more impactful on firms?

To investigate the first question, we analyze 3,793 shareholder proposals for 757 US firms from 2000 to 2006. Firms have traditionally viewed shareholder proposals as a

[1] For example, Smith (1996), Wahal (1996), Strickland, Wiles and Zenner (1996), Karpoff, Malatesta and Walking (1996), and Del Guercio and Hawkins (1999) find no effect of shareholder proposals on long-term operating and stock performance. Karpoff, Malatesta and Walking (1996) find no improvement in assets or sales growth after a firm receives a shareholder proposal. Smith (1996), Karpoff, Malatesta and Walking (1996), and Del Guercio and Hawkins (1999) find no effect of shareholder proposals on CEO turnover. Also see Gillan and Starks (2007), Karpoff (2001), Romano (2001) and Black (1998) for surveys on the efficacy of shareholder proposals.

nuisance and adhered to a non-responsive policy. However, the series of corporate scandals at the turn of this century and the ongoing financial crises have raised investors' awareness about corporate governance, while regulatory initiatives such as the Sarbanes-Oxley Act of 2002 and the Say-on-Pay Bill of 2007 have tilted the power scale from managers towards shareholders. New evidence indicates that firm's attitude towards shareholder proposals are changing in the post-Enron environment. For example, Cai, Garner and Walking (2006), Thomas and Cotter (2007), and Ertimur, Ferri and Stubben (2009) find that firms have become more inclined to act upon shareholder proposals after 2001.

Given the recent proposals to reform proxy rules, we are also motivated to provide empirical evidence that extends our knowledge on the relation between proxy rules and proxy practices and the resulting impact of shareholder proposals on firm performance and corporate policies.[2] To address this research question, we conduct a comparative analysis of US and UK shareholder proposals. UK poses as a good benchmark because its governance system shares many important commonalities with the US system and yet it has very different proxy rules. As an example, UK law permits UK investors to propose resolutions at shareholder meetings and to nominate their candidates for election, a controversial reform issue that the SEC is currently reviewing. Therefore,

[2] On April 14, 2003, the SEC directed the Division of Corporation Finance to examine proxy regulations and develop possible changes to those regulations, including requiring companies to include in their proxy materials shareholder nominees for election as directors. On July 25, 2007, the SEC issued two conflicting alternative proposals regarding shareholder access to the corporate ballot. The first proposal would codify the SEC's existing position, denying shareholder access, while the second would permit certain shareholders to include in company proxy materials proposals for amendments to bylaws that would allow shareholders to nominate director candidates. On May 19, 2009, Senator Charles Schumer introduced the Shareholder Bill of Rights Act, which would grant shareholders advisory votes on executive compensation and require the SEC to adopt rules to make it easier for shareholders to include their own director nominees in company proxy materials. On May 20, 2009, the SEC proposed proxy rule amendments that would grant certain public company shareholders that ability.

in addition to our US shareholder proposal sample, we also collect 496 shareholder proposals requisitioned at 85 UK firms for the period 2000-2006 to investigate three main research questions: Do different proxy rules lead to different shareholder actions and voting outcome? If they do, how are shareholder actions and vote outcomes affected? How do firms respond to different proxy rules and corresponding shareholder actions?

We find some evidence that US shareholder proposals play a more significant disciplinary role in the post-Enron environment. Consistent with the prior literature, we find that large firms, poorly performing firms, or firms with low managerial ownership are more likely to receive a shareholder proposal. In contrast to the existing literature, we find that shareholder proposals have a positive and significant effect on firms. Specifically, after receiving a shareholder proposal, firms exhibit higher stock returns, regardless of whether we control for industry performance or the performance of firms matched on industry, ROA and market value of equity. Stock returns increase more, when the proposal is likely to be a wealth maximizing action (such as repealing poison pill or declassifying the board). Importantly, the increase is both economically meaningful and statistically significant. For example, the annualized holding period return adjusted for control firm performance is a negative 9.7% for the two years preceding a proposing event, but rises to a positive 3.0% when annualized over the subsequent three years, including the event year. When only including those proposals that are likely to be wealth increasing, the numbers are -9.5% and 4.4%, respectively. Additionally, proposals sponsored by investors with large ownership stakes seem to have the most significant, positive effect on firm performance. Specifically, when a firm receives a proposal requisitioned by a shareholder owning more than 1% (5%) of the outstanding shares, its stock return, adjusted for control firm performance, increase from -9.1% (-2.9%) one year before the event year to 10.8% (29.7%) during the event year and 11.6% (23.7%) one year after. Although large investors rarely sponsor shareholder proposals (less than 3% of all proposing events), making statistical inference of their effect difficult, the large magnitude of the economic effect of such proposals still suggests and contributes to the current policy debate. (Under the proposed proxy rule changes, ownership threshold is one eligibility requirement for gaining access to corporate ballot.) We also find that, after receiving a shareholder proposal, US firms are more likely to replace CEOs and separate the CEO and Chairman positions.

We find that different proxy rules clearly induce different proposing behaviors and voting outcomes. UK proxy rules allow shareholders to call special meetings and to propose resolutions to elect or remove directors for consideration at shareholder meetings.[3] Further, once passed, UK shareholder proposals are binding. As a result, 70% of UK shareholder proposals are presented at special meetings and 80% of all proposals target electing or removing specific directors. For comparison, US shareholders cannot use corporate proxy materials to nominate directors. If they want to nominate their candidates for board seats, they have to do so in a separate contested proxy solicitation at their own expense, which can be costly (sometimes in the millions of dollars – or in our sample, on average over half a million dollars). Consequently, for the period 2000-2006 we witness 2,991 firm years of ordinary shareholder proposals in the US, but only 254

[3] McCahery, Sautner and Starks (2009) conduct a survey to assess institutional investors' view on corporate governance. They find that institutional investors rank "Right to Call Special Shareholder Meetings" as the most important voting issues, among a total of seven voting issues including Supermajority Voting Shares and Priority Shares.

firm years of contested solicitation events (a nearly 12:1 ratio).[4] In the US, corporate governance documents adopted under state laws frequently prohibit or limit shareholder ability to call special meetings. Thus, in the US, all ordinary shareholder proposals and 81% contested proxy solicitations are presented at annual shareholder meetings.

UK proxy rules institute checks to balance boardroom stability against shareholder power. These checks include giving directors refusal rights to exclude proposals that have a low probability of passing and imposing higher solicitation costs and ownership requirement on proposal sponsors. As a result, institutional investors sponsor the majority of shareholder proposals in the UK and only 2% of UK shareholder proposals are related to social and environmental issues. In comparison, US investors can have their proposals included in corporate proxy statements at the corporation's expense as long as their proposals are not related to normal business operation or director elections. Therefore, in the US, individual investors sponsor the majority of the proposals, and social and environmental proposals make up 30% of all proposals. Note, in both countries, institutional sponsors tend to hold a large stake in target firms, while individual investors generally hold negligible shares. Additionally, in both countries, social and environmental proposals garner lowest shareholder support and have lowest passing rate compared to other types of proposals. Consequently, UK shareholder proposals receive significantly more affirmative votes than US ones: 45% UK shareholder proposals receive the necessary votes to pass compared to 19% for US

[4] To provide a complete picture of US proxy practice, we also collect data on contested proxy solicitations for the universe of US firms on COMPUSTAT for the period 2000-2006. See Appendix III for details.

shareholder proposals. Considering that US shareholder proposals are merely precatory, the success rate for US proposals compared to their UK counterparts is even lower.[5]

The level of cash reserves seems to be an important factor driving UK investors' decision to requisition a proposal, but this is not the case for US investors. This difference likely reflects the fact that, because of the binding power rendered under the UK proxy rules, shareholder proposals represent an effective governance mechanism for UK investors to employ in taking excess resources away from poorly performing firms. But, they are not a viable avenue for US investors to rely upon due to the advisory nature of US shareholder proposals.

In terms of the effect of shareholder proposals under different proxy regime, we find some unexpected results. Given the higher passing rate of UK shareholder proposals, their binding power and the fact that nearly most of the UK proposals target displacing incumbent boards, we expect UK shareholder proposals to have more immediate and significantly positive impact on firms than US ones. On the contrary, we find that firm performance continues to deteriorate after a proposing event for the UK sample, and no significant improvement in assets and sales growth either. Recall, we find positive impact on stock prices for US shareholder proposals. One explanation for these unexpected results may be that, given the onerous requirements imposed on the requisitioning shareholders, UK shareholder proposals are used as a last resort to affect the worst performing firms. The substantially higher CEO turnover rate of 33% for the UK sample, compared to the 14% for the US sample, seems to support this argument.

[5] In their study of 1,047 shareholder proposals in the 2004 and 2005 proxy seasons, Morgan, Poulsen, Wolf and Yang (2008) find that 208 proposals garner necessary votes to pass. Of those 208 passed proposals, only 93 are implemented.

This paper makes several important contributions. First, our findings have policy implications. Proxy reform is an ongoing policy issue for US regulators. The SEC first debated the issue of shareholder access to corporate ballot back in 1942. We build comprehensive samples of US and UK shareholder proposals and US contested proxy solicitations for the period 2000-2006 to study the relation between proxy rules and proxy practices and the effect of shareholder proposals on firm performance. UK has similar governance system as the US, but quite different proxy rules, including the rules regarding access to corporate ballot. Our comparative analysis shows that US shareholder proposals, despite their perceived inconsequential power, have more positive effect on firms than UK ones, which are granted with greater legal power to effect changes. This surprising finding suggests that shareholder proposal is a complex governing mechanism, which is part of the broader system of corporate governance. An alleged weakness in proxy rules or practices may be the outcome of some other institutional setup, which interrelates with other governance devices and regulations. Therefore, any dramatic movement away from the current US proxy regime requires an accurate understanding of the present state of US proxy practices and its relation with proxy rules, which is the research focus of this study.

To the best of our knowledge, our study is the first in-depth analysis on UK shareholder proposals. We manually collect detailed proposal characteristics and build the most comprehensive sample to date on UK shareholder proposals. Important initial evidence is provided. Therefore, this study contributes to the fledging literature on global shareholder activism. As investors hold increasingly globalized portfolios, "*the governance of the corporation is now as important in the world economy as the* *government of countries*" (James D. Wolfensohn, former President of World Bank, 1998). Unfortunately, the existing evidence on shareholder proposals has been US-centric. Scant attention has been paid to potentially different roles and effects that shareholder proposals exert in varying governing environments. Our paper takes an important first step to fill this void in the literature.

Lastly, we find that US shareholder proposals have significant effects on firm long-term performance, board structure and CEO turnover. Our results contradict the existing evidence based on older data, but complement more recent studies that use event study methodology to assess US shareholder proposals. Thomas and Cotter (2007) find significant albeit small announcement returns surrounding meeting dates for 875 US shareholder proposals from 2002 to 2004. Renneboog and Szilagyi (2008) find positive announcement returns surrounding proxy mailing dates for 1,754 US shareholder proposals from 1996 to 2005. None of these papers study long-term effect of shareholder proposals.[6]

The paper proceeds as follows: Section 2 reviews the corporate governance system, proxy rules and proxy practices in the US and UK. Section 3 describes the sample selection. Section 4 analyzes US and UK proposal characteristics. Section 5 studies the characteristics of US and UK firms that receive shareholder proposals. Section 6 examines the impact of US and UK shareholder proposals on firm performance, CEO turnover and board structure. Section 7 concludes.

[6] Our paper also differs fundamentally in research emphasis from Thomas and Cotter (2007) and Renneboog and Szilagyi (2008). Our research interest is the relation between proxy rules and proxy practices and the long-term effect of US shareholder proposals. To address our research questions, we also add to our study the most comprehensive samples of UK shareholder proposals and US contested proxy solicitations for the period 2000-2006. For comparison, Thomas and Cotter focus on voting patterns, implementation of majority-vote shareholder proposals, and announcement returns for US shareholder proposals, while Renneboog and Szilagyi focus on the determinants of a firm receiving a shareholder proposal and announcement returns.

2. Institutional background

In this section, we review the legal and corporate governance background as they relate to shareholder proposals in the US and UK. This discussion provides us with a better understanding of the similarities and differences in proxy practices in the US and UK, and subsequently a deeper understanding of the potential differential role of shareholder proposals as a governing tool in each country.

2.1. An overview of the corporate governance system in the US and UK

US and UK corporate governance systems share a number of similarities. They both have a "common law" legal system, which is characterized by strong protection for minority shareholders compared to "civil law" legal systems (LaPorta, Lopez-de Silanes, Shleifer and Vishny (1997)). Both countries have a large market capitalization relative to GDP, dispersed ownership, liquid capital markets, and active takeover markets. Another important similarity is the large equity stake held by institutional investors. In both countries, institutional investors own more than 50% of publicly listed shares.[7] Further, despite their large equity stake in firms, both US and UK institutional investors have traditionally been viewed as passive (Georgen and Renneboog (2001); Franks, Mayer and Rossi (2001)). However, recent evidence suggests that institutional investors are taking a more active role in monitoring managers and improving firm value. For example, large US pension funds such as CalPERs and TIAA-CREF started their shareholder activism

[7] For statistics on institutional ownership in the UK, refer to "A Report on Ownership of Shares as at 31st December 2004" by UK Office of National Statistics http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=930&Pos=1&ColRank=1&Rank=272. For statistics on institutional ownership in the US, refer to "The 2005 Institutional Investment Report: US and International Trends" by the US Conference Board.

program in the late 1980s. The Hermes Focus Fund was established in 1998 as the first experiment of shareholder activism in the UK. (Appendix I summarizes the timeline of corporate governance developments in the UK.)

Stark differences also exist between the US and UK governance systems. One difference that may have a particularly important implication for proxy practices in both countries is the responsibilities of the board of directors. In the UK, directors do not have fiduciary duties to their shareholders, whereas in the US they do and can be sued for failing to fulfill their fiduciary responsibilities. Franks, Mayer and Renneboog (2001) argue that the ineffective implementation of fiduciary responsibilities results in UK non-executive directors regarding their role as being advisory rather than disciplinary.[8]

2.2. Proxy rules in the US and UK

Despite having very similar governance systems, the US and UK have quite different regulations regarding submitting a shareholder proposal or requisitioning a shareholder meeting. For easy comparison, we summarize the main differences in Appendix II and discuss some of the key differences here.

In the US, state laws govern shareholder rights, and consequently the holding of shareholder meetings and what shareholders are allowed to vote on at these meetings. However, Congress places responsibility with the SEC, pursuant to the Securities Exchange Act of 1934, with regulating the solicitation and issuance of proxies. The SEC Rule 14A-8 (the Shareholder Proposal Rule) requires that a company must include a

[8] A movement towards greater director responsibility has recently started in the UK. For example, the Companies Law Reform Bill (2005) codifies directors' duties, which include promoting the success of the company, exercising independent judgment, exercising reasonable care, skill and diligence, and avoiding conflicts of interest.

shareholder proposal of no more than 500 words in its proxy materials for presentation to a vote at an annual or special meetings of shareholders at corporate expense, if the shareholder owns at least 1% (or $1,000 in market value) of the voting shares for at least a year and if the proposal does not fall within one of the 13 substantive bases for exclusion (e.g. matters relating to an election of the board of directors or the company's ordinary business operation).[9] In the UK, the Companies Act 1985 governs proxy rules. Specifically, Section 376 enables a shareholder to requisition a company to put a resolution of no more than 1,000 words to annual shareholder meetings, although at the shareholder's expense. To qualify, the sponsor needs to own at least 5% of the firm's voting rights, or be a group of at least 100 shareholders with no less than £100 per holder. UK shareholders can use shareholder proposals to elect and remove directors, although separate resolutions are required for each appointment and removal.

Importantly, US shareholder proposals are only precatory, i.e. firms are not obligated to adopt it, even if a shareholder proposal passes with the necessary votes. By contrast, UK shareholder proposals, once passed, are binding; and proposals regarding appointment and removal of directors only require the approval of a simple majority. (If they want to nominate their own candidates for board seat, US shareholders have to do so through contested proxy solicitation, distributing proxy materials separately from corporate ones at their own expense, which can be costly. There is no minimum ownership requirement for conducting a contested solicitation.)

In the UK, under Section 368 of the Companies Act 1985, a shareholder with 10% of the voting rights may force the firm to hold an Extraordinary General Meeting (EGM, the equivalent of special meetings in the US) before the next Annual General Meeting

[9] Details on substantive bases for exclusion are available at http://www.sec.gov/interps/legal/cfslb14.htm

(AGM). Further, the corporate Articles cannot deprive shareholders of this right (Becht, Franks, Mayer and Rossi (2006)). In the US, state laws generally permit shareholders with ownership between 5% and 10% to call special meetings or use written consent to propose their actions.[10] However, corporations frequently deprive or limit this shareholder ability using charter and bylaw provisions. To give an example, on October 20, 1999, the board of directors of Quality Dining Inc., whose assets include Burger King and Chili's, amended the bylaws to increase, from 25% to 80%, the number of shares required to call a special shareholder meeting. According to the Company's preliminary proxy statement filed on January 24, 2000, Daniel Fitzpatrick (the CEO and Chairman of the Board) and Gerald Fitzpatrick (Senior Vice President) together owned just over 20% of the Company's outstanding stock - just enough to veto any such special meeting. Shareholders were notified of a contested proxy solicitation on January 13, 2000.

Therefore, although the proxy rules are more onerous on sponsors in the UK than in the US in terms of ownership requirement and solicitation costs, they confer UK shareholders greater power because of the statutory right of shareholders to call special meetings, the relative ease for shareholders to remove directors, and the binding power of shareholder proposals. In this light, Mark Anson, the chief executive of Hermes, remarks: "*The US prides itself on its great democracy but democratic rights do not exist in corporate America*" (Financial Times, 2007/1/22, *Boost shareholders' rights, warn pension funds)*.

[10] A written consent allows shareholders to take an action that has the same effect as a shareholder vote, but without holding an annual or special shareholder meeting. For example, Section 228 of the Delaware General Corporation Law provides that, absent a contrary provision in the certificate of incorporation, any action that may be taken at a shareholder meeting may be taken by a written consent of at least the minimum number of votes that would be necessary to take such action at the meeting in which all shares entitled to vote were present and voting.

Appendix II reveals other significant differences. For example, UK shareholder meetings historically have low voter turnout. Mallin (2001) cites a study by the Institutional Shareholder Committee, which finds a voting levels of 20% at UK companies in 1990. However, this pattern has changed. The Hampel Report (1998) explicitly notes that institutional shareholders have a responsibility to vote. Recent evidence indicates that the UK voting level has increased to 50% (Ozkan (2006); Financial Times, 2005/11/15, *Shareholders making greater use of their voting rights, report shows*). We are able to compute voter turnout for 50 shareholder meetings in our sample and find a mean of 60% (median 63%). By comparison, in the US where voting is compulsory, voter turnout can easily reach 70-80% (Bethel and Gillan (2002); The Australian, 2002/12/13, *Slack institutions elect to vote*). Another interesting difference is that in the US votes are counted via proxy. In the UK, votes can be counted either via proxy or by "show-of-hand," which makes the management ownership more important.[11]

In summary, although great similarities exist between the US and UK corporate governance system, dramatic differences exist between their proxy rules. Given the current debate in both countries about proxy reform, this unique combination presents an excellent opportunity to conduct a comparative analysis of the US and UK proxy rules and practices.

3. Sample selection

This section describes the sample selection process. We build two samples for our analysis of US and UK shareholder proposals, the initial sample for analyzing proposal

[11] For example, a shareholder proposal submitted to one of our UK sample firms (Aston Villa) was passed by a show of hands at the AGM, but was overturned by a proxy vote as the Chairman owns 33.6% of the firm.

characteristics and the final sample for analyzing the effect of shareholder proposals on firm performance and firm behavior.

3.1. Sample selection process for the US sample

We start the US sample selection process with the universe of shareholder proposals in the Investor Responsibility Research Center (IRRC) database. For the period 2000-2006, IRRC reports 6,732 shareholder proposals requisitioned at 1,067 firms. Of these proposals, 2,939 do not come to a vote, because they were withdrawn (59%), omitted (38%), or not presented (3%). Various reasons could give rise to these incidents (e.g. that the proposal was challenged at the SEC, the proposal failed to meet procedural requirements, and the sponsor reached an agreement with the management before the shareholder meeting). Proposals that are withdrawn for different reasons likely have different effect on firms.[12] As it is difficult to ascertain the true cause behind many of these cases, we exclude withdrawn proposals from our study for data consistency. Therefore, our initial US sample consists of 3,793 shareholder proposals voted on at 757 firms (or 2,023 firm years).

To avoid confounding effects, we exclude from the initial US sample any proposals that are filed within two years of a contested proxy solicitation. We identify 187 such proposals for 50 firms by checking proxy statements in the SEC's EDGAR database (EDGAR). A comparison of the existing literature on shareholder proposal and contested proxy solicitation indicates that these two governance mechanisms target

[12] For example, a sponsor may successfully reach an agreement with the firm before the shareholder meeting, hence rendering the requisitioning event unnecessary. This proposal should have a different impact on a firm compared to a proposal that is withdrawn because the sponsor fails to meet procedural requirements for submitting the proposal (e.g. the proposal exceeds 500 words). See Campbell, Gillan and Niden (1999) for a study on withdrawn shareholder proposals in the US.

different firms and wield different effects. Shareholder proposals target large firms and exert minimal influence (e.g. Karpoff, Malatesta and Walking (1996)), while contested solicitations target small firms, are frequently associated with a takeover event, and create significant shareholder wealth (e.g. Mulherin and Poulsen (1998)). Therefore, including contested solicitations in our study of shareholder proposals would likely bias us to find positive results.

Nonetheless, given that UK shareholders can submit proposals to elect and remove directors, we build a separate sample of contested proxy solicitations in the US from 2000 and 2006 so that we can provide a complete picture of the proxy rules and proxy practices in the US and UK. Note, it is beyond the scope of this paper to perform extensive analysis of contested proxy solicitations in the US. We only provide results on contested solicitations whenever they are relevant to our research questions. To identify contested solicitations, we obtain CIK for all COMPUSTAT firms in WRDS' Merged Fundamental Annual File; there are 11,770 CIKs for 11,743 firms in the database. We then use the CIKs to find DEFC and DEFN filings in EDGAR. During our sample collection process, we also find nine contested solicitations (or eight unique firms) where the target firms are not in the COMPUSTAT universe. After excluding mutual funds, we have 521 dissident proposals associated with 249 firm years or 254 solicitation events for the period 2000-2006. We report the sample selection process of contested proxy solicitations and the corresponding empirical results in Appendix III.

We exclude 359 proposals or 89 firms due to missing COMPUSTAT or CRSP data. (We require the sample firm to have total assets, long-term debt, ROA, the market-to-book ratio (MTB), and stock price data one year before, the year of, and one year after a proposing event.) This process yields 3,247 shareholder proposals voted on at 618 firms or 1,691 firm years in the final US sample. Table 1 Panel A summarizes the sample selection process for the US sample.

We obtain proposal description, voting result, and sponsor identity primarily from IRRC, and manually collect sponsor ownership from proxy statements. (We cross-check the IRRC voting results with 10-Q, 8-K and proxy statements and are able to collect voting results for about 300 proposals that miss this information.) We obtain stock prices from CRSP, financial data from COMPUSTAT, board data from IRRC, CEO ownership data from IRRC and Disclosure, and institutional ownership data from Thomson Financial CDA/Spectrum 13 filings. When board or CEO ownership data is missing in IRRC and Disclosure, we hand collect the data from proxy statements in EDGAR.

3.2. Sample selection process for the UK sample

We start the UK sample selection process with the universe of shareholder proposals in the Institutional Shareholder Services (ISS) database. ISS lists 418 shareholder proposals that target 70 UK firms from 2000 to 2006.[13] We also search Factiva for additional proposing events, using variations of the terms "requisition," "shareholder resolution," and "shareholder proposal." We find an additional 78 shareholder proposals for 15 firms (or 16 firm years). Therefore, the UK initial sample consists of 496 shareholder proposals requisitioned at 85 UK firms or 100 firm years.

[13] ISS database also contains 109 additional shareholder proposals requisitioned at 26 closed-end funds or unit trusts from 2000 to 2006. We exclude those observations from our study to make the UK sample consistent with the US sample. (IRRC does not have shareholder proposals requisitioned at mutual funds.) Further, the business nature of mutual funds is fundamentally different from the rest of the sample firms. In the US they are regulated under a different set of rules, the Investment Company Act of 1940 as opposed to the Securities Exchange Act.

Unlike the US sample, the UK initial sample includes withdrawn proposals (133 proposals or 25 firms), because we are able to determine the causes for their withdrawal. They usually result from either a successful or failed negotiation between the requisitioning shareholder and the firm. We exclude five firms due to M&A and another five due to delisting. Our UK final sample consists of 432 shareholder proposals requisitioned at 75 firms, or 88 firm years. Table 1 Panel B summarizes the sample selection process for the UK sample.

ISS provides meeting date, proposal description, and recommendations by management and ISS. We collect the remaining information such as meeting type, voting result, sponsor identity and sponsor ownership by searching Factiva, Lexis-Nexis, or the internet. Financial data and stock prices come from Bloomberg and Datastream. We manually collect board, CEO information and ownership data from company annual reports published on line, Bloomberg, Thomson, Mergent, Lexis-Nexis and Factiva.

4. Development of shareholder proposals in the US and UK from 2000 to 2006

In this section, we examine whether shareholder proposals in the US and UK exhibit systematic differences in terms of submission frequency, submission venue, voting outcome, proposal type and proposal sponsor. This exercise helps us ascertain potential changes in US shareholder proposals in a post-Enron environment and sheds light on our research question whether and how proxy rules effect voting behavior and voting outcome. We use the initial samples described in Table 1 for this analysis.

4.1. Shareholder proposals, shareholder meetings and voting outcome

Table 2 reports the timeline of shareholder proposals, shareholder meetings and voting outcome for the US and UK initial samples. For a more accurate comparison, we further partition the UK sample by whether a proposal is withdrawn or comes to a vote and by whether a proposal is an ordinary proposal or a board-control related proposal. We classify a proposal as board-control related, if a sponsor submits multiple proposals to one shareholder meeting that, if passed, have the effect of replacing the majority of the board. Table 2 does not include three UK firms (or six proposals) that dissolved before the meeting convened. The number of UK shareholder meetings (112) exceeds the number of firm years (97, excluding the three delisted firms), because UK shareholders can requisition multiple meetings in a year.)

With regards to shareholder proposals, both US and UK see a significant increase in the number of shareholder proposals submitted post Enron, although the momentum slowed in the UK after 2004. The peak in submission of UK shareholder proposals during 2002 and 2004 likely reflects the impact of the 2001 Myners Report, which recommends that the government should legislate shareholder engagement. To preempt legislation, Institutional Shareholders Committee, the UK's trade group of institutional investors, published a best code of practice on shareholder activism in 2002, compelling its members to intervene in poorly governed and poorly performing firms (Financial Times, 2007/10/22, *Big investors pledge to step up activism - Institutional shareholders in bid to avoid legislation*). The continuing momentum in US proposal submission is likely attributable to the continuous push by US regulators for shareholder activism (e.g. the Sarbanes-Oxley Act and the 2004 SEC new proxy rules that require mutual funds to disclose their voting records and guidelines).

Of the 112 UK shareholder meetings, 79 (or 71%) are special meetings and 41 (or 37%) are related to displacing the majority of the board. By contrast, none of the US shareholder proposals are presented at special meetings, probably because a typical US sponsor own little company shares (a fact that we will document further in Table 4 Panel B). Neither do we observe any board-control related proposal in the US sample, since US proxy rules disallow shareholders to use corporate proxy materials for matters relating to director election. To more clearly understand how frequently US investors use proxy voting to gain board seats and how frequently special meetings are evoked, we examine contested proxy solicitations as a separate sample. Results are reported in Appendix III Panel A. For the period 2000-2006 we witness 254 contested solicitation events. Eight-two of them (or 32%) aim to displace the majority of the board, while 205 (or 81%) use the forum of annual meetings. Taken together, US investors initiate 3,245 proxy solicitation events from 2000 to 2006 (2,991 firm years of ordinary proposal events in the US initial sample, including withdrawn proposals, plus 254 contested solicitation events). Only 2.5% of these event aims for a change in board control and only 1.2% are conducted through special meeting or written consent. Therefore, the data suggests that it is considerably easy for UK investors than for US investors to use shareholder proposals to effect board changes and subsequently corporate changes.

By construct we have voting results for all proposals in the US initial sample in Table 2. We are able to collect the voting results for all 357 UK proposals that come to a vote, and the voting results for 116 of the 133 withdrawn proposals. US shareholder proposals have similar successful rates as UK ordinary shareholder proposals that come to a vote, 19% vs. 17%. A proposal is classified as successful if it garnered enough vote to pass. Note, in the UK, once a proposal is passed, the firm is required to implement it; whereas in the US, the firm is not obligated to. However, UK shareholder proposals that are withdrawn or are board-control related have a significantly higher success rate, greater than 50%. The success rate of US contested proxy solicitations is 36%, with additional 10% proposals, regarding cases in which the dissident and the firm reached a settlement. Therefore, the evidence suggests that, when the sponsors bear solicitation costs and have a large ownership stake in the firm, they sponsor proposals that other shareholders are likely to support.

4.2. Proposal types

We classify US and UK shareholder proposals into six broad categories: board-related proposals, compensation-related proposals, governance-related proposals, proposals regarding social and economic issues (social proposals), proposals regarding environmental and health issues (environmental proposals), and business-related proposals.[14] Table 3 reports the trends for shareholder proposals by proposal type for the US (Panel A) and UK (Panel B) initial samples. Panel A reveals that, for the US initial sample, board proposals appear most frequently (30%), followed by compensation (20%), social (18%) and governance (16%) proposals. Additionally, board proposals are the main driver behind the recent increase in submission frequency that we document in Section 4.1. Board proposals constitute 41% of the total proposals in 2006, compared

[14] Examples of governance proposals are submitting shareholder rights plan (poison pill) to shareholder vote, restoring right to call a special meeting, prohibiting auditors from providing non-audit services, etc. Examples of compensation proposals are expensing stock options, submitting executive severance pay to shareholder vote, adopting performance-based compensation, etc. Examples of social proposals are reporting on political contributions, preparing sustainability report, implementing ILO standards, etc. Examples of environmental proposals are reporting on genetically engineered products, reporting on greenhouse gas emissions, making AIDS drugs affordable in poor countries, etc. We give examples of board and business proposals later in the main text.

with 32% in 2000. In contrast, compensation and governance proposals exhibit a declining trend since their peak in 2003. Social and environmental proposals exhibit no apparent trends. The shift in the composition of US shareholder proposals reflects the increasing emphasis on granting shareholders greater influence over the board to improve corporate accountability. Supporting this notion, Panel C shows that the driver behind increasing board proposals is proposals calling for a majority vote to elect directors.

A comparison between Panel A and B indicates several differences. First, board proposals constitute 85% of all UK shareholder proposals from 2000 to 2006, compared to 30% for the US sample. Further, as Panel C illustrates, US and UK board proposals have dramatically different agendas. In the UK, 98% of board proposals target electing or removing specific director. Even when a board proposal is not about electing or removing specific directors, it is frequently about the general scheme of director election or removal. In contrast, none of the US board proposals carry such an objective due to legal constraints. The most popular US board proposals are declassifying the board (31% of all board proposals), separating the CEO and Chairman positions (14%), adopting majority vote to elect directors (14%), or adopting cumulative voting (13%).

This difference again supports the argument that proxy rules influence proposing behavior. In the US, shareholders do not have the right to nominate or elect directors. Therefore, they do not have the recourse of electing their agents to the board, who can push for the necessary changes on their behalf. Further, in the US, shareholder proposals are only precatory, and managers have traditionally ignored shareholder proposals even if they pass with the necessary votes. As a result of these legal limitations, US shareholders resort to an indirect route, using shareholder proposals to effect changes in board structure, or more broadly firm governance, assuming that better corporate governance leads to better firm performance. By contrast, UK shareholders can nominate or remove directors through shareholder proposals. More importantly, once passed, shareholder proposals are binding in the UK. Therefore, fewer UK shareholder proposals target board structure, because UK shareholders have a more direct and arguably more effective means, namely electing their own directors, to initiate such changes.

Secondly, business proposals are requisitioned with significantly higher frequency in the UK than in the US. Business proposals are proposals to change firm's operation or strategies. Some examples include urging the board to consider selling off company assets or the company itself, increasing dividends, initiating stock buyback programs etc. Among the six proposal classifications, business proposals have the second highest submission rate in the UK (10%), but the lowest submission rate in the US (4%). Such difference likely results again from different proxy rules. Because of the precatory nature of shareholder proposals, US shareholders may choose to exercise the "Wall-Street Walk" rule, i.e. selling shares (instead of submitting proposals) when they lose faith in the management. By contrast, UK shareholders have greater incentive to submit business proposals, because, once passed, firms are forced to take corresponding actions.

The differences in submission frequencies of other proposal types also reflect the institutional differences between the two countries. For example, a large number of US governance proposals are about repealing antitakeover provisions. UK firms rarely have such defense mechanisms due to the opposition from institutional investors (Black and Coffee (1994)). Since UK shareholders have an advisory vote on executive pay, we also see fewer UK compensation proposals.[15] Lastly, solicitation costs and ownership requirements in the UK may have deterred the submission of social and environmental proposals.

For comparison, we also provide frequency distribution of dissident proposals for contested proxy solicitations in the US. Note, a shareholder, submitting under Rule 14a-8, can submit only one proposal per meeting. A shareholder who solicits contested proxies is not subject to such restriction. Therefore, to give an accurate depiction of the popularity and priority of proposed issues, we report frequency distribution for ALL dissident proposals (Appendix III Panel B) and for proposals that are the only one submitted by the dissident for a given solicitation event (Appendix III Panel C). Compared to UK shareholder proposals, even for contested solicitations, US sponsors target a wider range of issues. However, when a dissident is sponsoring only one proposal, 86% of the time the proposed issue is about electing directors (117 occurrences), removing directors (1) and withholding votes against directors (3), while 10% relate to a sale of the company.

4.3. Sponsor types and sponsor ownership

4.3.1. Sponsor types

We are able to determine sponsor identity for 3,749 of the 3,793 shareholder proposals in the US initial sample. We classify US sponsors into seven categories: institutional investors, unions, social groups, individual activists, individual occasionals, coalition and other sponsors. Social groups include organizations such as human-rights

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[15] On May 19, 2009, Senator Charles Schumer (D-N.Y.) introduced a new bill to Congress, the Shareholder Bill of Rights Act, which, among other things, would grant shareholders of public companies an advisory votes on executive compensation.

groups, environmental groups, and religious groups. Individual activists are those shareholders such as Evelyn Y. Davis, who submit multiple proposals to multiple firms in a given year and own negligible shares in each firm. For instance, Ms. Davis sponsored 279 of the 3,793 shareholder proposals in our US initial sample and on average owned 478 shares in the target firm.[16] A proposal is classified as sponsored by a coalition, if it is sponsored by a mixed group, e.g. a social group teamed up with a pension fund.

We are able to determine sponsor identity for 492 of the 496 shareholder proposals in the UK initial sample. We classify UK sponsors into six categories: institutional investors, former management, associated companies, private investors, coalition of small shareholders and other sponsors. Former management includes founders, former CEOs or former directors of the firm. Associated companies are companies that have a business interest in a sample firm, such as a supplier or a competitor. The group 'other' includes sponsors like unions, human-rights groups and environmental groups.

Table 4 Panel A and Table 5 Panel A reports the frequency distribution of proposal sponsors for the US and UK initial samples. Differences between the two samples are apparent. Other than institutional investors, all sponsor groups are different. Institutional investors sponsor 16% of US shareholder proposals, compared to 42% for the UK sample. Because of the higher solicitation costs and ownership requirement for

[16] We classify any shareholder, who sponsors more than 20 shareholder proposals, as individual activist, otherwise as individual occasional. Twenty is the cutoff that we choose based on the frequency distribution of the number of shareholder proposals sponsored by individual shareholders in our sample of 3,793 proposals. We make three exceptions to this 20 rule based on the proposing history of a shareholder. They are John Gilbert, John Jennings Crapo and Charles Miller, who sponsored 17, 11, and 9 proposals in our sample, respectively. As an example, John Gilbert (1914-2002), together with his brother Lewis Gilbert, sponsored more than 2,000 proposals starting 1930s. Based on our classification, we have 12 individual activists. The average proposals sponsored by these individual activists are 75, compared to 1.83 by individual occasionals.

requisitioning a shareholder proposal in the UK, we do not see the sponsor groups of individual activists or individual occasionals. In contrast, these two groups collectively sponsor 39% of US proposals. In the UK, if small investors want to voice their opinion, they have to form a coalition of more than 100 shareholders. We only have five requisitioning events by such coalition of small investors. In all cases, they consist of soccer club investors, who targeted two sports companies (Aston Villa PLC and Celtic PLC). All these proposals are submitted for AGMs and only 2.6% of them succeed. Probably for similar reasons, we do not see many UK proposals sponsored by social groups. Indeed, of all UK shareholder proposals, only six are sponsored by environmental groups and one by a human-rights group. Further, all these seven proposals are presented at AGM, not at EGM, where the ownership requirement is lower.

In the US, unions increasingly sponsor a larger fraction of proposals. They sponsored only 6% of all shareholder proposals in 2000, but 24% in both 2005 and 2006, hence becoming the most prolific sponsor of shareholder proposals. For comparison, only two UK shareholder proposals are sponsored by a union -- the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). AFL-CIO submitted two proposals in 2000 for AGM and both proposals failed. Additionally, former management sponsors the second highest number of proposals for the UK sample (24%), whereas this class of sponsors is minimal in the US sample.

We also report frequency distribution of proposal sponsors for US contested proxy solicitations in Appendix III Panel D. US contested proxy solicitations seem to be sponsored by similar types of investors as UK proposals, likely because they impose similar expense and ownership requirements on sponsors as do UK proposals. For example, hedge funds and private equity sponsored 46% of US contested proxy solicitation events, while activist sponsored none.

4.3.2. Sponsor ownership

We report sponsor ownership for the US and UK initial samples in Table 4 Panel B and Table 5 Panel B, respectively. As expected, US sponsors own significantly less shares than their UK peers. The average ownership of US sponsors is 0.2% (median 0%) compared to 18.8% for UK sponsors (median 3.3%). For comparison, US sponsors of contested proxy solicitation are generally large blockholders (Appendix III Panel D), owning on average 9.7% of the company stock (median 7.8%). US contested solicitations have a more normal distribution for sponsor ownership, because UK proxy rules allow participation of small investors if they can form a coalition of 100 members strong. For US contested solicitations, such practice is more common among hedge funds (the so-called wolf packs) than among individual investors.

4.4. Summary

In Section 4, we find that shareholder proposals in the US and UK exhibit systematic differences in terms of submission frequency, submission venue, voting outcome, proposal type and proposal sponsor. Due to the legal requirements on solicitation costs and sponsor ownership, UK shareholder proposals bear greater resemblance to US contested proxy solicitations than to US shareholder proposals. However, even when compared to US contested solicitations, more UK proposals are requisitioned at special meetings and have higher passing rate. The institutional differences in proxy rules that we discuss in Section 2 can explain most of these differences in proxy practices we find in Section 4.

5. Characteristics of firms receiving shareholder proposals in the US and UK

In this section, we study characteristics of firms that receive shareholder proposals in the US and UK. We are interested in two research questions: First, whether firms receiving shareholder proposals in both countries possess similar characteristics. Second, we study the factors that drive shareholders to submit a proposal. This analysis lays the foundation for our later analysis of the impact of shareholder proposals, as it sheds light on investors' motives to submit a proposal and helps us gauge whether they are able to achieve their objectives. We use the final samples described in Table 1 for this study.

5.1. Univariate results

Table 6 Panel A reports summary statistics for the US sample. To provide a benchmark, we also report median characteristics for control firms and all firms in the same Fama-French industry as the sample firm. To qualify as a control firm, 1) the firm cannot be targeted for shareholder proposal for the period of two years before to two years after the proposing year, 2) it must come from the same Fama-French industry as the sample firm, 3) it has the closest ROA to the sample firm at the beginning of the proposing year, and 4) its market value of equity (MVE) is not 50% greater or smaller than that of the sample firm at the beginning of the proposing year.

Compared to median firms in the same industry, sample firms are much larger, exhibit higher market valuation and better performance, and have higher debt and payout ratios, suggesting that they are the leaders in their respective industries. Compared to control firms, they have lower MTB, worse stock performance, slower assets and sales growth, and higher levels of debt, payout and free cash flow (FCF) ratios, suggesting that they are mature firms with poor growth prospects. Consistent with the finding that they are large firms, sample firms have larger and more independent boards and are more likely to have CEO chair the board than control firms. In their study of the determinants of board structure, Linck, Netter and Yang (2008) find a similar relation between firm size and these board attributes. US sample firms have lower CEO but higher institutional ownership than control firms, which is also consistent with the literature (e.g. Strickland et al. (1996); Karpoff et al. (1996); Gillan and Starks (2000)).

Table 6 Panel B reports summary statistics for the UK sample and the control firms. Due to data availability, we do not have statistics for industry median. We identify UK control firms following the same procedure as for the US sample. The UK sample firms have mean total assets value of £6.4 billion and a median value of £21 million, suggesting the presence of extreme outliers. We trace BP Plc to be the outlier. In 2004, BP Plc has total assets of £99.5 billion, which is seven times larger than the second largest company in the sample. Probably due to a small sample size, we fail to find much statistical significance between the sample and control firms, except for assets growth and the level of cash reserve.

When comparing US sample firms to UK ones, the former are much larger and thereof more homogenous. As an example, of the 2,023 firm years in the US initial sample, 87% (69%) firms are a member of the S&P1500 (S&P500) index. Alternatively, of the 1,691 firm years in the US final sample, 91% (74%) firms are a member of the

S&P1500 (S&P500) index. For comparison, of the 100 firm years in the UK initial sample, 12% (20%) firms are a member of the FTSE100 (FTSE350) index.[17] Consistent with the existing literature, we find that UK firms have very different board structures than their US counterparts. The average UK board consists of 55% non-executive directors, compared to 69% independent directors for the average US boards. Additionally, only 24% of the UK firms have the CEO as the Chairman of the Board, compared to 76% for the US firms. US firms have long been under pressure for having more independent boards. For example, as early as 1978, the NYSE mandated its US listing firms to have at least two outside directors on the board. NASDAQ instituted similar requirements in 1989. The Sarbanes-Oxley Act further mandates US public firms to have majority independent boards. For comparison, the Cadbury Report of 1992 calls upon UK firms to have at least three non-executive directors on the board and to separate the CEO and Chairman positions. For a random sample of 460 UK listed firms, Dahya, McConnell and Travlos (2002) find that the mean percent of non-executive directors on the board increases from 35% prior to the Cadbury Report to 46% thereafter, while the fraction of firms with combined CEO and Chairman titles decreases from 37% to 15%.

5.2. Determinants of a firm receiving a shareholder proposal

In this section, we use logistic regression models to examine the determinants of a firm receiving a shareholder proposal in a multivariate setting. The dependent variable

[17] S&P1500 is a market-capitalization weighted index representing the performance of the 1,500 largest companies in the US or approximately 85% US equity market. FTSE 100 is a market-capitalization weighted index representing the performance of the 100 largest companies in the UK or approximately 82% UK equity market. FTSE350 index includes firms in the FTSE100 and FTSE250 indices. FTSE250 is an index of medium size companies that constitute the largest 250 companies in the UK outside of the FTSE100 index and represents approximately 14% UK equity market.

takes the value of one if a sample firm and zero if a control firm. For the US sample, regression estimations use Huber-White robust standard errors and control for industry and year fixed effects. We also use robust standard errors when estimating the UK sample, but do not control for industry and year fixed effects due to small sample size.

Estimation results for the US sample are reported in Table 7 Panel A and are generally consistent with the existing evidence and our earlier univariate results (see e.g., Karpoff et al. (1996); Smith (1996); Strickland et al. (1996)). Specifically, larger firms, poorly performing firms, firms with poor growth prospects, more levered firms, and firms with low insider ownership are more likely to receive a shareholder proposal. Board size and whether CEO is the Chairman also enter the regression with positive and significant signs, consistent with the argument that investors may target firms with certain board characteristics. For example, our earlier descriptive results show that 166 out of the 3,793 total proposals aim to separate the CEO and Chairman positions.

Table 7 Panel B reports estimation results for the UK sample. Consistent with the univariate results, firms with a large cash balance are more likely to be targeted for shareholder proposal. There is some evidence that firms with CEO as Chairman and low insider ownership tend to receive more shareholder proposals, although the model itself is not significant. In general, the multivariate results for the UK sample are not strong due to the small sample size.

5.3. Summary

To summarize our findings in Section 5, although we lack statistical significance on the UK sample due to small sample size, the evidence seems to indicate that US and

UK investors employ similar targeting strategies. Specifically, poorly performing firms, firms with declining growth prospects, and firms with low CEO ownership are more likely to receive a shareholder proposal. However, one difference is worth noting. US investors submit shareholder proposals mainly to large, visible firms, probably because a large fraction of US proposals relate to social, environmental or health issues. In contrast, UK investors tend to target smaller firms, probably because of the solicitation costs and ownership requirement.

6. The impact of shareholder proposals in the US and UK

In this section, we assess the long-term effects of shareholder proposal on firm performance, board structure and CEO turnover. We do not examine short-term market reactions of shareholder proposals because confounding effects make the results from using this event-study approach difficult to interpret (see Del Guercio and Hawkins (1999) and Gillan and Starks (2007) for a detailed discussion on this topic.)

6.1. The impact of shareholder proposals on firm performance

To assess the wealth effect of shareholder proposals, we study the three dimensions of firm performance that we examined in univariate analysis -- firm valuation and performance, growth opportunities and financial constraints -- for the period of two years before and two years after a proposing event. As not all proposals are likely to be value increasing, we also separately examine the impact of key proposals.[18] For the US sample, we classify a proposal as key, if it targets expensing stock options, cumulative

[18] Examples for proposals that might not increase shareholder value include: "Ensure Tobacco Ads Are Not Youth Friendly" (from the US sample) and "Change the Name of the Doug Ellis Stand (stand of a soccer stadium) to an Alternative as Decided on a Poll of Supporters" (from the UK sample).

voting, majority voting, anti-takeover provisions (e.g. poison pill, classified board and golden parachute), and separating the CEO and Chairman positions. Existing literature shows that these governance characteristics tend to entrench management and erode firm value (see e.g., Davis and Kim (2006); Bebchuk, Cohen and Farrell (2004); Faleye (2007)). For the UK sample, we classify a proposal as key, if it is a board-, governance- or business- related proposal. For the US sample, we also separately examine proposals sponsored by shareholders with a relatively large ownership stake in the target firm for better comparison with the UK sample.

6.1.1. The US evidence

Table 8 Panel A reports the long-term wealth effects of US shareholder proposals, benchmarked against control firms. We have balanced five-year, control-firm-adjusted financial data for 761 US proposing events. After receiving a shareholder proposal, control-firm-adjusted stock return reverses the declining trend and starts to rise. ROA continues to worsen, although the magnitude is small. MTB and assets and sales growth show improvement after the event year albeit still inferior compared to their peers'. Compared to control firms, sample firms also shrink debt and payout ratios after a proposing event without affecting the FCF level. We obtain similar results regardless whether we study all proposals or key proposals.

Table 8 Panel B reports the long-term wealth effect of US shareholder proposals, benchmarked against industry median. We have balanced five-year, industry-adjusted financial data for 1,362 US proposing events. Results again are qualitatively the same regardless whether we examine all proposals or key proposals. However, we find some interesting differences, when comparing performance benchmarked against industry median to performance benchmarked against control firms. Except for firm performance, two different benchmarking methods tell a different story regarding firms' growth prospects and financial constraints. Whereas compared to industry median, sample firms exhibit deteriorating assets and sales growth; assets and sales growth actually improve, when compared to control firms. Similarly, when benchmarked against the industry median, sample firms increase debt and payout ratios after a proposing event; but the reverse is true, when benchmarked against control firms. When compared to industry median, the FCF level also seems to be lower after a proposing event, probably because of the substantial increase in payout, while FCF seems unchanged when compared to control firms. The different findings based on different benchmarks probably reflect evolving industry dynamics. As discovered in the univariate results, US sample firms are likely to be large and mature firms with poor growth prospects. A proposing event might have given a shock to the sample firms, improving their growth prospects and financial structure relative to their close competitors, who are firms of similar characteristics. However, compared to the rest of the industry, the US sample firms, together with their control firms, are still on the later stage of their life cycle.

The above difference makes the findings on firm performance more interesting. Sample firms have higher stock returns after a proposing event regardless of whether we control for control firm performance or industry median. More importantly, stock return increases more, when the proposal is likely to be wealth maximizing. The improvement is also both economically meaningful and statistically significant. For example, the annualized holding period return adjusted for that of control firms is a negative 9.7% for the two years preceding a proposing event. But, the number rises to a positive 4.3% in the event year or 3.0% when annualized over the event year and the two years after. Further, when only considering key proposals, the numbers are -9.5%, 6.1% and 4.4%, respectively. Therefore, our findings are in contrast with studies that use older data and find negligible effect of shareholder proposal on long-term firm performance.[19] But our findings complement more recent studies that focus on stock market reactions. Thomas and Cotter (2007) find significant albeit small announcement returns surrounding meeting dates for 875 US shareholder proposals from 2002 to 2004. Renneboog and Szilagyi (2008) find positive announcement returns surrounding proxy mailing dates for 1,754 US shareholder proposals from 1996 to 2005.

In Table 9, we report the impact of blockholder-sponsored shareholder proposals. Of the 1,691 proposing events in the US final sample, 44 (20) involve a proposal sponsored by a shareholder owning more than 1% (5%) of the firm's outstanding shares of common stock. Of these events, 23 (14) have balanced financial data for the sample and their control firms from two years before to one year after the event year. (To preserve sample size, we only study performance change up to one year after the proposing event. Imposing balanced panel for two years after will reduce by seven (six) events the sample of 1% (5%) blockholders.) Considering the small sample size, we do not perform any statistical tests. Therefore, the numbers are for developing intuition rather than for inference. Consequently, we study only one set of benchmarked performance, those against control firms.

[19] See e.g., Smith (1996), Wahal (1996), Strickland, Wiles and Zenner (1996), Karpoff, Malatesta and Walkling (1996), and Del Guercio and Hawkins (1999). Their sample periods generally end by 1993.

To provide a basic understanding of the type of firms to which blockholders submit a proposal, we report summary statistics of operating and governance characteristics in Table 9 Panel A. Compared to all firms that receive a shareholder proposal, firms that blockholders target are considerably smaller, albeit still larger than firms that are targeted for contested proxy solicitations (Appendix III Panel E). As Table 9 Panel B shows, proposals sponsored by blockholders have a positive and economically large effect on nearly all aspects of firm performance that we measure. The positive effect is especially apparent when compared to proposals sponsored by all investors. For example, after a proposing event, not only does stock return become higher than control firms', so do MTB and ROA. Stock return rises from -9.1% (-2.9%) one year before to 10.8% (29.7%) in the event year and 11.6% (23.7%) one year after, when a firm receives a proposal sponsored by a 1% (5%) blockholder. Recall, the trajectory of stock return is -7.9% one year before, 6.1% in the event year and 3.9% one year after, when the sample consists of key proposals sponsored by all investors.

To summarize our results in Section 6.1.1., US shareholder proposals seem to have a positive impact on firm performance for the period 2000-2006. The impact is larger if the proposal is likely to be wealth-increasing or sponsored by a blockholder.

6.1.2. The UK evidence

Table 10 reports the long-term wealth effect of UK shareholder proposals benchmarked against control firms. Due to data availability, we are unable to examine wealth effects benchmarked against industry median. We have 33 pairs of UK sample and control firms that have balanced five-year financial data. Probably due to their small sample size, we do not find much statistical significance. However, we do find with statistical significance that, after a proposing event, ROA accelerates deterioration, especially for firms receiving a key proposal. Stock return mimics a similar trend; the negative stock return of -12.7% in the year after the proposing event is nearly significant at 11% *p*-value. There is also some weak evidence that, after a proposing event, UK sample firms are more likely to reduce debt level and increase dividend payout.

It is a surprising result that UK shareholder proposals seems to have a more negative wealth effect than US ones, given that UK proxy rules grant shareholders greater power to make immediate changes to the management team and turn things around. Several conjectures potentially explain this puzzling finding. In contrast to US, UK directors do not have fiduciary duties to their shareholders. Therefore, UK shareholder proposal may become a vehicle of replacing one type of agency problem with another, namely replacing the agency problem of entrenched management with that of special interest groups, as evidenced in deteriorating firm performance but lower debt level and higher payout ratio after a proposing event. A less pessimistic explanation is that shareholder proposal is a governing device of last resort, used only when firms are in dire situation and other mechanisms have failed (such as private negotiation). Hence, a longer window is needed for the policies of the new management team to take effect. Supporting this view, we find, in the next section, UK sample firms exhibit abnormally high CEO turnover. Additionally, after a proposing event, there is some weak evidence that UK sample firms reduce debt and cash level and increase sales growth, suggesting that things are slowly turning around.

6.2. The impact of shareholder proposals on CEO turnover

To assess the impact of shareholder proposal on CEO turnover, we collect CEO data for sample and control firms for the year before, the year of, and the year after a firm receiving a shareholder proposal. Table 11 Panel A and B report the results for the US and UK final samples, respectively.

We are able to find 937 pairs of US sample and control firms with complete three-year CEO data. During the proposing year, 14% of the sample firms replace their CEOs, compared to 8% of the control firms. (The difference is significant at 1% level based on one-tailed Chi-square test.) For the post-proposing year, 16% of the sample firms exhibit CEO turnover, compared to 11% of the control firms (also significant at 1% level). As sample firms under-perform the control firms, our finding is consistent with the stylized fact that poorly performing firms are more likely to fire their CEOs (Huson, Malatesta and Parrino (2004)). Smith (1996), Karpoff et al. (1996), and Del Guercio and Hawkins (1999) find no association between CEO turnover and shareholder proposals. Therefore, our findings contradict the existing evidence. To provide another yardstick, Kaplan and Minton (2006) report 12.83% CEO turnover rate for Fortune 500 firms from 1998 to 2005.

We are able to find 55 pairs of UK sample and control firms with complete three-year CEO data. During the proposing year, 33% of the sample firms replace their CEOs, compared to 26% of the control firms. (The difference is significant at 5% level based on one-tailed Chi-square test.) For the year after the proposing year, 29% of the sample firms exhibit CEO turnover, compared to 11% of the control firms (significant at 5% level). Dedman and Lin (2002) report 11% CEO turnover rate for firms in FTSE All

Share Index from 1990 to 1995. Therefore, our UK sample firms exhibit significantly higher CEO turnover rate not only compared to control firms, but also to UK firms in general.

6.3. The impact of shareholder proposals on board structure

To assess the impact of shareholder proposals on board structure, we examine board size, percent of independent directors on the board (or percent of non-executive directors on the board for the UK sample) and whether CEO is the Chairman for the sample and control firms for the year before, the year of, and the year after a firm receiving a shareholder proposal. Table 12 Panel A and B report the results for the US and UK final samples, respectively.

We are able to find 937 pairs of US sample and control firms with complete three-year board data. The sample and control firms illustrate similar trend of increasing board independence during the three-year event window, which is consistent with the board trend documented in Linck, Netter and Yang (2009). However, compared to control firms, the sample firms are more likely to separate the CEO and Chairman positions and the difference in change is significant at 10% level. This probably reflects the fact that the sample firms experience higher CEO turnover. Brickley, Coles and Jarrell (1997) find that firms use the Chairman position as a reward for better performance; the newly appointed CEO is more likely to be awarded the additional title of Chairman after a few years of good performance.

We fail to find any significant impact of shareholder proposals on UK sample firms when compared to the control firms, probably due to small sample size.

7. Conclusion

In response to recent corporate debacles like Enron and the 2007-2009 financial crises, investors have turned to shareholder proposals to promote corporate accountability. The SEC is also currently reviewing comprehensive changes to proxy rules. In this paper, we build the most comprehensive samples to date of US and UK shareholder proposals as well as US contested proxy solicitations for the period 2000-2006 to study the potential new role of US shareholder proposals in recent years and the relation between proxy rules and proxy practices.

We find some evidence that US shareholder proposals play a more significant disciplinary role in our sample period than previously observed in the literature. More specifically, after receiving a shareholder proposal, US firms exhibit higher stock returns and the improvement is greater, when the proposal is likely to be wealth maximizing or sponsored by a shareholder owning a relatively large equity stake in the target firm. We also find that, after receiving a shareholder proposal, US firms are more likely to replace CEOs and separate the CEO and Chairman positions.

We find that different proxy rules clearly induce different proposing behaviors and voting outcomes. UK proxy rules allow shareholders to call special meetings and to nominate directors in corporate proxy materials. Further, once passed, UK shareholder proposals are binding. As a result, 70% of UK shareholder proposals are presented at special meetings and 80% target electing or removing specific directors. For comparison, US investors do not have access to corporate ballot and are constrained in their ability to call special meetings. However, UK sponsors face higher solicitation costs and ownership requirements. As a result, institutional investors sponsor the majority of UK shareholder proposals and only 2% of all UK proposals are related to social and environmental issues. In contrast, individual investors sponsor the majority of US shareholder proposals, and social and environmental proposals make up 30% of all US proposals. Not surprisingly, UK shareholder proposals have higher passing rate then US ones.

To summarize the differences in proxy rules, UK proxy rules gives investors greater power to affect changes than US ones, even though UK rules are more onerous on sponsors. Therefore, ex ante, we expect UK shareholder proposals to have more immediate and larger, positive effect on firms than their US counterparts. However, we find the opposite results. Firm performance continues to deteriorate after a proposing event for the UK sample. One explanation for these unexpected results may be that, given the onerous requirements imposed on the requisitioning shareholders, UK shareholder proposals are used as the last resort to affect the worst performing firms. Supporting this argument, our UK sample firms exhibit substantially higher CEO turnover rate than their UK control firms and US sample firms.

Our findings have important policy implications for the current debate on proxy reforms in the US. Part of these proposed changes would allow certain shareholders access to corporate ballot based on some minimum ownership threshold. We find that less than 3% shareholder proposals are sponsored by investors owning more than 1% of the target firms. Further, those investors target considerably smaller firms than the average firms that receive a shareholder proposal. Therefore, our results suggest that ownership requirement is a potent screening mechanism, potentially directing different investors to target different types of firms.

Using the US sample, we find that proposals targeting key governance issues or proposals sponsored by large investors are more likely to increase shareholder value. UK proxy rules give investors greater power to effect changes, including the rights to nominate directors. However, we find that US shareholder proposals have more positive effect on firm performance than UK ones. Taken together, these findings underscore the importance of understanding the identities and incentives of proposal sponsors and the types of proposals that are beneficial to all investors. Shareholder participation does not equate to shareholder value-maximization.

By comparing US and UK proxy practices, we also identify areas other than director nomination where the rights of US shareholders are limited -- shareholders' ability to call special meetings. Even for contested proxy solicitations, special meetings are seldom invoked. If investors only have one opportunity in a year to challenge management, their ability to hold management accountable is limited.

This paper also raises interesting questions for future research. For example, whether and how is the impact of US shareholder proposals related to the identities of the sponsors? Our results seem to suggest that shareholder proposals primarily target large firms, while contested proxy solicitations target small firms. What effect, if any, does shareholder activism have on medium-sized firms? Additionally, what causes UK shareholder proposals to have less positive impact on firms than US ones? How are these causes related to the identities and incentives of UK proposal sponsors?

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Appendix I: UK Corporate Governance and Shareholder Activism Timeline

1948 Companies Act of 1948 was introduced.

1992 Cadbury Report
Recommends a Code of Best Practice which effects the boards of all listed companies registered in the UK.

1995 Greenbury Report (executive pay?)
Emphasizes accountability and performance of directors.

1995 CalPERS announces its intention to focus on, and take a more active corporate governance role in the United Kingdom.

1997 Sell receives five shareholder proposals regarding its environmental and human rights policies at AGM, thus becoming the first UK firm to receive such proposals.

1998 Hampel Report (boards should comprise at least one third outside directors?)
Endorses the findings of the Cadbury and Greenbury Reports and emphasizes the important role that institutional investors have to play in their portfolio companies.

1998 Combined Code
Synthesize the Cadbury, Greenbury and Hampel reports. It operates on a "comply" or "explain" basis.

1998 Hermes Focus Fund is formed to experiment shareholder engagement.

1999 Turnbull Report
Provides guidance on the implementation of the internal control requirements of the Combined Code.

2001 Myners Report
Review institutional investment and recommends that institutional investors be more proactive especially in the stance that they take with under-performing companies.

2001 U.K Government introduce the Statement of Investment Principles (SIPs), which required institutional investors to disclose the social, environmental and ethical polices of their occupational pension funds.

2003 Higgs Report
Reports on the role and effectiveness of non-executive directors. Other recommendations include separating CEO and Chairman roles and stating the number of meetings of the board and its main committees and the attendance records of individual directors in the annual report.

2003 Smith Review
Presents a review of audit committees.

2003 Revised Combined Code
This report incorporates the substance of the Higgs and Smith reviews. It also clarifies the Chairman's role and senior independent director role.

2006 Companies Act (formerly the Company Law Reform Bill)
Replaces existing companies legislation. It codifies directors' duties and shareholder rights.

Appendix II: A Comparison of US and UK Proxy Rules and Practices for the Period of 2000 to 2006

	UK	US
Regulations	Section 376 and 368 of the Companies Act 1985 [a]	Securities and Exchange Commission Rule 14A-8
Qualifying sponsor	• ≥5% of voting capital, or at least 100 shareholders with no less than GBP100 per holder to call AGM • ≥10% of voting capital to call EGM	Continuous ownership of 1% of voting capital (or a minimum US $2,000 in market value) for at least one year before the annual meeting [b]
Length of the proposal	No more than 1,000 words	No more than 500 words
How many proposals may a shareholder submit for a particular meeting?	> one	One
Who bear circulation costs?	Proposal sponsor [c]	Firm
Is resolution binding?	Yes	No
Voting coalition	Easy to form [d]	Difficult to form [e]
Can shareholders call special meetings to submit resolutions?	Yes	Yes
Are institutions obligated to vote?	No	Yes
Are institutions required to disclose votes?	No	Pension funds and mutual funds are required to do so since 1988 and 2004, respectively
Voter turnout	Low	High
Are firms obligated to release voting results?	No, the Combined Code only recommends	Yes
Electronic vote	No	Yes
Voting system	Proxy voting/show of hands	Proxy voting

[a] Companies Act 2006 replaces Companies Act 1985, which will become effective by October 2008. It makes some material changes to the proxy rules, including making firms not shareholders bearer of the circulation costs. It also provides electronic communication with shareholders. The full text of Companies Act 2006 can be downloaded from www.opsi.gov.uk/ACTS/acts2006/ukpga_20060046_en.pdf (accessed on October 27, 2007)

[b] http://www.sec.gov/rules/proposed/34-39093.htm

[c] Although Companies Act 1985 requires proposal sponsors to provide the firm with funds to cover the circulation costs. Given that the firm will prepare for the circulation of proxy materials in relation to AGM regardless of the requisition, the extra expenses are minimal and are often waived by the firm (Clifford Chance LLP (2007, pg 4)). Needless to say, requisitioning shareholders need to bear circulation costs in relation to EGM, which can be substantial.

[d] Black and Coffee (1994)

[e] Black (1990)

Appendix III: US Contested Proxy Solicitation, 2000-2006

Appendix III contains contested proxy solicitations in the US from 2000 to 2006. To identify these solicitations, we obtain CIK for all COMPUSTAT firms in the Merged Fundamental Annual File on WRDS; there are 11,770 unique CIKs for 11,743 unique firms in the database. We then use the CIKs to find DEFC and DEFN filings in the on-line EDGAR database at www.sec.gov. During our sample collection process, we also find nine contested solicitations (or eight unique firms) where the target firms are not in the COMPUSTAT universe. After excluding mutual funds, the sample of US contested proxy solicitations consists of 521 dissident proposals associated with 249 firm years or 254 solicitation events.

Panel A reports the time line of contested proxy solicitations in the US from 2000 to 2006. We also report the frequency that a dissident solicits contested proxy through annual shareholder meeting, special shareholder meeting, or written contents. *#prpl* is the number of distinct proposals listed in the contested proxy statement during each solicitation event. This number excludes management-sponsored proposals where the dissidents vote *For* or *Abstain*. *%Successful proposals* is the percent of proposals that dissidents win. *%Settled proposals* denotes those proposals where the dissident and the firm reached a settlement. Solicitation costs are the total estimated expenses as reported by the dissidents that they expect to incur.

Panel A: Time line of contested proxy solicitations in the US

	#Prpl	#Firm	#Annual meeting	#Special meeting (called by dissident)	#Written consent	%Successful proposals	%Settled proposals	%Election-related	%Board-control related events
2000	80	41	35	5 (2)	2	31%	8%	83%	45%
2001	80	43	38	4 (4)	2	33%	9%	89%	30%
2002	61	38	31	3 (1)	4	28%	18%	87%	29%
2003	69	36	32	2 (2)	2	32%	6%	92%	33%
2004	66	27	20	5 (3)	3	45%	15%	71%	32%
2005	67	22	17	4 (3)	3	51%	6%	71%	25%
2006	98	42	32	5 (3)	5	33%	12%	90%	29%
Overall	**521**	**249**	**205**	**28 (18)**	**21**	**36%**	**10%**	**85%**	**32%**

Panel B reports the frequency distribution of dissident proposals. We classify dissident proposals into six broad categories: 1) those involves electing, removing, and withholding votes against directors; 2) those involving voting against company proposed merger and dissidents' own plan to acquire or sell the company; 3) those relating to board issues, such as amending the company's bylaws to fix board size at a certain number; 4) those relating to corporate governance, such as repealing poison pill provisions; 5) those relating to compensation issues, such as voting against management-sponsored compensation plan; 6) other proposals that do not fall into the previous five categories.

Panel B: Frequency distribution of dissident proposals, US firms (2000-2006)

Proposal description	Freq	(%)
Elect, remove or withhold votes against directors	**252**	(48%)
Sale of the Company	**27**	(5%)
Board	**82**	(16%)
Fix or change board size	25	
Declassify the board	23	(4%)
Increase board independence	9	
Other board issues	25	
Governance	**70**	(13%)
Repeal or subject poison pill to shareholder votes	19	
Adopt a simple majority voting policy	15	
Provide for (or lower threshold to call) special meetings	9	
Amend governance documents regarding removal of directors	8	
Other governance issues	19	
Compensation	**31**	(6%)
Reject management pay plan	17	
Say on pay	5	
Limit pay	3	
Other pay issues	6	
Other proposals	**59**	(11%)
Repeal new Bylaws amendment adopted to thwart the contest	25	
Business strategies or financing policies	11	
Social issues	2	
Other miscellaneous proposals	21	
Total	**521**	(100%)

Panel C: Frequency distribution of dissident proposals, when the dissident sponsors only one proposal

Proposal description	Freq	(%)
Elect, remove or withhold votes against directors	121	(86%)
Sale of the Company	14	(10%)
Solicit written consent to call special meetings	2	(1%)
Vote against the Company's liquidation plan	1	(1%)
Declassify the board	1	(1%)
Say on pay	1	(1%)
Total	**140**	(100%)

Panel D reports the frequency distribution of dissident types. We also report by dissident types, the percent of ownership holding in the target firms, the median book value of assets of the target firms, and the estimated solicitation costs. *Ass. Company* denotes those dissident groups led by a corporation that has a business interest in the sample firm, such as a supplier or a competitor. *Former MGT* denotes that the solicitation event is sponsored by member of former management team e.g. founders and former executives.

Panel D: Frequency distribution of dissident identities, US firms (2000-2006)

Sponsor type	Freq (%)	Median total assets ($MM)	%Ownership Mean	%Ownership Median	Soliciation costs ($) Mean	Soliciation costs ($) Median
Hedge fund/private equity	117 (46%)	230	8.8%	8.4%	405,758	175,000
Ass. Company	46 (18%)	296	12.0%	8.2%	909,737	400,000
Private investor	37 (14%)	144	8.3%	6.2%	510,364	150,000
Former MGT	29 (11%)	67	15.8%	13.5%	1,048,800	200,000
Other	28 (11%)	410	6.0%	0.2%	51,091	5,000
Overall	**257**	**220**	**9.7%**	**7.8%**	**530,580**	**177,500**

Panel E reports summary statistics of key financial characteristics of the US firms targeted for contested proxy solicitations. *ROA* is earnings before interest and taxes over total book assets. *Stock return* is the ending fiscal year price over the beginning fiscal year price minus one. *L/T debt over assets* is the long-term debt over total book assets.

Panel E: Financial characteristics of US firms targeted for contested proxy solicitation:

	n	Mean	Median	Std. Dev.
Total assets ($MM)	198	3,049	218	15,221
Market value of equity ($MM)	198	630	99	9,954
ROA	191	-0.7%	3.4%	26.2%
Stock return	160	20.3%	10.8%	82.4%
L/T debt over assets	197	21.9%	10.0%	41.2%

Table 1: Sample selection process

This table summarizes the sample selection process for the US (Panel A) and the UK (Panel B) samples. We obtain US shareholder proposals from Investor Responsibility Research Center (IRRC). IRRC lists 6,732 shareholder proposals for 1,067 unique US firms from 2000 to 2006. For the purpose of our study, we focus on proposals that have voting results, which yields 3,793 shareholder proposals at 757 firms (*the initial US sample*). To avoid confounding effects, we exclude any proposals that are filed within two years of a proxy contest,, thereby excluding 187 proposals or 50 firms. We exclude 359 proposals or 89 firms due to missing COMPUSTAT or CRSP data. (We require the sample firm to have total assets, long-term debt, ROA, market-to-book ratio, and stock price data one year before, the year of, and one year after a proposing event.) This process yields 3,247 shareholder proposals voted on at 618 US firms or 1,691 firm years (*the final US sample*). The initial sample for UK shareholder proposals is based on the International Shareholder Services (ISS) database, supplemented with manually collected observations from Factiva search. Excluding proposals requisitioned at unit trusts, ISS lists 418 shareholder proposals for 70 UK firms from 2000 to 2006. We were able to add 78 shareholder proposals for 15 firms through Factiva search. This process yields 496 shareholder proposals at 85 firms (*the initial UK sample*). We lost 27 (37) proposals or 5 (5) firms due to M&A (delisting), resulting in *the final UK sample* of 432 shareholder proposals requisitioned at 88 UK firms or 75 firm years.

Panel A: Sample selection process for the US sample

	#Shareholder proposals	#Firm years	#Firms
IRRC universe	6,732	2,991	1,067
#Obs. excluded for missing voting outcome	2,939	968	310
Initial sample	**3,793**	**2,023**	**757**
#Obs. excluded in relation to proxy-contest	187	85	50
#Obs. excluded for missing CRSP/COMPUSTAT data	359	247	89
Final sample	**3,247**	**1,691**	**618**

Panel B: Sample selection process for the UK sample

	#Shareholder proposals	#Firm years	#Firms
#Obs. from the International Shareholder Services (ISS) proposal database	418	84	70
#Obs. manually collected from Factiva	78	16	15
Initial sample	**496**	**100**	**85**
#Obs. lost due to M&A	27	5	5
#Obs. lost due to delisting	37	7	5
Final sample	**432**	**88**	**75**

Table 2: Shareholder proposals, shareholder meetings, and voting outcome

This table describes frequency distribution of shareholder proposals and shareholder meetings, together with voting outcome, for the US (Panel A) and the UK initial samples (Panel B). *#Prpl* refers to the number of shareholder proposals. *#Annual MTG* refers to the number of annual shareholder meetings. *#Special MTG* refers to the number of special meetings. *%Affirm. votes* denotes the mean percent of affirmative votes over votes cast. *%Successful proposals* denotes the proportion of shareholder proposals that receive the necessary votes to pass. The US initial sample consists of 3,793 proposals for 757 firms. Panel B partitions shareholder proposals, shareholder meetings, and voting outcome for the UK initial sample, by 1) whether a proposal is withdrawn or comes to a vote and 2) by whether a proposal is an ordinary proposal or a board-control related proposal. We classify a proposal as board-control related, if a sponsor submits multiple proposals to one shareholder meeting that, if passed, have the effect of replacing the majority of the board. In the UK, the annual shareholder meeting is referred to as Annual General Meeting (AGM), and the special meeting as Extraordinary General Meetings (EGM). A withdrawn proposal is deemed as successful if the firm adopts the action that the sponsor requests. Panel B does not include three firms (or 6 proposals) that dissolved before the meetings convened.

Panel A: The US initial sample

	#Prpl	#Firm	#Annual MTG	#Special MTG	%Affirm. votes	%Successful proposals
2000	433	258	258	0	22.8%	12.9%
2001	430	244	244	0	22.9%	14.7%
2002	464	254	254	0	28.2%	19.0%
2003	616	317	317	0	32.1%	25.3%
2004	637	332	332	0	27.1%	19.5%
2005	582	293	293	0	29.2%	23.3%
2006	631	325	325	0	33.1%	21.2%
Overall	**3,793**	**2,023**	**2,023**	**0**	**28.4%**	**19.4%**

Panel B: The UK initial sample

	Ordinary propsals					Board-control related proposals				
	#Prpl	#Firm	#AGM	#EGM	%Successful proposals	#Prpl	#Firm	#AGM	#EGM	%Successful proposals
Proposals that come to a vote										
2000	10	3	2	1	0%	17	2	0	2	100%
2001	24	10	7	4	0%	4	1	0	1	100%
2002	27	10	3	7	26%	38	4	1	4	18%
2003	15	6	4	3	7%	33	5	0	5	24%
2004	22	6	3	4	0%	88	8	1	9	66%
2005	9	2	0	3	44%	37	5	0	5	35%
2006	25	9	3	7	44%	8	2	0	2	100%
Overall	**132**	**46**	**22**	**29**	**17%**	**225**	**27**	**2**	**28**	**51%**
Proposals that are withdrawn										
2000	5	2	1	1	80%	0	0	0	0	-
2001	3	3	3	0	0%	9	2	0	2	56%
2002	5	4	1	4	40%	19	2	0	2	47%
2003	14	3	1	2	36%	28	4	0	4	100%
2004	2	1	1	0	0%	13	1	0	1	0%
2005	10	4	2	2	40%	0	0	0	0	-
2006	8	2	0	2	100%	17	2	0	2	100%
Overall	**47**	**19**	**9**	**11**	**51%**	**86**	**11**	**0**	**11**	**69%**

Table 3: Shareholder proposals by proposal type

This table reports shareholder proposals by proposal types for the US and UK initial samples from 2000 to 2006. Panel A reports the classification of 3,793 shareholder proposals voted at 757 US firms. Panel B reports the classification of 496 shareholder proposals presented at 85 UK firms. We classify shareholder proposals into six broad categories: board-related proposals (*Board*), compensation-related proposals (*COMP*), social and economic proposals (*Social*), non-board governance-related proposals (*GOV*), environmental and health proposals (*ENV/Health*), and business-related proposals (*BUS*). Panel C reports detailed breakdown of board-related proposals.

Panel A: US shareholder proposal classification

	Board	COMP	Social	GOV	ENV/Health	BUS	**Total**
2000	139	45	77	61	58	53	**433**
2001	131	51	93	70	55	30	**430**
2002	138	51	93	107	61	14	**464**
2003	136	203	79	134	57	7	**616**
2004	161	178	125	96	67	10	**637**
2005	189	135	111	68	68	11	**582**
2006	260	107	121	61	72	10	**631**
Total	**1,154 (30%)**	**770 (20%)**	**699 (18%)**	**597 (16%)**	**438 (12%)**	**135 (4%)**	**3,793 (100%)**

Panel B: UK shareholder proposal classification

	Board	BUS	GOV	ENV/Health	Social	COMP	**Total**
2000	26	3	1	1	1		**32**
2001	20	16	2	2	1		**41**
2002	83	8		1		1	**93**
2003	81	5	4				**90**
2004	100	16	7	1		1	**125**
2005	55				1		**56**
2006	56		1	1	1		**59**
Total	**421 (85%)**	**48 (10%)**	**15 (3%)**	**6 (1%)**	**4 (1%)**	**2 (0%)**	**496 (100%)**

Panel C: Breakdown of board proposals for the US and UK initial samples

	2000	2001	2002	2003	2004	2005	2006	**Overall**
The US sample								
Declassification	58	50	49	49	42	48	61	**31%**
Separate CEO and Chairman positions	3	5	3	30	40	30	55	**14%**
Require majority vote to elect directors	0	0	0	0	11	62	94	**14%**
Adopt cumulative voting	24	19	19	20	23	20	23	**13%**
Board independence	19	13	29	10	18	6	4	**9%**
Director nomination/election	12	21	14	10	8	6	5	**7%**
Miscellaneous	23	23	24	17	19	17	18	**12%**
As percentage of the total 1,154 US board proposals								**100%**
The UK sample								
Elect/remove specific directors	25	17	83	80	97	54	56	**98%**
Approve scheme for supporter board appointment		1		1	1	1		**1%**
No confidence vote in the Chairman					1			**0%**
Charge non-executive Directors with fiduciary duty					1			**0%**
Change the time/location of general meetings		1						**0%**
Require indep. of Deputy Chairman and disclosure of indep. status of non-executive directors	1							**0%**
Leave vacancy arising from retirement by rotation unfilled		1						**0%**
As percentage of the total 421 UK board proposals								**100%**

Table 4: Sponsor types and sponsor ownership for the US initial sample

Panel A reports the frequency distribution of sponsor types for the US initial sample from 2000 to 2006. We classify US sponsors into seven categories: individual activists (*Activists*), social groups (*Social*), unions, institutional investors (*Institution*), individual occasional (*Occasional*), coalition, and other sponsors (*Other*). Social groups include organizations such as human-rights groups, environmental groups, and religious groups. We classify any individual shareholder who sponsors more than 20 shareholder proposals in the US initial sample as individual activist, otherwise as individual occasional. A proposal is classified as sponsored by a coalition, if it is sponsored by a mixed group, e.g. a social group teams up with a pension fund. The group 'Other' includes other sponsors who do not fall into the previous six categories. We are unable to determine sponsor identites for 44 of the 3,793 shareholder proposals in the US initial sample, hence the sponsor group (*Unknown*). Panel B reports stock ownership of US sponsors. We are able to collect ownership information from proxy statement for 2,390 proposal sponsors in the US initial sample. *%Shares held* equals the number of shares held by a proposal sponsor over the number of shares outstanding, in percentage term.

Panel A: Identities of US proposal sponsors

	Activists	Social	Union	Institution	Occasional	Coalition	Other	Unknown	**Total**
2000	112	110	25	64	100	10	4	8	**433**
2001	130	111	40	56	78	11	3	1	**430**
2002	126	97	70	67	73	23	8	-	**464**
2003	144	98	157	99	88	19	8	3	**616**
2004	134	128	138	116	98	5	4	14	**637**
2005	114	136	139	105	66	5	6	11	**582**
2006	147	138	150	108	73	3	5	7	**631**
Total	**907 (24%)**	**818 (22%)**	**719 (19%)**	**615 (16%)**	**576 (15%)**	**76 (2%)**	**38 (1%)**	**44 (1%)**	**3,793 (100%)**

Panel B: Stock ownership of US proposal sponsors

	Activists	Social	Union	Institution	Occasional	Coalition	Other	**Overall**
#obs	618	460	490	401	343	57	21	**2,390**
%Shares held, mean	0.001%	0.010%	0.005%	1.023%	0.027%	0.160%	1.831%	**0.199%**
(median)	(0.000%)	(0.001%)	(0.002%)	(0.040%)	(0.000%)	(0.044%)	(1.024%)	(0.001%)

Table 5: Sponsor types and sponsor ownership for the UK initial sample

Panel A reports the frequency distribution of sponsor types for the UK initial sample from 2000 to 2006. We classify UK sponsors into five categories: institutional investors (*Institution*), member of former management team (*Former MGT*), associated companies (*Ass. Company*), private investors, shareholders, and other sponsors (*Other*). Member of former management team include founders, former CEOs, or former directors of the firm. Associated companies are companies that have a business interest in the sample firm, such as a supplier or a competitor. *Shareholder* denotes coalition of small investors. The group 'Other' includes other sponsors who do not fall into the previous five categories. Ten proposals as sponsored by this group, including one sponsored by an employee group, one by a human-rights group, two by a union, and six by environmental groups. Panel B reports stock ownership of UK sponsors. We are able to collect ownership information from Factiva search for 431 proposal sponsors in the UK initial sample. *%Shares held* equals the number of shares held by a proposal sponsor over the number of shares outstanding, in percentage term.

Panel A: Identities of UK proposal sponsors

	Institution	Former MGT	Ass. Company	Private investor	Shareholder	Other	Unknown	**Total**
2000	18	-	-	10	1	3	-	**32**
2001	18	3	11	-	5	3	1	**41**
2002	21	43	17	2	8	1	1	**93**
2003	44	26	18	-	1	-	1	**90**
2004	48	29	7	20	20	1	-	**125**
2005	30	9	8	7	2	-	-	**56**
2006	30	7	4	13	2	2	1	**59**
Total	**209** **(42%)**	**117** **(24%)**	**65** **(13%)**	**52** **(10%)**	**39** **(8%)**	**10** **(2%)**	**4** **(1%)**	**496** **(100%)**

Panel B: Stock ownership of UK proposal sponsors

	Institution	Former MGT	Ass. Company	Private investor	Shareholder	Other	**Overall**
#obs	202	106	65	42	15	1	**431**
%Shares held, mean	21.0%	19.4%	22.5%	22.5%	18.8%	0.0%	**18.8%**
(median)	(10.1%)	(8.5%)	(7.2%)	(8.1%)	(3.3%)	-	**(3.3%)**

Table 6: Firm characteristics

This table reports summary statistics of firm characteristics for the US and UK final sample at the beginning of the proposing year (the year a firm receives a shareholder proposal). The *Market-to-book ratio* is the ratio of market value to book value of assets for the US sample, or the ratio of market value to book value of equity for the UK sample. *ROA* is earnings before interest and taxes (EBIT) over total book assets. *Stock return* is the ending fiscal year price over the beginning fiscal year price minus one. *Sales growth* is the ratio of current year net sales over the previous year's. *Payout ratio* is the sum of common and preferred stock dividends plus repurchases over EBIT for the US sample, or the sum of common and preferred stock dividends over EBIT for the UK sample. *Free cash flow (FCF)* is operating income before depreciation minus total income taxes, change in deferred taxes, interest expense, preferred dividends, and dividends on common stock over total assets, following Lehn and Poulsen (1989). *%cash* is total cash balance over total book assets. *%Independent directors (%non-executive directors)* is the percent of independent (non-executive) directors on the board. *Board size* is the total number of directors on the board. *%CEO is Chairman* is the percent of firms with CEO also being the Chairman of the Board. To provide a benchmark, we report median characteristics for control firms and all firms in the same Fama-French industry as the sample firms. Due to data availability, we do not report industry median for the UK sample. Industry median for *%CEO is Chairman* is the mean value, since median for both sample and industry are 100%. To qualify as a control, the firm cannot be targeted for shareholder proposal for the period of two years before to two years after the proposing year, comes from the same Fama and French industry as the sample firm, has the closest ROA to the sample firm at the beginning of the proposing year, and its market value of equity is not 50% greater or less than that of the sample firm at the beginning of the proposing year. For the US sample, the control firm also cannot be targeted for contested proxy solicitation two years before to two years after the proposing year. This matching procedure yields 1,071 control firm years for the US sample, or 74 control firm years for the UK sample. [a, b] and [c] denote the significance levels at 1%, 5% and 10%, respectively, based on two-tailed Wilcoxon test.

Panel A: The US sample

	Sample firms				*Control firms*			*Industry*
	n	Mean	Median	Std. Dev.	*n*	*Median*		*Median*
Firm size								
Market value of equity ($MM)	1,691	25,512	8,033	50,712	*1,071*	*2,551*	*a*	*297*
Total assets ($MM)	1,691	48,059	10,600	139,499	*1,071*	*2,472*	*a*	*420*
Firm valuation and performance								
Market-to-book ratio	1,691	1.88	1.39	1.30	*1,071*	*1.51*	*a*	*1.31*
ROA	1,691	12.9%	12.1%	8.7%	*1,071*	*11.3%*		*9.9%*
Stock return	1,691	11.7%	6.5%	47.0%	*1,067*	*14.8%*	*a*	*4.3%*
Firm growth opportunities								
Assets growth	1,688	11.1%	5.8%	54.2%	*1,064*	*10.8%*	*a*	*5.8%*
Sales growth	1,688	9.6%	6.3%	28.9%	*1,061*	*13.5%*	*a*	*8.2%*
Capital expenditure	1,540	5.1%	4.1%	4.2%	*978*	*4.0%*		*3.5%*
Firm financial constraints								
L/T debt over assets	1,691	21.2%	19.8%	15.5%	*1,071*	*16.4%*	*a*	*13.8%*
Payout ratio	1,490	26.0%	19.7%	24.1%	*919*	*14.3%*		*2.4%*
Free cash flow	1,344	7.5%	7.0%	6.3%	*850*	*6.6%*	*b*	*5.5%*
Governance characteristics								
%Independent directors	1,674	69.4%	72.7%	16.8%	*921*	*66.7%*	*a*	*69.2%*
Board size	1,674	10.9	11.0	3.0	*921*	*9.0*	*a*	*9.0*
%CEO is Chairman	1,674	75.6%	100.0%	42.9%	*921*	62.0%	*a*	*65.3%*
CEO ownership	1,676	2.4%	0.1%	7.3%	*936*	0.9%	*a*	*1.2%*
Institutional ownership	1,560	62.6%	64.6%	19.5%	*918*	*62.7%*	*a*	*70.9%*

Panel B: The UK sample

	Sample firms				*Control firms*	
	n	Mean	Median	Std. Dev.	*n*	*Median*
Firm size						
Market value of equity (£ MM)	87	6,396	21	24,969	*73*	*19*
Total assets (£ MM)	88	6,192	54	22,746	*74*	*50*
Firm valuation and performance						
Market-to-book ratio	86	1.7	1.0	2.1	*73*	*1.3*
ROA	85	0.1%	5.4%	21.1%	*70*	*6.8%*
Stock return	88	-2.3%	-5.0%	51.2%	*70*	*-10.2%*
Firm growth opportunities						
Assets growth	84	-5.6%	-1.2%	31.4%	*72*	*5.7%* [a]
Sales growth	84	7.1%	0.2%	81.9%	*71*	*3.0%*
Capital expenditure	85	4.8%	3.0%	10.5%	*74*	*2.7%*
Firm financial constraints						
L/T debt over assets	88	15.2%	7.6%	18.7%	*74*	*8.0%*
Payout ratio	85	5.3%	0.0%	48.9%	*70*	*0.0%*
%cash	87	20.4%	8.3%	28.5%	*74*	*5.0%* [b]
Governance characteristics						
%non-executive directors	84	55.4%	53.6%	15.9%	*80*	*50.0%*
Board size	84	6.8	6.0	2.5	*80*	*6.0*
%CEO is Chairman	84	23.8%	0.0%	42.8%	*80*	18.8%
CEO ownership	71	2.8%	0.2%	6.1%	*70*	0.2%

Table 7: Determinants of the probability that a firm receives a shareholder proposal

This table reports the logistic regression results on the probability that a firm receives a shareholder proposal. The dependent variable is an indicator variable that takes the value of one if a sample firm, zero if an industry-MVE-ROA matched control firm. (See Table 6 for details on the matching procedure.) All the independent variables are beginning-year values of the year when a proposal is submitted. *Log(MVE)* is the log form of market value of equity. The models for the US sample include an intercept and industry- and year- fixed effects; the models for the UK sample include an intercept. *p*-values, based on robust standard errors, are reported in parentheses below coefficient estimates. Columns of *dy/dx* report marginal effects. [a], [b] and [c] denote the significance levels at 1%, 5% and 10%, respectively.

Panel A: The US sample

	Coeff.	*dy/dx*	Coeff.	*dy/dx*
Log(MVE)	0.213 [a]	*0.053*	0.110 [b]	*0.027*
	(0.000)		(0.017)	
ROA	-0.706	*-0.176*	-0.410	*-0.102*
	(0.352)		(0.623)	
Stock return	-0.553 [a]	*-0.138*	-0.478 [a]	*-0.119*
	(0.000)		(0.001)	
Sales growth	-1.821 [a]	*-0.455*	-1.115 [a]	*-0.277*
	(0.000)		(0.003)	
L/T debt over assets	1.076 [a]	*0.269*	1.278 [a]	*-0.318*
	(0.001)		(0.001)	
%Independent directors			0.526	*0.131*
			(0.119)	
Board size			0.102 [a]	*0.025*
			(0.000)	
CEO is Chairman			0.299 [a]	*0.074*
			(0.011)	
CEO ownership			-0.014 [a]	*-0.003*
			(0.014)	
Institutional ownership			-0.004	*-0.001*
			(0.116)	
Likelihood ratio	89		137	
Model *p*-value	0.00		0.00	
Pseudo R-squared	0.07		0.08	
# observations	2,112		1,782	

Panel B: The UK sample

	Coeff.	*dy/dx*	Coeff.	*dy/dx*
Asset growth	-0.318	*-0.080*	-0.199	*-0.050*
	(0.114)		(0.348)	
%cash	1.811 [a]	*0.453*	1.960 [c]	*0.490*
	(0.034)		(0.083)	
Log(MVE)			-0.008	*-0.002*
			(0.949)	
ROA			-0.195	*-0.049*
			(0.817)	
Stock return			0.031	*0.008*
			(0.925)	
L/T debt over assets			1.152	*0.288*
			(0.321)	
%Independent directors			1.019	0.254696
			(0.429)	
Board size			-0.012	*-0.003*
			(0.900)	
CEO is Chairman			1.071 [b]	*0.255*
			(0.054)	
CEO ownership			-0.059 [b]	*-0.015*
			(0.032)	
Likelihood ratio	5.72		10.3	
Model *p* -value	0.06		0.41	
Pseudo R-squared	0.04		0.08	
# observations	145		124	

Table 8: Impact of shareholder proposals on firm performance - the US evidence

This table reports the impact of US shareholder proposals on firm performance from two years before to two years after the event year. The event year (*t*) is the year when a firm receives a shareholder proposal. Panel A reports median values of US sample firm performance, adjusted for control firm performance. A total of 761 events have balanced, five-year financial data for the sample and their control firms. (See Table 6 for details on identifying control firms.) Panel B reports median values of sample firm performance, adjusted for industry median. Industry median is the median performance of all firms in the same Fama-French industry as the sample firm. A total of 1,362 events have balanced, five-year industry adjusted performance for the sample firms. Since not all proposals are value increasing, for each panel, we report benchmarked performance for all shareholder proposals and for key proposals. We classify a proposal as a key proposal, if it targets expensing stock options, cumulative voting, majority voting, anti-takeover provisions (e.g. poison pill, classified boards, and golden parachute), and "Separating CEO/Chairman Position." [a, b] and [c] denote the significance levels at 1%, 5% and 10%, respectively, based Wilcoxon signed rank test.

Panel A: Median value of US firm performance, adjusted for control firm performance

	n	(t-2)	(t-1)	t	(t+1)	(t+2)
			All proposals			
Firm valuation and performance						
MTB	761	-0.13 [a]	-0.18 [a]	-0.14 [a]	-0.13 [a]	-0.10 [a]
ROA	761	-0.02% [a]	-0.10% [a]	-0.44% [a]	-0.65% [a]	-0.64% [b]
Stock return	759	-9.70% [a]	-9.73% [a]	4.28% [a]	2.85% [c]	1.72%
Firm growth opportunities						
Assets growth	758	-6.90% [a]	-6.49% [a]	-3.70% [a]	-3.28% [a]	-3.07% [a]
Sales growth	757	-7.35% [a]	-7.02% [a]	-5.96% [a]	-4.38% [a]	-2.70% [a]
Capital expenditure	659	0.34% [a]	0.03%	-0.08%	-0.04%	-0.13%
Firm financial constraints						
Debt	761	2.43% [a]	2.22% [a]	2.45% [a]	1.88% [a]	1.64% [a]
Payout	524	0.00%	0.07%	-0.55% [b]	0.00% [b]	-1.24% [b]
FCF	461	0.66% [b]	0.32%	0.25%	0.30%	0.21%
			Key proposals			
Firm valuation and performance						
MTB	387	-0.16 [a]	-0.21 [a]	-0.15 [a]	-0.14 [a]	-0.16 [a]
ROA	387	-0.18%	-0.15% [a]	-0.71% [a]	-0.82% [a]	-0.96% [b]
Stock return	385	-11.03% [a]	-7.92% [a]	6.10% [a]	3.90% [c]	3.26%
Firm growth opportunities						
Assets growth	384	-8.79% [a]	-5.91% [a]	-4.23% [a]	-3.96% [a]	-3.94% [a]
Sales growth	383	-9.78% [a]	-6.18% [a]	-6.67% [a]	-3.83% [a]	-3.12% [a]
Capital expenditure	341	0.37% [b]	0.14%	0.04%	0.06%	-0.04%
Firm financial constraints						
Debt	387	4.48% [a]	3.68% [a]	3.64% [a]	3.61% [a]	2.88% [a]
Payout	278	0.00% [b]	0.00% [c]	-1.79% [b]	-2.30% [a]	-2.64% [a]
FCF	249	0.71%	0.07%	-0.48%	0.06%	0.00%

Panel B: Median value of US firm performance, adjusted for industry median

	n	(t-2)	(t-1)	t	(t+1)	(t+2)
			All proposals			
Firm valuation and performance						
MTB	1,362	0.09 [a]	0.05 [a]	0.03 [a]	0.01 [a]	0.00 [a]
ROA	1,362	2.43% [a]	1.84% [a]	1.59% [a]	1.46% [a]	1.45% [a]
Stock return	1,362	1.86% [a]	0.03%	0.70% [a]	0.79% [b]	1.23% [a]
Firm growth opportunities						
Assets growth	1,359	0.72% [a]	0.06% [a]	-0.23%	-0.35%	-1.11% [a]
Sales growth	1,359	-1.43% [a]	-1.47% [a]	-1.86% [a]	-1.58% [a]	-1.57% [a]
Capital expenditure	1,220	0.40% [a]	0.18% [a]	0.12% [a]	0.09% [a]	0.09% [a]
Firm financial constraints						
Debt	1,362	3.63% [a]	3.54% [a]	3.80% [a]	4.01% [a]	3.95% [a]
Payout	1,112	12.69% [a]	12.08% [a]	13.62% [a]	14.44% [a]	17.49% [a]
FCF	996	1.63% [a]	1.34% [a]	1.20% [a]	1.02% [a]	0.95% [a]
			Key proposals			
Firm valuation and performance						
MTB	696	0.08 [a]	0.03 [a]	0.02 [a]	-0.01 [b]	-0.01 [c]
ROA	696	2.07% [a]	1.47% [a]	1.46% [a]	1.39% [a]	1.33% [a]
Stock return	696	0.12% [c]	-0.03%	0.65%	0.61%	3.04% [a]
Firm growth opportunities						
Assets growth	694	0.03% [b]	0.00% [c]	-0.79%	-1.63% [b]	-2.12% [a]
Sales growth	694	-2.27% [a]	-1.45% [a]	-1.96% [a]	-2.16% [a]	-2.45% [a]
Capital expenditure	632	0.40% [a]	0.21% [a]	0.24% [a]	0.13% [a]	0.16% [a]
Firm financial constraints						
Debt	696	5.12% [a]	4.92% [a]	5.21% [a]	5.23% [a]	5.47% [a]
Payout	578	11.97% [a]	12.15% [a]	13.84% [a]	14.25% [a]	16.40% [a]
FCF	513	1.50% [a]	1.16% [a]	0.84% [a]	0.84% [a]	0.72% [a]

Table 9: Impact of shareholder proposals on firm performance - the US evidence from blockholder-sponsored proposals

This table reports a summary description of firm characteristics (Panel A) and the impact on firm performance (Panel B) for blockholder-sponsored shareholder proposals in the US final sample. We define a blockholder as a shareholder owning more than 1% of a firm's outstanding shares. In the US final sample, 44 (20) proposing events involve a proposal sponsored by a shareholder owning more than 1% (5%) of the outstanding shares. Of these events, 23 (14) have balanced financial data for the sample and their control firms from two years before to one year after the event year.

Panel A: Firm characteristics

	Sponsor ownership >=1%			Sponsor ownership >=5%		
	n	Mean	Median	n	Mean	Median
Firm size						
Market value of equity ($MM)	44	2,719	619	20	1,720	233
Total assets ($MM)	44	6,174	1,076	20	720	553
Firm valuation and performance						
Market-to-book ratio	44	1.73	1.18	20	2.30	1.25
ROA	44	12.0%	9.9%	20	14.7%	9.2%
Stock return	44	10.8%	0.3%	20	12.1%	-0.9%
Firm growth opportunities						
Assets growth	44	3.3%	0.0%	20	5.6%	-0.3%
Sales growth	44	4.9%	4.6%	20	6.2%	2.5%
Capital expenditure	41	4.3%	3.2%	20	3.6%	2.8%
Firm financial constraints						
L/T debt over assets	44	28.0%	24.2%	20	14.8%	13.8%
Payout ratio	41	16.5%	13.1%	20	17.4%	20.9%
Free cash flow	38	7.1%	5.3%	20	7.6%	4.3%
Governance characteristics						
%Independent directors	44	60.8%	63.6%	20	60.1%	65.2%
Board size	44	9.8	10.0	20	8.8	9.0
%CEO is Chairman	44	61.4%	100.0%	20	55.0%	100.0%
CEO ownership	44	5.7%	1.2%	20	7.9%	3.9%
Institutional ownership	38	47.1%	41.3%	19	56.8%	52.5%

Panel B: Median value of US firm performance, adjusted for control firm performance

	n	(t-2)	(t-1)	t	(t+1)
		Sponsor ownership >=1%			
Firm valuation and performance					
MTB	23	-0.08	-0.05	-0.01	0.15
ROA	23	0.62%	-0.48%	-2.42%	1.57%
Stock return	23	-2.77%	-9.06%	10.81%	11.63%
Firm growth opportunities					
Assets growth	23	-14.31%	-5.13%	0.06%	1.42%
Sales growth	23	-4.34%	-8.50%	-0.53%	10.64%
Capital expenditure	19	-1.12%	-0.44%	-0.77%	-0.47%
Firm financial constraints					
Debt	23	-3.58%	-3.68%	-2.86%	-1.26%
Payout	16	3.60%	13.33%	11.15%	13.43%
FCF	14	0.04%	-0.34%	0.00%	-0.33%
		Sponsor ownership >=5%			
Firm valuation and performance					
MTB	14	-0.04	-0.28	0.07	0.33
ROA	14	1.46%	-0.43%	-1.43%	2.11%
Stock return	14	-0.01%	-2.93%	29.73%	23.74%
Firm growth opportunities					
Assets growth	14	-10.82%	-6.96%	0.14%	-4.89%
Sales growth	14	-4.23%	-17.06%	-1.87%	10.05%
Capital expenditure	13	-0.34%	-1.42%	-0.77%	-0.47%
Firm financial constraints					
Debt	14	-14.34%	-14.91%	-18.75%	-18.63%
Payout	12	7.74%	24.88%	14.28%	19.34%
FCF	11	-0.90%	0.13%	-0.04%	-0.90%

Table 10: Impact of shareholder proposals on firm performance - the UK evidence

This table reports the impact of UK shareholder proposals on firm performance from two years before to two years after the event year (*t*), when the sample firm receives a shareholder proposal. Firm performance are median values of sample firm performance minus control firm performance. A total of 33 events have balanced five-year financial data for the sample and their control firms. (See Table 6 for details on finding control firms.) Since not all proposals are value increasing, for each panel, we report difference in performance for all shareholder proposals and for key proposals. We classify a proposal as a key proposal, if it is a board-, governance-, or business- related proposal. [a, b] and [c] denote the significance levels at 1%, 5% and 10%, respectively, based Wilcoxon signed rank test.

	n	(t-2)	(t-1)	t	(t+1)	(t+2)
			All proposals			
Firm valuation and performance						
MTB	30	-0.07	0.00	-0.16	0.00	0.15
ROA	31	-1.44%	-0.34%	-4.66% [a]	-2.79% [b]	-4.73% [a]
Stock return	31	6.89%	-7.57%	-5.19%	-12.73%	-11.35%
Firm growth opportunities						
Assets growth	30	-7.58%	-3.43%	1.17%	4.77%	-3.84%
Sales growth	28	-11.96% [b]	-1.90%	-3.70%	3.71%	-0.22%
Capital expenditure	29	-1.54% [a]	-0.04%	-0.64%	-0.34%	-0.43%
Firm financial constraints						
Debt	33	0.00%	-0.72%	0.00%	-1.53%	-1.90%
Payout	27	0.00%	-1.29%	0.00%	0.00%	0.00%
%Cash	33	0.13%	0.59%	0.11%	-0.30%	-2.13%
			Key proposals			
Firm valuation and performance						
MTB	24	-11.80%	-0.04%	-13.66%	-9.58%	10.71%
ROA	25	-1.38%	-0.56%	-5.97% [b]	-2.79% [c]	-6.61% [a]
Stock return	25	6.89%	-7.57%	-19.31%	-12.73%	-10.87%
Firm growth opportunities						
Assets growth	24	-2.54%	-1.61%	-0.63%	4.14%	-3.33%
Sales growth	22	-6.93%	-1.90%	-1.38%	3.71%	0.69%
Capital expenditure	23	-1.30% [b]	-0.04%	-0.64%	-0.34%	-0.69%
Firm financial constraints						
Debt	27	0.00%	-1.77%	0.00%	-3.07%	-3.42% [c]
Payout	20	-2.32%	-6.73% [b]	-1.81%	-0.61%	-3.21% [c]
%Cash	27	0.22%	0.75%	0.04%	0.56%	0.01%

Table 11: Impact of shareholder proposals on CEO turnover

This table reports CEO turnover rate for the year of and the year after a firm receiving a shareholder proposal. Panel A contains the results for 937 pairs of US sample and control firms that have three years of CEO data surrounding the proposing year; Panel B contains the results for 55 pairs of UK sample and control firms that have three years of CEO data surrounding the proposing year. ***, ** and * denote the significance levels at 1%, 5% and 10%, respectively, based on Chi-squared test.

Panel A: CEO turnover rate - the US sample

	Sample firms	Control firms	*Dif.*
Proposal year	14.4%	8.1%	*6.3%* [a]
One year after the proposing year	15.9%	11.0%	*4.9%* [a]

Panel B: CEO turnover rate - the UK sample

	Sample firms	Control firms	*Dif.*
Proposal year	32.7%	25.5%	*7.3%* [b]
One year after the proposing year	29.1%	10.9%	*18.2%* [b]

Table 12: Impact of shareholder proposals on board structure

This table reports board structure for the year before, the year of, and the year after a firm receiving a shareholder proposal. Panel A contains the results for 937 pairs of US sample and control firms that have three years of board data; Panel B contains the results for 55 pairs of UK sample and control firms that have three years of board data. [a, b] and [c] denote the significance levels at 1%, 5% and 10%, respectively, based on paired student *t* test. ***, ** and * denote the significance levels at 1%, 5% and 10%, respectively, based on Chi-squared test.

Panel A: The US sample

	Sample firms			Control firms		
	(t-1)	(t)	(t+1)	(t-1)	(t)	(t+1)
	Mean (Median)	Mean (Median)	Mean (Median)	Mean (Median)	Mean (Median)	Mean (Median)
%Independent directors	67.4%	69.2%	71.2%	63.2%	64.6%	66.6%
	(70.0%)	(72.7%)	(75.0%)	(66.7%)	(66.7%)	(66.7%)
Board size	10.3	10.2	10.2	9.3	9.4	9.4
	(10.00)	(10.00)	(10.00)	(9.00)	(9.00)	(9.00)
%CEO is Chairman	71.8%	71.4%	68.5%	62.6%	62.5%	60.7%
	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)

	Mean change in sample firms		Mean change in control firms	
	(t)-(t-1)	*(t+1)-(t)*	*(t)-(t-1)*	*(t+1)-(t)*
%Independent directors	*1.84%* [a]	*1.93%* [a]	*1.39%* [a]	*2.06%* [a]
Board size	*-0.07*	*0.00*	*0.05*	*-0.04*
%CEO is Chairman	*-0.43%*	*-2.88%* **	*-0.09%*	*-1.76%*

	Mean change in sample firms vs. mean change in control firms	
	(t)-(t-1)	*(t+1)-(t)*
%Independent directors	*0.45%*	*-0.12%*
Board size	*-0.12* [b]	*0.03*
%CEO is Chairman	*-0.33%*	*-1.12%* *

Panel B: The UK sample

	Sample firms			Control firms		
	(t-1)	(t)	(t+1)	(t-1)	(t)	(t+1)
	Mean (Median)	Mean (Median)	Mean (Median)	Mean (Median)	Mean (Median)	Mean (Median)
%non-executive directors	55.40%	55.95%	55.68%	60.08%	52.37%	53.77%
	(50.00%)	(57.14%)	(57.14%)	(50.00%)	(50.00%)	(54.55%)
Board size	7.15	7.07	7.05	7.42	7.27	7.25
	(7.00)	(7.00)	(7.00)	(6.00)	(7.00)	(7.00)
%CEO is Chairman	29.09%	25.45%	23.64%	20.00%	18.18%	14.55%
	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(0.00%)	(0.00%)

	Mean change in sample firms		Mean change in control firms	
	(t)-(t-1)	*(t+1)-(t)*	*(t)-(t-1)*	*(t+1)-(t)*
%Independent directors	*0.55%*	*-0.27%*	*-7.71%* [c]	*1.40%*
Board size	*-0.07*	*-0.02*	*-0.15*	*-0.02*
%CEO is Chairman	*-3.64%*	*-1.82%*	*-1.82%*	*-3.64%*

	Mean change in sample firms vs. mean change in control firms	
	(t)-(t-1)	*(t+1)-(t)*
%Independent directors	*8.26%*	*-1.67%*
Board size	*0.07*	*0.00*
%CEO is Chairman	*-1.82%*	*1.82%*