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The Costs and Benefits of Shareholder Democracy: Gadflies and Low-Cost Activism

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Abstract

We show that there is cross-sectional variation in the quality of shareholder proposals. On average, the proposals submitted by the most active individual sponsors are less likely to be supported by a majority of votes, but they occasionally pass if shareholders mistakenly support them and may even be implemented due to directors' career concerns. While gadflies' proposals destroy shareholder value if they pass, shareholder proposals on average are value-enhancing in firms with more informed shareholders. We conclude that more informed voting could increase the benefits associated with shareholder proposals.

Keywords: Shareholder activism; Shareholder proposals; Shareholder voting; Corporate Governance

JEL Classifications: G3, D72

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1. Introduction

Listed companies are often likened to democracies. Through their proposals and voting, shareholders can determine the broad direction of a company. Since external mechanisms of governance are crucial to discipline managers and guarantee that they maximize shareholder value, corporate finance theories imply that regulations that decrease the costs of shareholder engagement are optimal (Harris and Raviv, 2010). Legal scholars also advocate for more shareholder power (Bebchuk, 2005).

However, broad shareholder participation also exacerbates the risk that some shareholders submit ill-informed proposals, which may be supported by a majority of uninformed shareholders. In this case, such harmful proposals may not only waste managerial time and effort, but also be implemented if managers and directors fear negative consequences for their reputation. These risks have intensified after the Enron-type governance scandals and the implementation of the Sarbanes-Oxley Act, because there has been a drastic increase in shareholder proposals at annual shareholder meetings, and for reputational reasons, boards have become more responsive to shareholder demands (Del Guercio, Seery, and Woidtke, 2008; Ertimur, Ferri, and Stubben, 2010). Such concerns have been raised specifically regarding individual proposal sponsors, unflatteringly referred to as "gadflies", and have led regulators to consider measures to modify the proxy process and increase the cost of submitting proposals (SEC, 2018).[1]

To inform this debate, we study the extent to which harmful shareholder proposals can receive majority support and whether they destroy shareholder value if they are subsequently implemented. We also ask under what conditions the voting process is more likely to weed out ill-informed proposals.

[1] See "Grappling with the cost of corporate gadflies", *The New York Times*, August 19, 2014.

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We document that a large proportion of individual shareholders' proposals are submitted by few active sponsors. In principle, these active sponsors could spread minimum governance standards, which mitigate agency problems across companies. However, the concern is that these active sponsors make one-size-fits-all proposals, which do not fit the companies' circumstances, and that they target different companies with a variety of corporate governance provisions that they have no expertise in evaluating.

We show that on average the proposals submitted by the most active individual sponsors seem to be ill-conceived. These proposals receive less voting support and are less likely to be implemented by management, but they may nevertheless pass if they end up being supported by a majority of arguably uninformed shareholders.[2] If they pass with a majority in the shareholder meeting, proposals by active individual sponsors trigger sales by informed mutual funds that voted against them and, arguably as a consequence, negative abnormal returns.

The negative market reaction and sales by informed shareholders reflect not only the costs associated with managerial time wasted in explaining why the company may not be willing to follow the wishes of a majority of its shareholders, but also the even larger costs arising from the higher likelihood that the proposal is actually implemented. We show that proposals by active individual sponsors destroy shareholder value if they end up being implemented. While only 3% of gadflies' proposals are implemented, sometimes boards and managers choose to implement harmful shareholder proposals because they fear the personal consequences arising from ISS withhold-vote recommendations, which are typically issued when majority-supported proposals are not implemented, regardless of their quality. Consistent with the interpretation that when

[2] Due to uncertainty about who owns a firm's shares and whether the shares are voted, the outcome of the voting process can be highly uncertain. For instance, Del Guercio and Woidtke (2019) show that as a consequence, value-destroying proposals by labor union pension funds can pass.

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implementing gadfly proposals, directors may prioritize their career concerns over shareholder value, we find that directors and CEOs who own larger stakes are less likely to implement gadfly proposals.

We argue that the vagaries of the voting process that allow ill-informed proposals to pass limit the benefits of low-cost investor activism. However, proposals submitted by individuals that are not too active can generate sizable positive long-term returns if they are implemented, suggesting that regulations limiting the ability of individual shareholders to submit proposals would be harmful. We estimate that during our sample period the average long-term annual benefits of these non-active individuals' proposals are $39 billion, while the average annual costs of gadflies' proposals are only $19 billion.[3] We also show that the costs associated with low-quality shareholder proposals are less likely to emerge in companies in which a larger fraction of shareholders collects information before voting in the shareholder meeting because an informed vote is more likely to weed out potentially harmful proposals.

To reach this conclusion, we use institutional investors' ex ante incentives to collect information and mutual funds' voting behavior to construct several proxies for how informed a firm's shareholders are. We show that if a larger proportion of a company's shares are held by informed institutional investors, proposals submitted by active individual shareholders are less likely to be supported by a majority of votes and to be implemented. In these firms, disagreement between informed and uninformed shareholders is less likely to occur because the marginal voter tends to be informed. As a result, such firms are less likely to experience negative abnormal returns if proposals end up being supported by a majority of votes. Since harmful proposals have a higher probability of being weeded out, on average, shareholder proposals yield positive abnormal returns

[3] See computations in Subsection 5.3.

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in firms with an informed shareholder base. Hence, low-cost shareholder activism yields higher benefits in these firms.

Overall, our results highlight that while low-cost investor activism can be beneficial, the value generated by this form of shareholder democracy is enhanced if investors collect information before voting and are able to evaluate the merits of the proposals.

A casual interpretation of our findings faces the challenges common to all prior work exploring the effects of shareholder proposals. First, shareholder proposals may appear to have no effect on firm valuations because the outcome of the vote is already anticipated by the market and therefore incorporated in prices (Cuñat, Gine, and Guadalupe, 2012).[4] To mitigate this problem, we focus on proposals that are reasonably uncertain to pass. Within this set of proposals, we show that there is considerable heterogeneity in proposal returns, with some proposals experiencing significantly negative returns. Our results are also robust if we explicitly correct for heterogeneity in anticipation effects across proposals.

Second, different sponsors may target companies experiencing different shocks. To address this concern, we show that firms targeted by active individuals do not differ in meaningful ways from firms targeted by other sponsors, and in particular that they do not experience more dissent on matters unrelated to the specific proposal we consider. We also show that informed shareholders that vote against harmful proposals are more likely to sell if the proposal passes, but not otherwise. This further supports the idea that the proposal's passing and possible implementation, rather than some other shock concurrent with the proposal's submission and vote, destroy firm value.

[4] Cuñat, Gine, and Guadalupe (2012) use a regression discontinuity design. However, recent work by Bach and Metzger (2018) suggests that managers actively manipulate proposal pass rates, which limits the application of the approach used by Cuñat, Gine, and Guadalupe (2012). For this reason, we consider cross-sectional differences between proposals that are uncertain to pass controlling for firm characteristics. We also show that our results are robust when we use a regression discontinuity design.

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Our paper contributes to several strands of the corporate governance literature. First, we contribute to the literature on shareholder activism by showing under what conditions shareholder proposals can perform a useful function in disciplining firms. Empirically, only takeovers and hedge fund activism have been consistently associated with large valuation gains for the targets (Denes, Karpoff, and McWilliams, 2017). However, these forms of intervention are very costly (Gantchev, 2013), not least because they require large investments in the target companies, and as a result, reach primarily small firms that are undervalued but have good growth prospects (Brav, Jiang, Partnoy, and Thomas, 2008; Brav, Jiang, and Kim, 2015).

Shareholder proposals are the least costly means of intervention and consequently can reach large underperforming firms with poor growth opportunities. Even though they are only advisory in nature, for reputational reasons or to avoid being targeted by shareholder activists, boards tend to implement proposals that are supported by a majority of shareholder votes (Ertimur, Ferri, and Stubben, 2010; Levit and Malenko, 2011). However, this form of intervention does not seem to yield significant valuation gains (e.g., Smith, 1996; Karpoff, Malatesta, and Walkling, 1996; Del Guercio and Hawkins, 1999; Gillan and Starks, 2000; Cai and Walkling, 2010). We show that this may be due to frictions in the voting process that only partially weeds out low-quality shareholder proposals.

Recent work in the literature focuses on proposals that do not reach the voting stage. Matsusaka, Ozbas, and Yi (2019a) show that unions sponsor more shareholder proposals in contract renewal years and then withdraw these proposals after obtaining wage increases. Relatedly, Matsusaka, Ozbas, and Yi (2019b) observe a positive market reaction when the SEC allows the exclusion of a proposal from a firm's proxy and conclude that proposals can destroy value by distracting management. Soltes, Srinivanasan, and Vijayaraghavan (2017) consider proposals that management contests, but for which the SEC does not allow exclusion. These

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proposals tend to pass with similar frequency as other proposals, suggesting that management often seeks to exclude legitimate shareholder interests from the proxy statement. Thus, conclusions from studies based on proposals that never reach the voting stage are mixed. Such an approach is better suited to test whether management acts in the interest of shareholders and whether proposal sponsors are driven by conflicts of interest. Our objective is to study to what extent the voting process weeds out ill-informed proposals. For this reason, we focus on proposals that actually go to a vote and do not consider proposals for which the SEC allows exclusion or that shareholders withdraw after negotiations with management.

Finally, we contribute to an emerging literature on shareholder voting. Several papers examine the effects of mutual funds' attributes on voting behavior (Dimmock et al., 2018; Cvijanović, Dasgupta, and Zachariadis, 2016; Iliev and Lowry, 2015; Malenko and Shen, 2016; Matvos and Ostrovsky, 2010; and Davis and Kim, 2007). We are the first to highlight that funds' propensity to acquire information reduces the extent to which harmful proposals receive majority support, and hence, enhances the benefits of low-cost shareholder activism.

2. Institutional Background

Under Rule 14a-8 of the Securities Exchange Act of 1934, any shareholder holding shares worth $2,000 (or 1% of the firm's equity) for at least one year is allowed to submit one proposal with a 500-word supporting statement to be included in the proxy distributed by the company for its annual meeting. Typically, such proposals must be submitted at least 120 days before the proxy is mailed to shareholders. Proposals must be included in the proxy mailed in advance of the annual meeting – together with a statement by the board explaining its position – and must be put to a shareholder vote unless the company obtains permission from the SEC to exclude the proposal.

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While the SEC has some discretion in deciding whether to allow management to dismiss a proposal, no-action decisions occur under the following specific reasons: if the proposal addresses ordinary business matters, if it would result in a violation of state or federal laws, if it is related to a personal claim or grievance, if it has already been at least partially implemented, or if it is materially false or misleading. Unsurprisingly, proposals submitted by individuals, who are less likely to have access to high-powered attorneys, are more likely to be excluded.

Ultimately, proposals that are excluded from the proxy are already weeded out by current rules and have limited costs. Yet, there are concerns that too many proposals are put to a vote, which creates costs for listed companies. For instance, in correspondence with the SEC, the Business Roundtable, an association of Chief Executive Officers, writes: "The resources and attention expended in addressing shareholder proposals cost the company and its shareholders in absolute dollars and management time and, perhaps worse, divert capital resources to removal of an immediate distraction and away from investment in value-adding allocations, such as research and development and corporate strategy."[5]

For this reason, in November 2019, the SEC proposed procedural amendments aiming to increase the requirements for submitting and resubmitting shareholder proposals. After attracting a record number of comments by institutional investors, executive and director associations, individual shareholders, and lawyers,[6] the SEC passed the final rule in September 2020. The new shareholder proposal procedure raises the ownership threshold for proposal submission to $25,000 for the first year of ownership and to $15,000 for the second year of ownership, imposes a higher threshold of voting support for proposal resubmission, and prohibits individuals from submitting

[5] See comment posted on the SEC website on February 3, 2020: https://www.sec.gov/comments/s7-23-19/s72319-6742491-207776.pdf.
[6] See https://www.sec.gov/comments/s7-23-19/s72319.htm.

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a proposal as a group if they do not individually meet the ownership requirements.[7] These amendments reduce the ability of small individual shareholders to submit proposals.

To contribute to the debate, it is crucial to evaluate the quality of the proposals that are actually voted on, including whether individual shareholders' proposals generate any benefits and whether any harmful proposals receive majority support and are implemented.

These are compelling questions because proposals are only advisory in nature even if they receive majority support. In this respect, the costs they involve for the targeted firms should not go beyond the managerial time needed to address the concerns of a majority of shareholders.[8] However, boards tend to implement proposals with significant shareholder support for reputational reasons, especially following the governance scandals of the early 2000s. The two largest proxy advisors, Institutional Shareholder Services (ISS) and Glass Lewis (GL), have policies to recommend withholding support from boards that do not implement a proposal which has received strong shareholder support in the past year (Del Guercio, Seery, and Woidtke, 2008; Ertimur, Ferri, and Stubben, 2010). This may cause distortions if proxy advisors' recommendations do not depend on the quality of the proposals, as we show below.

The press has widely reported that a small group of individuals, often referred to as corporate gadflies, submits a disproportionate number of proposals. These individual sponsors, such as John Chevedden and William Steiner, do not acquire large stakes and are not particularly wealthy, but submit dozens of shareholder proposals every year, convinced that "it is the right thing to do". For instance, in an interview, William Steiner compares his fight for shareholder rights to his military combat service during World War II: A fight to spread democracy.[9] Other

[7] The press release for the amended SEC rule is available at https://www.sec.gov/news/press-release/2020-220.
[8] The discussion of proposal implementation reported in Table A1 makes clear that managers are unable to ignore proposals. Quite to the contrary, the description of our data collection on proposal implementation provides evidence that management feels compelled to communicate with shareholders and understand their motives.
[9] See https://www.corpgov.net/2017/10/william-steiner-shareholder-activist/.

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active individual sponsors may enjoy the limelight associated with their activism to sell their services; an example is Evelyn Davis who distributed a business newsletter only to corporate presidents and CEOs, reportedly at $480 per subscription.[10]

It is ultimately an empirical question whether the proposals sponsored by these active individual shareholders are harmful or value-enhancing and whether the voting process is sufficient to weed out ill-informed proposals. On the one hand, active individual shareholders may file proposals to obtain minimum governance standards that apply to all companies. This behavior also characterizes some institutional investors. For instance, the New York City Comptroller, Scott Stringer, filed scores of proposals to restore proxy access on behalf of the New York City pension funds he oversees. On the other hand, as the Business Roundtable argues, active individual sponsors may submit ill-conceived proposals, which do not conform to the companies' circumstances.

The concern that a few active sponsors may destroy shareholder value by submitting harmful proposals has led institutional investors, represented by the Council of Institutional Investors, to discuss possible ways to curb activism by shareholder proposals.[11] The recent Investor Roundtable on Proxy Access, which aims to solicit views and comments on the shareholder proposal process, must be viewed in this context. Unfortunately, existing academic research does not explore whether the voting process is able to weed out potentially harmful proposals and, hence, provides little guidance in this debate.

[10] See https://people.com/archive/evelyn-y-davis-vol-45-no-20/.
[11] See "Companies, large investors weigh ways to curb activist shareholders", *The Wall Street Journal*, November 15, 2018.

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3. Data

3.1 Sources

We obtain data on shareholder proposals between 2003 and 2014 for all firms in the Standard & Poor's 1500 index from Institutional Shareholder Services (ISS). Our sample period starts in 2003 because the SEC requires all US mutual funds to disclose their proxy voting records via N-PX filings since that year. Therefore, only starting in 2003, we are able to explore how shareholder voting affects which proposals receive majority support and are subsequently implemented.

The ISS data report the company name, date of the annual meeting, general description of the proposal, management and ISS recommendations, vote requirement for passing and vote base for calculating the passing threshold, number of outstanding shares, number of votes cast in favor, against, and abstaining, as well as some information on the sponsor of the proposal. Overall, the sample includes a total of 4,878 shareholder-sponsored proposals.

Since sponsor identities are recorded as "shareholder" or "unknown" in about 28% of the ISS proposals, we verify the identity of each sponsor from proxy filings and then classify the sponsors as individuals or institutions, and further subdivide institutions into public pension funds, unions, and investment firms.[12] We group all remaining sponsors into a category called "other", which includes mostly religious organizations, environmental entities, groups without lead proponents, and sponsors that we are not able to conclusively classify.

Besides verifying the meeting date, which is incorrectly recorded for 1% of the meetings in the ISS data, we read the proxy filing announcing the annual meeting at which the proposal is

[12] The problem with missing sponsor identities is particularly severe for proposals submitted by individual sponsors. For example, 13% (634) of the proposals have the sponsor coded as "shareholder" and 3% have an "unknown" or missing sponsor. In addition, we find that the sponsor in the actual proxy filing is different from the one recorded by ISS in 12% (585) of the proposals.

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to be voted on, the next meeting's proxy filing, and all 8-K reports between the two meetings. In this way, we ascertain whether the firm implements the shareholder proposal(s). In some cases, when discussing implementation, the firm references the original proposal. However, in the majority of cases, we need to compare the specific terms of the original proposal to the language of management's discussion of the relevant issues. For example, if a proposal requires changes to a firm's executive compensation structure, we verify that any modifications to executive compensation address specifically the demand(s) made in the proposal. We consider a firm to have implemented the proposal if the firm's filings describe the steps that management has taken towards implementation. Table A1 shows examples of proposals that are implemented and those that are not. It makes clear that while the data collection is time-consuming, there is very little ambiguity about whether a shareholder proposal is actually implemented.

3.2 Summary Statistics and Descriptive Evidence

Panel A of Table 1 shows the number of proposals submitted by different types of sponsors, and the percentage of proposals that receive a majority vote and are subsequently implemented.[13] Individuals put forward over 35% of all shareholder proposals that are voted on in shareholder meetings and are by far more frequent sponsors than pension funds, unions or investment companies, which are presumably better able to negotiate with management without submitting proposals.

On average, about 20% of the proposals in our sample pass with a majority, higher than what has been reported in studies focusing on earlier samples. Importantly, proposals submitted by individual shareholders are relatively more likely to pass than proposals submitted by

[13] We use the vote requirement and the vote base to create an indicator for whether a proposal receives a majority vote, that is, if the votes cast in favor exceed the vote requirement.

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institutions. This contrasts with evidence reported by Gillan and Starks (2000) for the 1987-1994 period, showing that at that time, individual sponsors obtained limited support in comparison to institutions. This indicates that nowadays individual sponsors may indeed affect firm policies, which warrants a study of the effects of this form of shareholder activism.

Panel A also shows our hand-collected data on proposal implementation. On average, about 12% of all proposals are implemented conditional on being supported by a majority of shareholders. Unsurprisingly, given that they are more likely to pass, proposals submitted by individuals are more likely to be implemented than proposals submitted by institutions. The implementation rates are lower than the proposals' passing rates and indicate that management and boards choose not to implement some majority-passed proposals. Thus, both shareholder voting and management implementation decisions may shield companies from the effects of potentially harmful proposals. In what follows, we explore under what conditions this is the case.

3.3 Active Sponsors

The procedural amendments introduced by the SEC in September 2020 raise the ownership threshold needed to file a proposal with the objective of curbing the activity of a few active individual sponsors. These changes are supported by the Business Roundtable, which laments that the shareholder proposal process has been dominated by a limited number of individuals who own nominal stakes in the companies they target and who are unfamiliar with the companies' specific circumstances.

However, shareholder associations, supported by a few legal scholars, counter that corporations are trying to silence shareholders.[14] These concerns are corroborated by the fact that

[14] See David H. Webber's opinion piece on "Big corporations are trying to silence their own shareholders", published in the *Washington Post*, April 13, 2017.

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even if proposals are included in proxy filings and voted on in shareholder meetings, the voting process and managerial discretion could be sufficient to weed out ill-informed proposals. Unfortunately, there is surprisingly little academic research guiding the debate on whether the costs of individual shareholders' proposals are indeed large enough that it may be desirable to limit individual sponsors' ability to submit proposals. It is also unclear whether the procedural changes would prevent any beneficial shareholder proposals. In what follows, we study individual shareholder activism and to what extent some individuals are indeed overly active. We then explore how the activities of individual sponsors are received by other shareholders and how these activities affect companies' valuations.

Panel B of Table 1 shows that a large number of proposals is submitted by the same few sponsors, and that this is the case especially for individual investors, who are less likely to have substantial organizational capabilities. On average, in a given year, an individual sponsor submits more proposals than an investment company (3.53 vs. 2.24). The top individual sponsor in the sample puts forward 52 proposals per year, compared to the most active union and pension fund which submit 44 and 38 proposals per year, respectively. Notably, investment companies do not submit on average more than two proposals per year.

The rest of the table lists the top sponsors for each sponsor type. Several interesting patterns emerge. First, the concentration of submitted proposals is higher among individuals than among institutions – the top three individuals account for about 50% of all individual proposals, whereas the top three institutions account for about 30% of all institutional proposals.[15] In addition, investment companies are not among the most active institutional sponsors, possibly because they are able to engage management behind the scenes. Overall, while a wide-range of shareholders

[15] Similar patterns would emerge, but would be less pronounced, without our data collection and correction of the sponsors' identities.

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are able to put forward proposals, the submission of proposals appears to be very concentrated, especially in the case of individual sponsors.

4. The Targets of Hedge Fund Activism and of Shareholder Proposals

This section describes the targets of proposals sponsored by different types of shareholders and compares the targets of shareholder proposals to those of hedge fund activism, an external governance mechanism that has attracted considerable attention in the literature. If the same types of firms were to be disciplined by other forms of shareholder activism, shareholder proposals could be viewed as redundant. Thus, concerns about their costs could rightly drive changes in regulation.

In Table 2, we estimate linear probability models to explore which firm characteristics predict the probability that a firm becomes a target of hedge fund activism or of proposals submitted by different types of sponsors. Consistent with the findings of the existing literature (Brav, Jiang, Partnoy, and Thomas, 2008; Brav, Jiang, and Kim, 2015), column 1 of Table 2 shows that hedge funds tend to target firms that are small and have experienced negative returns over the previous year. This evidence is in line with the idea that hedge fund activists target somewhat undervalued firms, at which improvements can produce returns that are high enough to recover the initial investment.

Shareholder proposals, on the other hand, are significantly cheaper means to affect firm policies. As shown in column 2, shareholder proposals reach firms with characteristics that are different from those of the targets of hedge fund activism. Compared to hedge fund activism targets, the targets of proposals are larger and have low profitability. Therefore, shareholder proposals can represent an important complementary mechanism of external corporate governance.

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The rest of Table 2 compares the characteristics of firms targeted by different types of sponsors. The targets of institutional and individual sponsors appear to be remarkably similar. In addition, we define as active sponsors those that are among the top 10 sponsors within a year. Active individual and institutional sponsors target similar firms. Thus, any differences between the valuation effects of the proposals submitted by active individual sponsors and other sponsors are more likely to capture differences in the merits of the proposals – as we argue – rather than differences in firm characteristics.

5. The Effects of Proposals Sponsored by Active Individuals

5.1 Voting Outcomes and Implementation

We investigate whether there is cross-sectional variation in the quality of proposals. On the one hand, active individual shareholders may spread minimum standards of corporate governance that fit all firms. On the other hand, the low cost of submitting proposals may enable gadflies to demand corporate changes without tailoring a proposal to a firm's circumstances, as lamented by the Business Roundtable.

To evaluate the merits of the different sides in the current debate, we compare the proposals submitted by individual sponsors who are among the top 10 most active sponsors during a year with the proposals submitted by other individuals and by the remaining sponsors. We consider the percentage of votes cast in favor and the probability that the proposal passes as indicators of other shareholders' expectations about the net benefits of the proposal.

Column 1 in Table 3 shows that proposals sponsored by individuals and active institutional sponsors, as captured by the variable *Top10 sponsor*, typically receive more support in terms of the percentage of votes for than proposals submitted by other sponsors. However, proposals submitted by active individual sponsors appear to be less supported by other shareholders, as seen

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by the negative coefficient on the interaction between *Individual* and *Top10 sponsor*. Proposals submitted by active individual sponsors appear to receive an even lower proportion of votes in column 2, where we control for the 43 proposal topics and for a variety of firm characteristics.

In columns 3 and 4, instead of the percentage of votes cast in favor, we consider the probability that a proposal is supported by a majority of votes. Again, proposals submitted by individuals and by active institutional sponsors are more likely to pass than other proposals. However, consistent with our earlier results, this is less likely to be the case for proposals submitted by active individual sponsors, as seen by the coefficient on the interaction term between *Individual* and *Top10 sponsor*, which is negative and statistically significant.

These results indicate that while individual proposals are generally not perceived as worse than proposals submitted by other sponsors, a few individual investors tend to submit a large number of proposals that are not valued by other shareholders. The findings also suggest that to some extent the voting process mitigates the harm that active individual sponsors' proposals could produce if approved. Yet, gadflies' proposals may be more than a nuisance: Their probability of passing in column 3 is 16%;[16] that is, less then 4 percentage points lower than the unconditional probability of passing for the average shareholder proposal, which is slightly less than 20%.

To understand to what extent the voting process is successful in weeding out harmful proposals, we study the valuation effects triggered by proposals that are ex ante uncertain to pass and the firm's decision to implement them. If the voting system were able to weed out ill-informed proposals, we should observe that proposals sponsored by active individual shareholders are as likely to be implemented as other proposals. If instead managers chose to implement these proposals to a lower extent, it would seem more plausible that ill-informed proposals have passed

[16] This effect is obtained by adding all coefficients in column 3, including the constant, i.e., 0.16=0.2911+0.1309-0.3815+0.1207.

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because a majority of shareholders lacked a deep understanding of the issues brought before them. As we explain below, uncertainty in voting outcomes arising from shareholders' limited information allows us to infer the quality of shareholder proposals from the short-term returns following the vote.

In columns 5 and 6 of Table 3, proposals submitted by active individual sponsors are less likely to be implemented than other proposals. In particular, proposals submitted by other active sponsors and proposals submitted by individuals are more likely to be implemented than proposals submitted by other sponsors. This indicates that managers and directors are wary of gadflies' proposals and avoid implementing them, even if these proposals are supported by a majority of votes and not implementing them may have negative consequences for the managers' and directors' reputation and compensation (Grundfest, 2013; Cai, Garner and Walkling, 2009; Fischer et al., 2009). Yet, 3% of the active individual sponsors' proposals end up been implemented.[17]

Since on average 12% of all voted proposals are supported by a majority of shareholders and subsequently implemented, this may suggest that, thanks to the advisory nature of shareholder proposals, boards are able to weed out ill-informed proposals without experiencing significant negative consequences. In this case, any costs associated with ill-informed shareholder proposals would be limited to wasting managerial time and energy to address shareholders' concerns.

It is possible, however, that the few proposals by corporate gadflies that end up being implemented lead firms to adopt suboptimal governance provisions, which harm their long-term performance. To shed light on the magnitude of the costs brought about by gadflies' proposals and any benefits associated with other proposals, we consider firms' short- and long-term returns as well as board and corporate outcomes.

[17] This effect is obtained by adding all coefficients in column 5, i.e., 0.03=0.2376+0.0451-0.3265+0.075.

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5.2. Announcement Returns

The merits of shareholder proposals are typically evaluated by considering the market reaction triggered by proposals that pass in annual meetings (Denes, Karpoff, and McWilliams, 2017). Even if a majority of shareholders has supported a proposal that is expected to destroy shareholder value, trading by few informed shareholders can trigger a negative market reaction.[18]

Being able to actually interpret the announcement returns, however, involves several methodological challenges that we address to demonstrate the robustness of our findings to a variety of tests and approaches. The first challenge is that the valuation effects of the proposals may have been incorporated in prices before the annual meeting if the outcome of the vote was anticipated (Cuñat, Gine, and Guadalupe, 2012). To address this concern, as is common in the literature, we focus on proposals that are uncertain to pass.

In our baseline specifications, we consider relatively large margins around the passing threshold to have enough statistical power to explore the heterogeneity of proposals by sponsor type. This approach has the additional advantage that we do not have to rely on a selected sample of proposals, which is required in a standard regression discontinuity design. However, we also show that our results are robust when we use narrower (and broader) passing margins.

Columns 1 and 2 in Panel A of Table 4 consider cross-sectional differences in the cumulative abnormal returns (CARs) of proposals supported by a majority of shareholder votes. We calculate abnormal returns using the market model, estimated over a 250-day window, stopping 60 days before the shareholder meeting. We compute CARs during a three-day window

[18] Levit, Malenko, and Maug (2019) model how the marginal shareholder that casts a vote may differ from the average shareholder and how in turn this may affect the stock price. Consistent with this explanation, in Section 6, we show that in companies with a more informed shareholder base, in which the marginal shareholder that casts a vote is more likely to be informed, we do not observe a negative market reaction.

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around the shareholder meeting.[19] The sample includes proposals that pass with a percentage of votes between 50% and 70%. The identifying assumption, supported by the evidence in Table 2, is that proposals target similar companies and that the voting outcome is not anticipated. As we discuss in more detail below, the robustness of the results to the inclusion of a wide range of controls and to alternative samples and methodologies further mitigates any remaining concerns.

Columns 1 and 2 provide clear evidence that proposals submitted by active individual sponsors generate negative short-term abnormal returns. Consistent with the interpretation that proposals by top 10 individual sponsors may be costly to the firm, we find that such proposals generate short-term returns of more than 2% less than proposals by other individual sponsors, even after controlling for firm characteristics, and year and proposal type fixed effects. The returns of other proposals do not appear to be statistically different from zero. Net of other effects, in a year in which an average number of gadfly proposals pass (15), $9.7 billion are destroyed if one considers a 2.4% decrease in the valuation of an S&P 1500 company with an average market capitalization (26.8 billion).

The rest of the table aims to validate our interpretation of the empirical evidence by considering a number of robustness tests. In columns 3 and 4, we run a placebo test, which provides complementary evidence that our results are driven by the passing of certain proposals, rather than by firm characteristics associated with the vote on these proposals. We consider proposals that do not pass, but are within a margin of 20% below the passing threshold. The coefficient on the interaction between *Individual* and *Top10 sponsor* is positive, but not statistically significant at

[19] Panels A and B of Table IA.1 in the Internet Appendix show that the results are robust if we use alternative event windows or estimate CARs by using market-adjusted returns. Panel C of Table IA.1 also shows that our main specifications are robust when we exclude proposals that concern voting rules and as such may influence the identity of the marginal shareholder affecting voting decisions. Levit, Malenko, and Maug (2019) show that in this case, if shareholders have heterogenous preferences, the price reaction may not reflect the welfare of the average shareholder. The robustness tests indicate that the conventional interpretation of short-term price reactions as measures of shareholder value is warranted in our context.

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conventional levels, possibly because active individual sponsors' proposals are expected to be less likely to pass and thus surprise the market when they end up being supported by a majority of votes.

Finally, columns 5 and 6 of Table 4, Panel A explore whether our results in columns 1 and 2 may be driven by differences in anticipation effects among proposals. To do so, we adjust the CARs by dividing them by one minus the predicted probability that the proposal receives majority support, estimated based on the model in column 4 of Table 3.[20] These estimates are qualitatively and quantitatively similar to the ones presented in columns 1 and 2, indicating that our rich set of controls largely captures differences in anticipation effects.

Panel B of Table 4 validates our interpretation of the empirical evidence by implementing a regression discontinuity design. Our objective is exploring whether unobserved heterogeneity in the proposals submitted by active individual shareholders may produce the results in Panel A. For this reason, we contrast the proposals sponsored by active individuals that receive a majority of votes with the remaining proposals. In columns 1 and 2, we start by considering all shareholder proposals, even those that are outside the 20% passing margin and by controlling for a third-order polynomial of the percentage of votes in favor and its interactions with the majority pass dummy.[21] The differential effect on the CARs triggered by the passing of an active individual sponsor's proposal is now captured by the coefficient on the interaction term *Top10 indiv prop* × *Maj pass*, which is negative and statistically significant, confirming our earlier findings.

We then consider progressively narrower passing margins and exclude the polynomials (and other controls), as is standard in the literature (Imbens and Lemieux, 2008). As we consider

[20] Shivdasani and Yermack (1999) and Matsusaka, Ozbas, and Yi (2019) use a similar methodology.
[21] As shown in Panel D of Table IA.1, we obtain similar results when we include the full sample of majority-supported proposals in our cross-sectional tests.

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proposals that pass with narrower margins, the negative effect associated with proposals by active individual sponsors becomes more pronounced, indicating that unobserved heterogeneity in the proposals and in firm characteristics is unlikely to bias our findings.

Overall, it appears unlikely that our results are driven by the possibility that active individual sponsors target different firms. Not only is this concern assuaged by the evidence in Table 2, but also our results are qualitatively invariant when we control for a wide range of firm characteristics, including past firm performance and the percent and concentration of institutional ownership, and when we use a variety of estimation methods and narrow subsamples of proposals. We also include 43 proposal issue dummies throughout the analysis.

However, shareholder meetings in which proposals are voted upon deal with multiple issues, while we observe only one corporate outcome in terms of abnormal returns. For this reason, in Panel A of Table 4, we include controls for the types of the other shareholder proposals voted on in the shareholder meeting.[22] More importantly, we also control for a variable – *Meeting dissent* – capturing the proportion of votes cast against (or withheld) in all management proposals voted on at the same meeting. This variable captures whether the meeting is contentious. Including this control leaves our results unaffected, suggesting that the negative effects of proposals submitted by active individual sponsors are not driven by concurrent events.[23]

Nevertheless, there may be a lingering concern that active individual sponsors submit proposals to companies experiencing more shareholder dissent. If this is the case, more information

[22] We sort shareholder proposals in seven categories, including voting, board, compensation, governance disclosure, operations, poison pill, and CSR.

[23] In Table IA.2 of the Internet Appendix, we also compare salient features of the meetings in which proposals by active individual sponsors pass with those in which active individual sponsors submit proposals that do not pass. We also compare firm characteristics and their changes. Overall, it does not appear that the lower abnormal returns in meetings in which proposals by active individual sponsors pass, in comparison to those in which they do not, are driven by the fact that there is more dissent in those meetings. If anything, it is less likely that other proposals that receive a negative recommendation by ISS are voted on in those meetings. Similarly, we do not observe any differences in firm characteristics, with the exception that gadfly proposals are more likely to pass in relatively larger firms.

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may be released around these firms' shareholder meetings, which may affect our results and bias our inferences. To deal with this challenge, we build on previous literature and control for the vote on other concurrent proposals, as Cuñat, Gine, and Guadalupe (2012) do. Panel D of Table IA.1 shows that our results are robust.[24]

We also consider whether a vote in favor of gadflies' proposals predicts turmoil in the company. In Table 5, we find no evidence that companies, in which proposals sponsored by active individual shareholders garner majority support, experience any deterioration in the sentiment of their news coverage (column 1). We also do not find that these companies are more likely to become targets of legal or class action suits (columns 2 and 3), experience an increase in CEO or board turnover (columns 4 and 5) or get targeted in proxy contests by hedge fund activists (column 6). Overall, this evidence assuages any concerns that the passage of proposals sponsored by active individual shareholders predicts turmoil or a fight for control in the targeted companies.

Based on these different pieces of empirical evidence, it appears that the negative market reaction is indeed triggered by the passage of the gadflies' proposals. This suggests that these proposals are ill-informed and may destroy shareholder values for two reasons. First, managers may have to waste time and effort in justifying why the company is not following the wishes of a majority of its shareholders. This is consistent with the evidence in Table IA.3 showing that firm profitability decreases in the year following the passage of an active individual sponsor's proposal. Second, managers and directors, being concerned about their tenure, compensation, and reputation, may end up implementing some ill-informed proposals even if they do not contribute positively to long-term shareholder value. The negative abnormal returns may thus incorporate the expected

[24] In Panel D of Table IA.1, we also control for the ISS 'For' recommendation. The rate of ISS approval in the full sample of shareholder proposals is 65.28%; however, this rate is 96% in the sample of proposals within +/-20% of the passing margin, which is why we do not include a control for the ISS recommendation in Panel A of Table 4.

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costs arising from the higher probability of implementation. In the next section, we explore to what extent this is the case.

5.3 Long-Term Performance After Proposal Implementation

Finally, we explore whether boards end up implementing some of the gadflies' proposals even if these proposals are ill-informed. Table 3 shows that boards have a lower propensity to implement gadflies' proposals that have received a majority of votes. The advisory nature of shareholder proposals could in principle mitigate any costs brought about by active individual sponsors if boards were able to implement only proposals that are beneficial to the firm's long-term performance.

To evaluate whether this is the case, we consider that information about implementation is revealed over time in the 12 months following the annual meeting and investigate the effects of proposal implementation on firms' long-term abnormal returns. To account for differences in factor exposures, we use monthly alphas from a Fama and French (1993) four-factor model, estimated over a rolling window of 60 months before the meeting. In alternative specifications, we also compute abnormal returns subtracting from raw firm monthly returns the returns of the characteristic-based benchmarks of Daniel et al. (1997), who sort stocks according to size quintiles, book-to-market quintiles, and prior return quintiles (denoted "DGTW").

Table 6 presents the regression estimates and Figure 1 provides a visual characterization of the results. In Table 6, the sample includes only proposals that obtain between 50% and 70% of the votes, but results are qualitatively and quantitatively similar in Panel E of Table IA.1, when we include all passed proposals in the sample. Regardless of the return benchmark, the estimates in column 1 imply that as information that gadflies' proposals will be implemented becomes available to the market, corporate valuations drop by about 12% in the 12 months following the

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shareholder meeting, relative to the valuations of firms that implement other individuals' proposals.[25]

Figure 1 shows the effects on abnormal returns of the implementation of proposals sponsored by different types of individuals.[26] It emerges that the implementation of proposals sponsored by individuals that are not too active is associated with positive abnormal returns, indicating that low-cost shareholder activism can be beneficial for firms' long-term performance.[27] These benefits, even if imprecisely estimated in some specifications, should not be disregarded because over 30% of the proposals sponsored by individual shareholders are supported by a majority of votes and end up being implemented.

Some back-of-the-envelope calculations can help highlight the costs and benefits associated with individual shareholder proposals. The current debate emphasizes the costs of active individual shareholders' proposals. Even if they produce large negative abnormal returns, only 3% of them end up being implemented. As a result, we estimate the average annual costs of gadflies' proposals to be $19 billion. This effect is computed considering the negative effects on annual returns of the implementation of gadflies' proposals (computed as -0.12=(0.01-0.02)*12) times the average market capitalization of a firm that implements shareholder proposals ($17.3 billion) times the number of individual proposals that are implemented in a year (9)). Importantly, these costs appear to be increasing as more gadfly proposals are implemented in the second half of the sample (on average 12 proposals per year after 2008 vs. 5 per year before 2008). The estimated costs imply

[25] This effect is computed by adding the statistically significant coefficients on *Individual* (0.01) and *Individual x Top 10 sponsor* (-0.02) and multiplying by 12 to annualize the monthly returns. The estimate is more conservative than the one obtained in column 2 using the characteristic-based benchmarks of Daniel et al. (1997) and similar to those presented in Panel E of Table IA.1, where we consider the full sample of proposals that pass with a majority. The confidence interval on the estimate in column 1 (2) is (-.02, -.002) ((-.02, -.004)). Thus, the expected long-term return from the implementation of a gadfly proposal in column 1 is between -2.4% and -24% per annum.

[26] The effects on long-term returns can be interpreted more directly in the figure because the specifications in Table 6 include 43 proposal issue dummies and thus the coefficient on the constant cannot be interpreted.

[27] Table IA.3 shows that the negative returns in the year when information about implementation becomes available to the market are accompanied by lower profitability during the following three and five years.

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that gadflies' proposals almost wipe out one S&P 1500 firm per year (the average market capitalization of an S&P 1500 firm over our sample period is $25 billion).

Column 1 of Table 6 also implies that there are benefits from the implementation of other individuals' proposals. Following the same steps as above, these are estimated to be $39 billion (obtained by multiplying the estimated effect of non-active individuals' proposals (0.01*12) by the average market capitalization of a firm that implements shareholder proposals times the average number of individual proposals that are implemented (19)). Firms also exhibit an increasing propensity to implement non-active individuals' proposals (the average number of implemented proposals by these sponsors is 22 per year after 2008 vs. 17 per year before 2008). Thus, the benefits are also increasing. The large benefits of other individuals' proposals, even if imprecisely estimated in column 2 and to be interpreted with caution, should cast doubt on the desirability of limiting individual shareholder proposals. Any regulations aiming to increase the costs of submitting proposals for small shareholders should weigh in the costs arising from the likely suppression of proposals by individuals that are not active sponsors.

One may wonder why boards, which are assumed to be aware of the most appropriate corporate strategies, implement ill-informed proposals even if they are only advisory. The relatively large negative effects associated with gadflies' proposals may be due to the fact that the implementation of an active individual sponsor's proposal leads market participants to revise upwards the probability that more uninformed decisions will be taken in the future under the pressure of uninformed shareholders.

However, the estimated negative effects are consistent with studies showing that otherwise desirable corporate governance provisions may have large negative effects on shareholder value if

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adopted by the wrong companies.[28] We conjecture that boards that implement harmful proposals do not completely internalize the negative effects of proposal implementation because their compensation is less sensitive to performance. Consistent with this interpretation, Panel A of Table 7 shows that active individual sponsors' proposals are less likely to be implemented in firms in which the CEO and the directors own a larger fraction of firm shares.

In addition, boards that do not implement proposals, irrespective of the proposal quality, are punished because of a practice by ISS to advise shareholders to cast votes against directors who do not implement proposals supported by a majority of votes (Ertimur, Ferri, and Oesch, 2018). Due to high information processing costs and conflicts of interest, ISS does not differentiate its recommendations based on the merits of the proposals (Larcker, McCall, and Tayan, 2013; Levit and Tsoy, 2019). This is the case also for withhold-vote recommendations. In support of the above argument, Panel B of Table 7 shows that indeed ISS is likely to issue a withhold-vote recommendation, and a larger percentage of votes are withheld, if a majority-passed proposal is not implemented, regardless of whether the proposal is submitted by an active individual sponsor or not. Hence, ISS does not seem to distinguish the merits of the proposals.

Even if most director elections are uncontested and directors are still reelected when votes are withheld, a high percentage of withheld votes in uncontested elections can serve as a disciplinary device. Not only do these symbolic votes have consequences through negative publicity and embarrassment (Grundfest, 2013), but also they tend to be associated with higher CEO turnover and a drop in CEO compensation (Cai, Garner, and Walkling, 2009; Fischer et al.,

[28] For instance, shareholder proposals often aim to eliminate poison pills or to destagger boards. These changes make companies easier targets of takeovers and hamper business relationships with possibly large negative consequences for the valuations of firms for which long-term relationships are most important (Johnson, Karpoff, and Yi, 2015). Similarly, Duchin, Matsusaka, and Ozbas (2010) show that the Tobin's Q of companies with information acquisition costs in the top quartile can drop by 15.8% following a 10% increase in the percentage of outside directors, a change that may result from the adoption of cumulative voting or board destaggering.

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2009). Consistent with these arguments, column 1 of Panel C of Table 7 shows that ISS withhold recommendations increase director turnover in the targeted firm by 22.4% (computed as the coefficient on the withhold-vote recommendation dummy (2.63), divided by the unconditional probability of board turnover (11.76)). More importantly, a withhold-vote recommendation affects negatively the careers of directors. For instance, columns 2 and 3, present director-level regressions showing that in the two years after the withhold-vote recommendation, the targeted directors become more likely to lose board seats at other companies and gain fewer board seats.

Another finding that is worth emphasizing in Panel C of Table 7 is the effect of performance at the current firms on directors' careers. As expected, board turnover increases when firms experience poor performance, as proxied by low profitability and annual returns over the previous year. These performance measures are, however, unrelated to the probability that a director loses seats at other firms (column 2) or obtains new board appointments at other firms (column 3). Even in column 1, when we consider turnover at the firm in which the withhold-vote recommendation occurs, the effect of the latter on the probability of turnover is more than twice as large as the effect of a 12% drop in returns (0.01=0.096*0.12). This somewhat surprising result helps to further justify why directors with low ownership stakes can be neglectful of firm performance when implementing shareholder proposals.

Overall, withhold-vote recommendations, which are typically issued when a board does not implement a majority-passed proposal, may have reputational consequences for directors that are likely to go well beyond the effects on directorships we document. It is thus not surprising that directors without large ownership stakes are more likely to implement majority-passed proposals, notwithstanding the negative effects on the firms' long-term performance.

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5.4 The Issues of Active Individual Sponsors' Proposals

One may wonder whether proposals by active individual sponsors have negative short-term and long-term abnormal returns because they address specific harmful issues. Table IA.4 shows that active individual sponsors submit proposals on topics that largely overlap with those of other sponsors. This is unsurprising because theoretical and empirical research in corporate governance rarely points to corporate governance provisions that are universally good or bad. Corporate governance should simply improve decision making within the organization and as such should be organization-specific (Larcker and Tayan, 2019).

We thus surmise that active individual sponsors submit more controversial proposals for two reasons. First, they may submit one-size-fits-all proposals to companies that face different circumstances. We capture this by defining *Generic* proposals, which aim to describe sponsors that target multiple companies within the same year with precisely the same proposal. Specifically, we label as generic any proposals put forward by sponsors whose number of targeted companies, divided by the number of submitted proposal types, is in the top quartile in a given year (i.e., more than three companies targeted with the same proposal).

Second, while similar proposals to different companies may simply capture minimum standards of corporate governance that all companies should adhere to, sponsors that target different companies with different issues may not have the knowledge necessary to evaluate the costs and benefits associated with different corporate governance provisions. In principle, however, it is possible that these sponsors identify different deficiencies in their targets and attempt to address them by submitting proposals. We define proposals as *Unfocused* if they are sponsored by shareholders who are in the top quartile for the number of proposal types they submit in a given year (i.e., more than three proposal types). More than 67% of the proposals submitted by active individual sponsors are classified as generic, and about 78% as unfocused.

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In Table 8, we replace *Top10 sponsor* with indicator variables for *Generic* and *Unfocused* proposals. By construction, generic and unfocused proposals are primarily submitted by active sponsors; thus, the interaction with the *Individual* dummy allows us to capture the characteristics of specific proposals submitted by active individual sponsors, helping us to shed light on the mechanisms through which gadflies destroy shareholder value.

Panel A shows that generic and unfocused proposals receive a lower percentage of votes in favor and have a lower probability of passing, but only if they are sponsored by individuals. Similarly, in Panel B, both generic and unfocused proposals sponsored by individuals trigger negative short-term returns if they are approved, and generate negative long-term returns if they are implemented. This suggests that active individual sponsors who are likely to have low organizational capabilities submit low-quality proposals and that shareholders who are aware of this behavior vote against these proposals. Nevertheless, some of these ill-informed proposals end up passing and being implemented, thus destroying shareholder value.

Overall, the results for generic and unfocused proposals mirror our earlier findings in which we did not consider differences in the characteristics of the proposals submitted by active individual shareholders. Thus, gadflies appear to destroy shareholder value because they submit too many proposals to the wrong companies, regardless of whether they submit the same proposal to different companies or target many companies with different issues. Therefore, in what follows, we just focus on proposals by active individual sponsors.

6. Shareholder Information and the Quality of Majority-Passed Proposals

6.1 Proxies for an Informed Shareholder Base

The submission of poorly conceived proposals affects negatively shareholder value if the proposals are supported by a majority of votes and the marginal voter turns out to be uninformed.

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Thus, we expect that in firms with relatively more informed shareholders, low-quality proposals are more likely to be weeded out because the marginal shareholder voting is more likely to be informed. Hence, an informed shareholder base should minimize the costs of low-cost shareholder activism.

However, institutional investors have incentives to underspend on stewardship and to rely on the often ill-informed advice of proxy advisory firms (Malenko and Malenko, 2018; Spatt, 2019). This increases uncertainty in voting outcomes, a phenomenon that has been considered in other contexts and is believed to lead to voting mistakes (Matsusaka and Ozbas, 2017).

To evaluate the role of an informed shareholder base, we use alternative proxies based on the voting behavior of mutual funds and the characteristics of institutional owners that affect their ex ante incentives to collect information. Prior work has highlighted that institutional investors have different incentives to collect information depending on the size of their ownership stakes and the concentration of their portfolios, and that this influences their voting behavior. In particular, Iliev and Lowry (2015) and Malenko and Shen (2016) show that shareholders perform independent research and rely to a lesser extent on proxy advisors' recommendations in firms in which institutional ownership is larger and more concentrated and in which there are fewer institutions with high turnover or small positions.

Following these earlier studies and using data on institutional ownership from 13F filings, we construct two different measures of ownership concentration: the percentage ownership of institutions with at least 5% of shares outstanding and the percentage ownership by the top 10 institutions. Investors that own large blocks are aware that their votes are likely to be influential and internalize the benefit from casting informed votes if these translate in better firm performance. Hence, we expect them to be better informed.

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Besides their ownership stakes, the size of the investors' portfolios also matters for the incentives to collect information. Investors with large diversified portfolios are likely to incur organizational diseconomies in acquiring information on all portfolio companies and may be less informed as a consequence. To capture this, we consider that dedicated investors, defined as institutional investors with concentrated portfolios and low portfolio turnover (Bushee, 1998; 2001), should have stronger incentives to acquire information because they are unlikely to incur organizational diseconomies. Using Bushee's classification of 13F investors, we thus compute the percentage ownership of dedicated investors in a company.

In addition to using proxies based on institutional investors' incentives to collect information, we also identify shareholders that are more or less likely to collect information based on their voting behavior. This proxy relies on ownership by mutual funds, which are required to report on Form N-PX to the SEC their votes for all shares for which they have fiduciary responsibility. We obtain these data from the ISS Voting Analytics database.

Besides showing the robustness of our findings to alternative measures for an informed shareholder base, this proxy based on voting behavior allows us to more directly weigh in on the role that proxy advisory firms, such as ISS, play in determining the costs and benefits of low-cost shareholder activism.

Both the policy and the academic debates have raised concerns that due to high information processing costs and conflicts of interest, proxy advisory firms affect voting outcomes even when they are uninformed and unable to differentiate their recommendations on recurring issues based on the companies' specific circumstances (e.g., Larcker, McCall, and Tayan, 2013; Levit and Tsoy, 2019). These concerns are supported by evidence that ISS recommendations move shareholder votes. While in principle this could be driven by the fact that shareholders have correlated information, Iliev and Lowry (2015) and Malenko and Shen (2016) show that this is unlikely

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because the votes of informed shareholders exhibit low correlation with ISS recommendations. Based on their findings, we conjecture that less informed funds are more likely to follow ISS recommendations.

Mutual fund voting may also be driven by ideology or general preferences and be neglectful of the firms' actual needs (Bolton et al., 2018; Bubb and Catan, 2018). Consistent with the conjecture that funds are less likely to acquire vote-relevant information if they always vote as advised by ISS or exhibit little variation in voting over time, Brav, Jiang, Li, and Pinnington (2018) show that such funds rarely support activists in proxy contests.

Since in 89% of the proposals in our sample all funds within a family vote the same way, we focus on fund families rather than individual funds, but modify our procedure below for fund families that split their vote across funds. To capture the proclivity of a fund family to collect vote-relevant information, we regress an indicator that takes the value of one if the fund family votes in favor of a proposal (and zero otherwise) on an indicator for an ISS recommendation to vote for the proposal, and the 43 proposal category dummies. For the 11% of the fund families, which split their vote across funds, we set the dependent variable equal to the fraction of funds that votes in favor of the proposal. A high R-squared from this regression indicates that the fund family does not differentiate votes between firms when the same issue arises, because of its own preferences or because it most often follows the ISS recommendations. Such a fund is unlikely to collect any firm-specific information. Therefore, we capture whether a fund family is inclined to gather information using the inverse of the R-squared.

The first row in Panel A of Table 9 reports statistics on the R-squared estimated from the above regression. Our proxy points to large differences in funds' propensity to collect information. The average (median) R-squared by fund family is 0.72 (0.70), with a minimum of 0.07 and a maximum of 1. These statistics suggest that fund families often follow the ISS recommendations,

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or do not differentiate their votes when the same issue arises at different firms. However, there is substantial cross-sectional variation captured by the large standard deviation of R-squared (0.19).

Consistent with the intuition that casting an informed vote is costly, in Table IA.5 in the Internet Appendix, we find that informed mutual funds tend to have higher fees and to be larger. They also have managers with longer tenures, who are likely to be more experienced.[29]

To calculate the propensity of the mutual funds owning a firm to gather information, we use the holdings of each fund family as weights. As ISS does not report how much each fund owns, we use the ISS NPX filing ID to download the actual filing of the fund family and scrub the CIK code of the fund. Then, we use the CIK codes to get the fund's holdings in the firm from the CRSP Mutual Fund database. Using this matching procedure, we are able to obtain holdings information for 87% of the fund families voting on our sample of proposals.

Panel A of Table 9 shows that there is substantial cross-sectional variation in all of our proxies for an informed shareholder base, including the *Informed ratio*, which captures the average of the inverse R-squared, computed using as weights the proportion of shares owned by different mutual funds for which information is available. The minimum *Informed ratio* is close to one (i.e., mutual funds always follow the ISS recommendations) but the maximum is well above one. In the empirical analysis that follows, to ease the interpretation, we define an indicator variable – *Informed MFs* – as equal to one if the *Informed ratio* is above the median.

[29] Panel B of Table IA.5 compares firms with high and low ownership by informed mutual funds. We do not find significant differences, with the exception that firms with higher ownership by less informed mutual funds are larger. This is not surprising as low-fee index funds are expected to collect little information and to own shares in the largest companies.

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6.2 Mitigating Effects of an Informed Shareholder Base

Ill-conceived proposals can receive majority support and create costs in terms of managerial time or poor corporate policies only insofar as they are supported by other shareholders. Thus, informed voting may limit the costs of corporate gadflies and reveal the benefits of low-cost investor activism. To capture this idea, we explore whether the proposals of active individual shareholders are less likely to obtain majority support when the investor base is relatively more informed, presumably because voting mistakes are less likely to occur. We use our proxies for an informed shareholder base and control throughout the analysis for the level of institutional ownership.

Panels B and C of Table 9 show that proposals by active individual investors are less likely to pass and to be implemented in companies with a more informed shareholder base regardless of the proxy we use to capture shareholders' information. Thus, an informed shareholder base appears to weed out proposals by sponsors that are associated with negative announcement returns in our earlier tests.

In Table IA.6, we show that the proposals of active individual sponsors that receive majority support tend to have negative effects on short- and long-term abnormal returns even in companies with more informed shareholders, which is evident from the insignificant interaction term between different measures of an informed shareholder base and the *Top10 indiv prop* indicator. This suggests that voting mistakes can still occur if the marginal shareholder voting on proposals is uninformed.[30] Yet, on average, we observe positive abnormal returns in companies with an informed shareholder base, suggesting that a larger proportion of the proposals that pass

[30] Interestingly, the abnormal returns of the 45 active individual sponsors' proposals that pass in firms with an informed base in the top quartile are positive. The specification in Table IA.6 has no statistical power to capture these effects.

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in such firms is value-enhancing. Hence, the voting behavior of institutional investors appears to have important consequences for the effects of low-cost shareholder activism on firm performance.

Table 10 evaluates this conjecture that proposals that receive majority support in companies with better informed shareholders are more likely to be value-enhancing, controlling for the fact that an informed shareholder base may capture other firm characteristics, such as the informativeness of the firm's stock price. To do so, we consider all proposals supported by a percentage of votes between 30% and 70%; that is, we include in the estimation sample also proposals that did not pass. This allows us to control for the direct effect of differences in investor base. As shown by the coefficients on the interaction between our proxies for an informed shareholder base and the dummy capturing majority-passed proposals, a majority of votes in favor of a shareholder proposal generates higher abnormal returns in companies with more informed shareholders. Put differently, the passing of a proposal triggers negative abnormal returns only in companies with a less informed shareholder base, in which the marginal shareholder voting is less likely to be informed. As we show in Subsection 6.3, informed mutual funds that disagree with the voting decision reduce their holdings. These sales allow their information to be incorporated in prices, triggering the negative abnormal returns that we observe when low-quality proposals pass.

The direct effect of the proxies for an informed shareholder base is never significant, indicating that we are not capturing different reactions by companies with different ownership structures, but rather cross-sectional differences in the market reaction to the approval of proposals. These effects are not only statistically, but also economically significant. For instance, in column 1 of Panel A, firms experience 1.6% higher three-day CARs in companies with high ownership by informed mutual funds.

In Panel B, we consider the returns associated with the implementation of proposals supported by a majority of votes. Conditional on being implemented after passing with a majority,

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proposals are associated with 19-23% higher annualized long-term returns when a firm has an informed shareholder base. Arguably, companies in which informed shareholders affect voting and implementation decisions are likely to experience positive returns not only because of the particular proposal being implemented, but also because they are expected to make well-informed decisions in the future. Overall, these results support the conclusions of Malenko and Malenko (2018) that there is over-reliance on proxy advisor recommendations and excessive conformity in voting.

6.3 Additional Evidence from Mutual Fund Trading

Our interpretation of the results so far is that informed mutual funds enhance the average quality of the proposals supported by a majority of shareholders. To provide more direct evidence for our interpretation of the results, we consider how mutual funds trade if they vote against a harmful proposal that nevertheless passes. We expect that mutual funds with negative private information about the firm's future prospects will be more likely to sell. Based on our previous results, we conjecture this to be the case if harmful shareholder proposals pass and become likely to be implemented. In this case, expecting negative abnormal returns in the long run, informed mutual funds should sell. Any evidence supporting this hypothesis would also corroborate our conjecture that even if a majority of shareholders supports a proposal, some more informed shareholders that disagree with the voting decision sell, triggering the negative price reactions we observe.

To test this conjecture, we use data from the CRSP Mutual Fund database and consider how a fund's percentage ownership in a firm changes between the quarter before and the one after the shareholder meeting if the fund votes against the proposal. We define informed mutual funds as the ones with an inverse R-squared above the median and test whether they sell in anticipation

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of poor performance when harmful proposals pass despite the fund's opposing vote. We explore how the trading behavior of informed mutual funds differs from that of other mutual funds following a vote against a proposal. Since proposals sponsored by overly active individuals appear to be value-destroying, we expect informed mutual funds to sell more than other mutual funds following the passage of these proposals.

Importantly, since many mutual funds trade in a given firm at a given point in time, we can control for interactions of firm and time fixed effects as well as proposal topic fixed effects. Thus, firm characteristics, including the type of proposals voted on in a given quarter, are completely absorbed and cannot drive our findings.

Column 1 of Table 11 considers the subsample of proposals that pass and shows that informed mutual funds that vote against active individuals' proposals reduce their shareholdings by about 12% in the quarter after the vote. Importantly, informed mutual funds sell to a larger extent stocks of firms with active individuals' proposals that pass, but not stocks of firms with other proposals that pass but the funds did not support. Thus, the trading of informed mutual funds is not merely driven by shareholder disagreement, which Li, Maug, and Schwartz-Ziv (2019) argue leads to higher trading volume in the days immediately following the shareholder meeting.

One may wonder whether the mutual funds voting against active individual sponsors' proposals always sell, even if the proposals are not supported by a majority of shareholders. Column 2 of Table 11 considers the subsample of proposals that do not pass and confirms that it is indeed the passing and the higher probability of implementation of ill-conceived proposals that prompts informed mutual funds to sell. These funds are not more likely to sell than other mutual funds if gadflies' proposals do not receive majority support. This also indicates that our results are unlikely to be driven by the possibility that the targets of potentially harmful proposals are different in terms of firm characteristics or are subject to other concurrent shocks.

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7. Conclusion

Corporations are often compared to democracies (Gompers, Ishii, and Metrick, 2003), in which the ultimate authority rests with voters. An advantage of well-working democracies is that virtually anyone can make proposals to change policies. The responsibility to weed out bad ideas and select proposals that are likely to be beneficial resides ultimately with voters. Thus, democracies work only to the extent to which voters are well-informed and select the right representatives and policies.

We provide evidence that this is also the case for corporations. Low-cost shareholder activism appears necessary to discipline the managers of large companies with low profitability and growth opportunities, which cannot be profitably targeted by hedge fund activists. By virtue of being low-cost, however, this type of activism may become excessive and generate too many uninformed proposals. Whether these proposals pass and are ultimately implemented depends on the other shareholders of a firm. If these other shareholders collect information, potentially harmful proposals are weeded out and low-cost shareholder activism manifest its full benefits.

Our results also point to the frictions generated by proxy advisory firms in the director labor market. The costs of gadflies' proposals are magnified by the behavior of directors who occasionally implement majority-passed harmful proposals to avoid withhold-vote recommendations. We provide evidence that directors bear limited or no reputational costs when the firms at which they serve perform poorly, but that withhold-vote recommendations affect negatively future director appointments at other firms. Exploring further what features of directors' experiences affect success in the labor market is a fruitful area for future research.

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Electronic copy available at: https://ssrn.com/abstract=3269378

Figure 1. Implementation of proposals sponsored by individuals and long-term returns

We report the cumulative abnormal returns of firms that implement proposals sponsored by individuals, starting from the month before the shareholder meeting to 12 months after. We include proposals that are implemented and that have received between 50% and 70% of the votes. Abnormal returns are calculated by subtracting from raw monthly returns the returns of the characteristic-based benchmarks of Daniel et al. (1997), who sort stocks according to size quintiles, book-to-market quintiles, and prior return quintiles ("DGTW" returns). We distinguish between proposals sponsored by active individuals (blue diamond markers) and proposals sponsored by non-active individuals (red hollow circle markers). Vertical lines (with capped spikes) denote the 95% confidence intervals around the estimates.

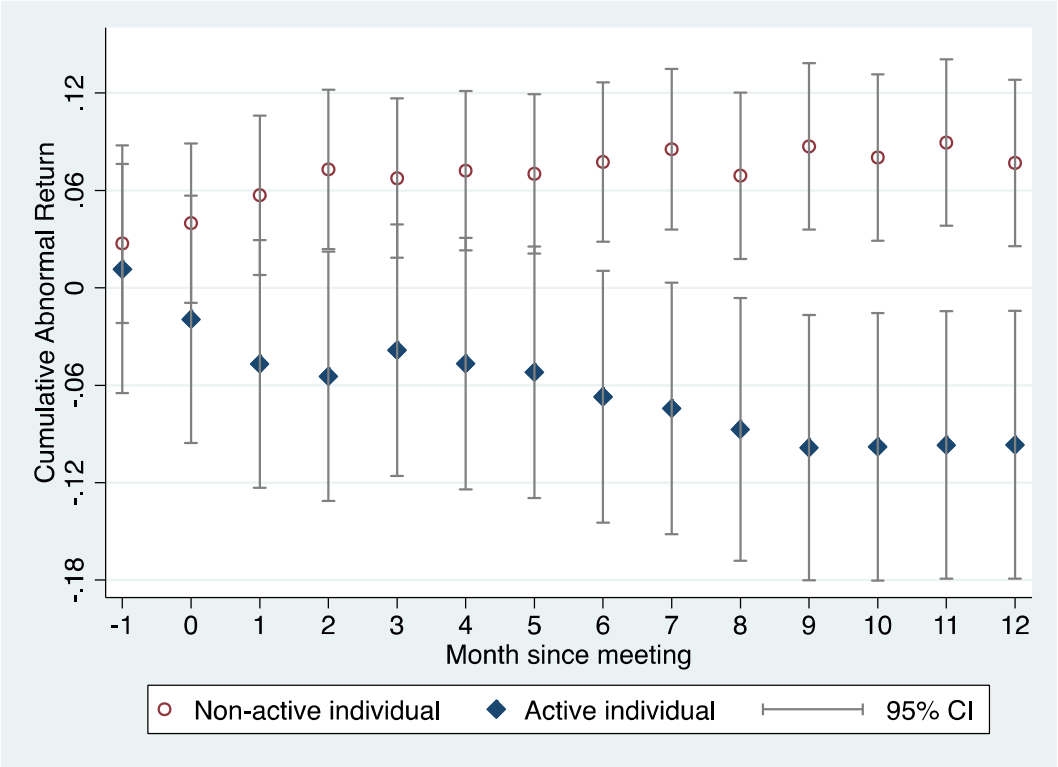

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Table 1. Descriptive statistics

Panel A of this table reports the number of proposals, the percent of proposals passing with a majority, and the percent of proposals that pass and are subsequently implemented by sponsor type. Panel B reports summary statistics on the number of proposals submitted by a unique sponsor per year, distinguishing by sponsor type. Panel C reports the top 10 individual, institutional, and other sponsors. The sample includes shareholder-sponsored proposals over the period 2003-2014.

Panel A. Summary statistics	Individual	Institution	Pension	Union	Inv firm	Other	Total
Proposal count	1798	2,203	583	1265	355	877	4878
Majority passing	25.53%	21.52%	27.79%	22.45%	7.89%	4.56%	19.95%
Implementation	13.68%	10.76%	15.78%	10.36%	3.94%	3.53%	12.07%

Panel B. Proposals by sponsor and year	**Mean**	**Median**	**St Dev**	**Min**	**Max**
Individual	3.53	1	7.75	1	52
Institution	5.15	3	6.55	1	44
Pension	7.02	3	9.52	1	38
Union	6.73	4	6.63	1	44
Inv firm	2.24	1	1.89	1	11
Other	2.75	1	4.98	1	37

Panel C. Most active sponsors	**# Proposals**	**% Total**
Top 10 individual sponsors		
John Chevedden	354	19.14
Kenneth Steiner	275	14.86
Evelyn Y. Davis	270	14.59
Gerald Armstrong	191	10.32
Nick Rossi	150	8.11
James McRitchie	52	2.81
Robert D. Morse	21	1.14
Richard A. Dee	20	1.08
Harold J. Mathis, Jr.	14	0.76
Jing Zhao	10	0.54
Top 10 institutional sponsors		
Comptroller of the City of New York	325	14.42
United Brotherhood of Carpenters	224	9.94
AFL-CIO Reserve Fund	158	7.01
Am. Fed. of State, County and Municipal Empl.	143	6.34
Service Employees International Union (SEIU)	142	6.30
International Brotherhood of Teamsters	97	4.30
Sheet Metal Workers	87	3.86
International Brotherhood of Electrical Workers	82	3.64
Comptroller of the State of New York	71	3.15
Harrington Investments	71	3.15
Top 10 other sponsors		
People for the Ethical Treatment of Animals (PETA)	68	11.41
Nathan Cummings Foundation	54	9.06
As You Sow Foundation	24	4.03
Unitarian Universalist Assoc. of Congregations	23	3.86
Province of St. Joseph of the Capuchin Order	22	3.69
United Methodist Church	21	3.52
National Legal and Policy Center	20	3.36
Sisters of Charity of Saint Elizabeth	17	2.85
Humane Society of the United States	17	2.85
Catholic Healthcare West	16	2.68

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Table 2. The targets of hedge fund activism and shareholder proposals

This table reports OLS regressions of the probability of being targeted by hedge fund activism or by shareholder proposals. The sample includes shareholder-sponsored proposals over the 2003-2014 period. Sponsors are classified as *Active* if they are in the top 10 of all sponsors based on the total number of proposals submitted in a given year. Hedge fund activism data are collected from SEC Schedule 13D and FactSet's SharkRepellent.net. All control variables are lagged by one year. All regressions include industry and year fixed effects, and cluster standard errors by firm. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Firm targeted by:					
	Hedge fund activism	Shareholder proposal	Individual proposal	Institutional proposal	Active individual sponsor	Active institutional sponsor
Log market cap	-0.0052***	0.1372***	0.0995***	0.1024***	0.0384***	0.0354***
	(-6.67)	(20.36)	(12.53)	(15.01)	(11.78)	(13.34)
Tobin's Q	-0.0034***	-0.0232***	-0.0197***	-0.0156***	-0.0077***	-0.0048***
	(-7.14)	(-10.12)	(-8.92)	(-7.84)	(-7.22)	(-4.13)
Sales growth	-0.0051***	-0.0326***	-0.0211***	-0.0206***	-0.0086***	-0.0080***
	(-2.67)	(-7.92)	(-5.13)	(-5.00)	(-5.10)	(-4.90)
ROA	-0.0037	-0.0832***	-0.0621***	-0.0643***	-0.0324***	-0.0259***
	(-0.47)	(-4.11)	(-3.01)	(-3.47)	(-3.49)	(-2.73)
Cash flow	-0.0000	-0.0012***	-0.0004*	-0.0012***	-0.0001	-0.0005***
	(-0.32)	(-3.70)	(-1.70)	(-4.12)	(-0.87)	(-3.06)
Annual return	-0.0039**	0.0079***	0.0067***	0.0060**	0.0031***	0.0048***
	(-2.54)	(2.71)	(2.61)	(2.04)	(2.62)	(2.63)
Book lev	0.0117**	0.0026	0.0056	-0.0123	0.0098	-0.0025
	(2.25)	(0.14)	(0.26)	(-0.69)	(1.13)	(-0.30)
Div yld	0.0022	0.0141	0.0533	-0.0061	0.0200	-0.0317*
	(0.25)	(0.35)	(1.36)	(-0.18)	(0.89)	(-1.89)
R&D	0.0244*	0.0056	0.0166	0.0247	-0.0100	-0.0033
	(1.86)	(0.16)	(0.53)	(0.76)	(-0.67)	(-0.20)
Inst own percent	0.0264***	-0.0973***	-0.0852***	-0.0714***	-0.0256***	-0.0122*
	(6.49)	(-5.20)	(-4.26)	(-4.34)	(-3.15)	(-1.75)
Inst herfindahl	-0.0259***	0.1654***	0.1066***	0.1254***	0.0472***	0.0549***
	(-5.46)	(9.19)	(7.16)	(8.79)	(6.77)	(8.81)
Neg Amihud	-0.0257	-1.1663***	-0.9617***	-0.9171***	-0.3444***	-0.2553***
	(-1.08)	(-12.85)	(-10.53)	(-10.61)	(-7.87)	(-6.56)
Constant	0.0404***	-0.8139***	-0.6062***	-0.6210***	-0.2314***	-0.2093***
	(4.89)	(-17.55)	(-12.05)	(-14.00)	(-9.92)	(-10.98)
Industry & year FE	YES	YES	YES	YES	YES	YES
Observations	38,928	38,928	38,928	38,928	38,928	38,928
Adjusted R2	0.0217	0.364	0.284	0.271	0.0978	0.0823

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Table 3. Voting and implementation of shareholder proposals

This table reports the percentage of votes for, the probability of majority passing, and the probability of implementation of shareholder-sponsored proposals over the 2003-2014 period. Regressions in even-numbered columns include year and proposal type fixed effects and cluster standard errors by firm and proposal type. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Percent votes for		Majority passing		Implementation	
Individual	0.1144***	0.0560	0.2911***	0.2051*	0.2376***	0.1918**
	(8.81)	(1.45)	(12.65)	(2.37)	(13.64)	(2.55)
Top10 sponsor	0.0914***	0.0482*	0.1309***	0.0816*	0.0451***	0.0156
	(8.27)	(2.19)	(6.67)	(2.32)	(3.04)	(0.76)
Individual x Top10 sponsor	-0.1579***	-0.1608***	-0.3815***	-0.3737**	-0.3265***	-0.3156**
	(-9.97)	(-3.86)	(-13.59)	(-3.22)	(-15.37)	(-3.12)
Size		-0.0000**		-0.0000*		-0.0000**
		(-2.65)		(-2.19)		(-2.52)
Tobin's Q		-0.0046		-0.0093		0.0061
		(-1.21)		(-1.12)		(1.01)
Sales growth		-0.0031		0.0057		-0.0079*
		(-0.35)		(0.75)		(-2.04)
ROA		0.1721**		0.3072***		-0.0158
		(3.28)		(4.00)		(-0.32)
Cash flow		0.0001		0.0001		0.0005*
		(0.35)		(0.17)		(2.41)
Lag ann return		-0.0100		0.0046		-0.0053
		(-1.09)		(0.22)		(-0.56)
Book lev		-0.0510*		-0.0768		-0.0652**
		(-2.02)		(-1.36)		(-2.67)
Div yld		-0.0023		-0.0055		0.0001
		(-0.44)		(-0.85)		(0.02)
R&D		0.1625***		0.2962**		-0.1588
		(4.89)		(2.66)		(-1.56)
Inst own percent		0.0735**		0.1561***		0.0773**
		(2.51)		(4.34)		(2.60)
Inst herfindahl		-0.2912		-0.3632		-0.3211
		(-1.26)		(-1.03)		(-1.72)
Neg Amihud		-0.3397**		-0.6642**		-0.2862
		(-2.60)		(-2.81)		(-1.53)
Constant	0.2733***	0.3511***	0.1207***	0.2232***	0.0750***	0.1327***
	(29.09)	(17.67)	(7.25)	(9.49)	(5.95)	(6.90)
Proposal & year FE	NO	YES	NO	YES	NO	YES
Observations	4,001	3,372	4,001	3,372	4,001	3,372
Adjusted R2	0.0245	0.363	0.0491	0.239	0.0820	0.189

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Table 4. Abnormal returns upon majority passing by type of sponsor

This table reports differences in the CARs of proposals submitted by different sponsors. CARs are cumulated from one day before to one day after the meeting and estimated using the market model over a 250-day estimation window, stopping 60 days before the meeting. Panel A reports OLS regressions of CARs for majority-passed proposals (columns 1-2 and 5-6) and proposals that fail to pass (columns 3-4). In the subsample of passed proposals, we consider those that receive between 50% and 70% of votes; in the subsample of proposals that fail to pass, we consider those that obtain more than 30% and strictly less than 50% of votes. In columns 5-6, to account for differences in anticipation effects, we adjust CARs by scaling them by 1-$\hat{p}$, where $\hat{p}$ is estimated as in column 4 of Table 3. *Meeting dissent* is a continuous measure of the proportion of against and abstain votes across all management proposals voted at the meeting. The estimates in Panel B are obtained using a regression discontinuity design. In columns 1-2, we consider all proposals, and in column 1, we control for a third order polynomial of the forcing variable (% of votes for) and its interactions with a dummy equal to one if the proposal passes; in columns 3-5, we consider progressively narrower passing margins. We cluster standard errors by firm and proposal type. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Cross-sectional differences in CARs

	(1)	(2)	(3)	(4)	(5)	(6)
	Majority passed		Failed to pass		Anticipation adjusted	
Individual	0.0012	-0.0031	-0.0059	-0.0076	-0.0004	-0.0033
	(0.22)	(-0.33)	(-1.61)	(-1.21)	(-0.06)	(-0.45)
Top10 sponsor	0.0077	0.0078	-0.0037	-0.0065***	0.0159***	0.0125***
	(1.51)	(1.12)	(-1.51)	(-4.02)	(2.64)	(3.76)
Individual x Top10 sponsor	-0.0242***	-0.0213**	0.0058	0.0120	-0.0268***	-0.0237***
	(-3.92)	(-2.51)	(1.41)	(1.81)	(-3.55)	(-4.06)
Size		0.0000**		0.0000		0.0000
		(2.60)		(1.62)		(1.08)
Tobin's Q		-0.0023**		-0.0019		-0.0002
		(-2.73)		(-1.16)		(-0.18)
Sales growth		-0.0174***		-0.0027		-0.0033
		(-5.27)		(-0.49)		(-1.28)
ROA		0.0208		0.0129*		-0.0004
		(1.77)		(2.01)		(-0.01)
Cash flow		-0.0007		-0.0002		-0.0003
		(-0.70)		(-0.72)		(-0.44)
Lag ann return		0.0102		0.0111**		0.0117**
		(1.86)		(3.69)		(2.55)
Book lev		0.0070		-0.0018		0.0232**
		(0.99)		(-0.25)		(2.68)
Div yld		0.0031		0.0005*		-0.0002
		(1.18)		(2.13)		(-0.53)
R&D		0.0244		0.0373**		0.0093
		(0.93)		(2.88)		(0.40)
Inst own percent		0.0124		-0.0011		0.0111
		(0.81)		(-0.10)		(0.49)
Inst herfindahl		0.0719		0.0113		0.0382
		(1.41)		(0.27)		(0.65)
Neg Amihud		-0.0339		0.0240		-0.0888
		(-0.71)		(1.64)		(-1.44)
Meeting dissent		0.0215		0.0069		0.0056
		(0.99)		(0.61)		(0.34)
Constant	-0.0039	-0.0059	0.0040*	0.0026	-0.0109*	-0.0061
	(-0.82)	(-0.98)	(1.84)	(1.00)	(-1.96)	(-1.39)
Control for other proposals & their type	NO	YES	NO	YES	NO	YES
Proposal & year FE	NO	YES	NO	YES	NO	YES
Observations	545	441	1,180	1,011	441	441
Adjusted R2	0.0906	0.106	0.0338	0.0309	0.0564	0.0571

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Panel B. Regression discontinuity design

	(1)	(2)	(3)	(4)	(5)	(6)
	All proposals	All proposals	+/-20% margin	+/-10% margin	+/-5% margin	+/-2% margin
Top10 indiv prop	-0.0000	-0.0001	-0.0007	0.0015	-0.0005	0.0010
	(-0.04)	(-0.09)	(-0.38)	(0.58)	(-0.11)	(0.11)
Maj pass	0.0331	-0.0020	0.0002	0.0016	0.0052	0.0046
	(0.32)	(-1.04)	(0.15)	(0.90)	(1.21)	(0.59)
Top10 indiv prop x Maj pass	-0.0188***	-0.0179***	-0.0196***	-0.0211***	-0.0233**	-0.0303*
	(-8.38)	(-10.86)	(-5.06)	(-5.11)	(-2.57)	(-2.22)
% votes for	0.0602*					
	(2.05)					
Maj pass x % votes for	-0.1115					
	(-0.25)					
Square (% votes for)	-0.2341					
	(-1.88)					
Maj pass x Square (% votes for)	0.2072					
	(0.33)					
Cube (% votes for)	0.2550					
	(1.69)					
Maj pass x Cube (% votes for)	-0.2081					
	(-0.72)					
Constant	-0.0029	0.0006	0.0008	-0.0000	0.0003	-0.0014
	(-1.59)	(1.32)	(0.75)	(-0.03)	(0.14)	(-0.27)
Observations	4,000	4,000	1,725	861	410	167
Adjusted R2	0.0234	0.0222	0.0349	0.0347	0.0378	0.0236

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Table 5. **Company turmoil after the passing of active individual sponsors' proposals**

This table estimates the probability of abnormal negative news coverage (column 1), the probability of a lawsuit or class action suit (columns 2-3), the probability of CEO turnover (column 4), the probability of at least one director leaving the board (columns 5), and the probability of a proxy contest by a hedge fund activist (column 6). We consider events and news coverage occurring in the two years following (and including) the meeting at which the proposals were voted on. Abnormal news coverage is computed as the average number of daily news with negative sentiment, as defined by Thomson Reuters News Analytics, in the two years following the annual meeting at which a proposal is voted upon, minus the average number of daily news in the year before the meeting. Additional data on lawsuits and class actions are from AuditAnalytics, CEO turnover from Execucomp, and board turnover from BoardEx. Proxy contests by hedge fund activists are collected from SEC Schedule 13Ds and proxy filings. We cluster standard errors by firm and year. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Negative news coverage	Any legal suit	Class action suit	CEO turnover	Director turnover	Proxy contest by HF activist
Maj pass	-0.0060	-0.0255	-0.0117	-0.0138	0.0012	-0.0063
	(-0.80)	(-0.80)	(-0.34)	(-0.69)	(0.05)	(-1.08)
Top10 indiv prop	-0.0101	0.0619	0.0580	0.0064	-0.0142	0.0119
	(-1.13)	(1.40)	(1.66)	(0.40)	(-0.55)	(1.54)
Maj pass X Top10 indiv prop	-0.0092	-0.0828	-0.0321	0.0245	-0.0013	0.0066
	(-0.87)	(-1.48)	(-0.62)	(0.91)	(-0.03)	(0.88)
Size	-0.0000	0.0000	0.0000	-0.0000	-0.0000	-0.0000
	(-0.04)	(1.29)	(1.38)	(-1.19)	(-0.54)	(-0.73)
Tobin's Q	-0.0064	-0.0338*	-0.0166	-0.0077	-0.0080	-0.0018
	(-1.10)	(-2.03)	(-0.85)	(-0.89)	(-1.25)	(-0.22)
Sales growth	0.0081	0.0089	-0.0040	-0.0130	0.0170	0.0026
	(0.84)	(0.52)	(-0.29)	(-0.62)	(1.00)	(0.91)
ROA	0.0713	-0.2615	-0.0129	0.0586	-0.2030	-0.0444
	(0.73)	(-1.38)	(-0.09)	(0.72)	(-1.47)	(-0.79)
Cash flow	-0.0009	-0.0002	0.0011	0.0013	-0.0026	-0.0004
	(-1.04)	(-0.15)	(0.65)	(0.77)	(-1.10)	(-0.74)
Lag ann return	-0.0388***	-0.0534	-0.0121	-0.0404	0.0379	0.0049
	(-5.28)	(-1.13)	(-0.31)	(-1.49)	(1.20)	(0.59)
Book lev	-0.0067	-0.0560	0.0455	0.0765	-0.0810	0.0187
	(-0.14)	(-0.56)	(0.23)	(0.91)	(-0.79)	(0.92)
Div yld	0.0031*	0.0113***	-0.0025	-0.0014	0.0049	-0.0001
	(2.06)	(3.52)	(-0.56)	(-0.71)	(0.55)	(-0.20)
R&D	-0.1049	-0.3916	0.0819	-0.4327*	-0.1563	-0.0085
	(-0.69)	(-0.79)	(0.21)	(-2.04)	(-0.76)	(-0.23)
Inst own percent	-0.0510	0.0613	0.0359	0.0684	0.0284	-0.0388
	(-1.07)	(0.38)	(0.32)	(0.53)	(0.27)	(-1.60)
Inst herfindahl	-0.0432	1.7531***	0.6173*	-0.4719	0.1860	-0.2225
	(-0.22)	(4.52)	(1.90)	(-0.99)	(0.51)	(-1.16)
Neg Amihud	0.3592	2.0133***	0.6409	-0.4562	0.1226	-0.0039
	(1.38)	(3.34)	(1.34)	(-1.17)	(0.38)	(-0.03)
Constant	0.2091***	0.4063***	0.1338***	0.1013**	0.2346***	0.0053
	(12.20)	(11.52)	(3.27)	(2.68)	(12.03)	(0.69)
Firm and year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,687	1,894	1,894	1,894	1,894	1,894
Adjusted R2	0.626	0.319	0.227	0.154	0.445	0.151

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Table 6. Long-term CARs

This table reports abnormal monthly returns in the 12 months starting from the month of the shareholder meeting. The sample includes firms with a shareholder proposal that received between 50% and 70% of the votes and that was subsequently implemented. In column 1, abnormal returns are computed as monthly alphas from a Fama and French (1993) four-factor model (denoted "FF4"), estimated over a rolling window of 60 months before the meeting. In column 2, abnormal returns are obtained subtracting from raw firm monthly returns the returns of the characteristic-based benchmarks of Daniel et al. (1997), who sort stocks according to size quintiles, book-to-market quintiles, and prior return quintiles (denoted "DGTW"). Both regressions include proposal and year fixed effects and cluster standard errors by firm and proposal type. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	Monthly return (FF4)	Monthly return (DGTW)
Individual	0.0113**	0.0110
	(2.94)	(1.35)
Top10 sponsor	0.0092	0.0113
	(1.32)	(1.54)
Individual x Top10 sponsor	-0.0235***	-0.0222**
	(-5.46)	(-2.80)
Size	0.0000	0.0000
	(0.42)	(1.18)
Tobin's Q	0.0013	-0.0032*
	(0.59)	(-2.54)
Sales growth	-0.0165**	-0.0178
	(-2.96)	(-1.51)
ROA	0.0031	0.0522**
	(0.08)	(3.95)
Cash flow	0.0013	-0.0017
	(1.62)	(-0.95)
Lag ann return	-0.0007	0.0185**
	(-0.16)	(4.03)
Book lev	0.0055	-0.0157
	(0.53)	(-1.57)
Div yld	-0.0115*	-0.0005
	(-2.24)	(-0.30)
R&D	-0.0815**	0.0216
	(-4.30)	(1.88)
Inst own percent	-0.0265**	-0.0079
	(-4.05)	(-0.33)
Inst herfindahl	-0.0289	0.0431
	(-0.33)	(0.70)
Neg Amihud	-0.0426	0.0326
	(-0.60)	(0.56)
Meeting dissent	0.0180	0.0287**
	(0.97)	(2.89)
Constant	-0.0585***	-0.0159*
	(-12.42)	(-2.50)
Controls for other proposals & their type	YES	YES
Proposal & year FE	YES	YES
Observations	152	152
Adjusted R2	0.7320	0.0926

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Table 7. ISS withhold-vote recommendations and proposal implementation

Panel A of this table reports OLS regressions of the probability of implementation of active individuals' proposals. Panel B presents regressions of the probability of a majority of directors receiving a withhold-vote recommendation by ISS (column 1) and the average percentage of withheld votes across directors (column 2). Column 1 of Panel C presents firm-level regressions estimating the probability that at least one director leaves the firm in the year after receiving an ISS withhold-vote recommendation. Columns 2 and 3 present director-level regressions estimating the probability that a director loses at least one seat at another company and the change in board seats at other companies over the two years after an ISS withhold-vote recommendation. The specifications in columns 2 and 3 include as additional controls director tenure and dummies for an independent/lead director. CEO and director ownership data are from Execucomp. Data on director turnover are from BoardEx and data on withhold-vote recommendations are from ISS Voting Analytics. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Proposal implementations and CEO and director ownership

	(1)	(2)	(3)	(4)
	Implementation			
Top10 indiv prop	0.0757***	0.0190	0.0718***	0.0187
	(6.56)	(0.79)	(6.15)	(0.53)
CEO own	-0.0140	-0.0655		
	(-0.08)	(-1.45)		
Top10 indiv prop x CEO own	-0.6942**	-0.4732*		
	(-2.01)	(-2.13)		
Avg dir own			-0.1770	-0.4027**
			(-0.67)	(-2.14)
Top10 indiv prop x Avg dir own			-0.8509	-0.6021**
			(-1.60)	(-2.11)
Size		-0.0000*		-0.0000***
		(-2.40)		(-2.80)
Tobin's Q		0.0060		0.0076
		(0.75)		(1.20)
Sales growth		-0.0113		-0.0122
		(-1.40)		(-1.31)
ROA		0.0132		0.0046
		(0.24)		(0.06)
Cash flow		0.0000		-0.0001
		(0.03)		(-0.09)
Lag ann return		-0.0023		-0.0049
		(-0.25)		(-0.25)
Book lev		-0.0619		-0.0665
		(-1.89)		(-1.42)
Div yld		-0.0012		-0.0013
		(-0.24)		(-0.23)
R&D		-0.0711		-0.0759
		(-0.52)		(-0.37)
Inst own percent		0.0851		0.0839*
		(1.69)		(1.90)
Inst herfindahl		-0.3554		-0.3505
		(-1.52)		(-1.55)
Neg Amihud		-0.3993		-0.3864**
		(-1.58)		(-2.26)
Constant	0.0957***	0.1432***	0.0970***	0.1458***
	(14.18)	(7.99)	(14.12)	(3.41)
Firm and year FE	Yes	Yes	Yes	Yes
Observations	3,758	3,208	3,725	3,182
Adjusted R2	0.0112	0.0993	0.0104	0.0995

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Panel B. Proposal implementation and ISS withhold recommendations

	(1)	(2)
	ISS withhold rec	% Withheld votes
No implementation	0.0892**	0.0253**
	(2.83)	(2.80)
Top10 indiv prop	-0.0057	0.0012
	(-0.33)	(0.26)
No implementation x Top10 indiv prop	0.0205	-0.0042
	(0.42)	(-0.49)
Size	-0.0000	-0.0000
	(-0.76)	(-1.57)
Tobin's Q	-0.0025	-0.0028
	(-0.19)	(-1.12)
Sales growth	0.0045	-0.0012
	(0.39)	(-1.45)
ROA	-0.0635	0.0192
	(-0.40)	(0.75)
Cash flow	-0.0014	0.0002
	(-0.83)	(1.77)
Lag ann return	-0.0166	-0.0021
	(-0.90)	(-0.88)
Book lev	-0.0451	-0.0105
	(-0.71)	(-0.66)
Div yld	0.0003	0.0005
	(0.09)	(1.37)
R&D	0.0025	0.0312
	(0.01)	(1.02)
Inst own percent	-0.0120	-0.0098
	(-0.19)	(-0.69)
Inst herfindahl	-0.2372	-0.0944*
	(-0.83)	(-2.15)
Neg Amihud	0.0575	0.0059
	(0.18)	(0.12)
Constant	0.0760**	0.0044
	(2.54)	(0.86)
Firm & year FE	YES	YES
Observations	1,894	1,894
Adjusted R2	0.374	0.103

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Panel C. Directors' career concerns

	(1)	(2)	(3)
	At least one director leaves *the firm*	Director loses seat in *other firms*	Change in board seats in *other firms*
ISS withhold rec	0.0263**	0.0127**	-0.0195**
	(2.32)	(2.28)	(-2.40)
Size	-0.0000	-0.0000	0.0000
	(-0.03)	(-1.19)	(0.84)
Tobin's Q	-0.0031	0.0070*	-0.0139**
	(-1.55)	(2.10)	(-2.65)
Sales growth	-0.0000	-0.0000**	0.0000
	(-0.81)	(-2.50)	(0.61)
ROA	-0.0315**	0.0158	-0.0597
	(-2.25)	(1.01)	(-1.73)
Cash flow	-0.0001	0.0000	-0.0001
	(-0.91)	(0.40)	(-1.10)
Lag ann return	-0.0096*	-0.0024	0.0069
	(-2.05)	(-0.65)	(1.08)
Book lev	-0.0067	0.0158	-0.0449
	(-0.41)	(0.88)	(-1.37)
Div yld	-0.0004	-0.0006	0.0004
	(-0.11)	(-0.31)	(0.19)
R&D	-0.0221	-0.0395	0.1212
	(-0.57)	(-0.63)	(0.83)
Inst own percent	-0.0144	-0.0186	0.0505
	(-0.81)	(-1.42)	(1.64)
Inst herfindahl	0.0100	-0.0623	0.1180
	(0.20)	(-1.23)	(0.87)
Neg Amihud	-0.0822	-0.1510**	0.3942***
	(-1.12)	(-2.65)	(4.28)
Constant	0.1267***	0.1615***	-0.1777***
	(38.38)	(11.29)	(-6.76)
Additional director controls	NO	YES	YES
Firm and year FE	YES	NO	NO
Director & year FE	NO	YES	YES
Observations	19,967	49,449	49,449
Adjusted R2	0.194	0.166	0.0311

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Table 8. Generic and unfocused proposals by individual sponsors

Panel A reports the percentage of votes for, the probability of majority passing, and the probability of implementation of generic and unfocused proposals. *Generic proposals* are submitted by sponsors whose number of targeted companies, divided by the number of proposal types they submit, is in the top quartile of all sponsors in a given year. *Unfocused proposals* are submitted by sponsors who are in the top quartile for the number of proposal types submitted in a given year. Columns 1-2 of Panel B report three-day CARs around the meeting date for proposals supported by a percentage of votes between 50% and 70%. Abnormal returns are estimated using the market model over a 250-day estimation window, which stops 60 days before the meeting. Columns 3-4 of Panel B report abnormal monthly returns in the 12 months starting from the month of the meeting. We compute monthly alphas from a Fama and French (1993) four-factor model (denoted "FF4"), estimated over a rolling window of 60 months before the meeting. The sample in columns 3-4 of Panel B includes firms with a shareholder proposal that received between 50% and 70% of the votes and was subsequently implemented. All models cluster standard errors by proposal type and firm. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

Panel A. Voting and implementation

	(1)	(2)	(3)	(4)	(5)	(6)
	Percent votes for		Majority passing		Implementation	
Individual	0.0221	0.0656	0.1597*	0.2696***	0.1733**	0.2477***
	(0.74)	(1.61)	(2.44)	(6.65)	(3.34)	(4.26)
Generic prop	-0.0013		-0.0361		-0.0345**	
	(-0.20)		(-1.71)		(-2.86)	
Individual x Generic prop	-0.0759**		-0.1929**		-0.1751**	
	(-3.41)		(-2.66)		(-3.18)	
Unfocused prop		-0.0122		-0.0734		-0.0634
		(-0.30)		(-1.33)		(-1.93)
Individual x Unfocused prop		-0.1131*		-0.2900***		-0.2383***
		(-2.28)		(-6.14)		(-4.05)
Size	-0.0000*	-0.0000**	-0.0000*	-0.0000*	-0.0000*	-0.0000*
	(-2.44)	(-2.79)	(-2.33)	(-2.30)	(-2.25)	(-2.34)
Tobin's Q	-0.0043	-0.0046	-0.0082	-0.0092	0.0074	0.0063
	(-1.04)	(-1.12)	(-0.84)	(-0.98)	(0.98)	(0.89)
Sales growth	-0.0046	-0.0045	0.0023	0.0029	-0.0111*	-0.0107*
	(-0.50)	(-0.47)	(0.27)	(0.31)	(-2.40)	(-2.33)
ROA	0.1855**	0.1875**	0.3410***	0.3434***	0.0134	0.0160
	(3.64)	(3.58)	(4.86)	(4.53)	(0.27)	(0.33)
Cash flow	-0.0000	-0.0000	-0.0001	-0.0001	0.0003	0.0004
	(-0.01)	(-0.01)	(-0.40)	(-0.21)	(1.54)	(1.78)
Lag ann return	-0.0113	-0.0120	-0.0020	-0.0032	-0.0145	-0.0147
	(-1.33)	(-1.28)	(-0.10)	(-0.16)	(-1.61)	(-1.42)
Book lev	-0.0490	-0.0441	-0.0744	-0.0587	-0.0633**	-0.0490*
	(-1.76)	(-1.58)	(-1.17)	(-0.98)	(-2.72)	(-2.16)
Div yld	-0.0021	-0.0020	-0.0048	-0.0045	0.0003	0.0005
	(-0.41)	(-0.40)	(-0.85)	(-0.83)	(0.07)	(0.11)
R&D	0.1835***	0.1832***	0.3458**	0.3311**	-0.1193	-0.1297
	(6.11)	(6.39)	(3.41)	(3.16)	(-1.20)	(-1.23)
Inst own percent	0.0889**	0.0881*	0.1919**	0.1925**	0.1064	0.1071*
	(2.50)	(2.42)	(3.12)	(3.16)	(1.90)	(2.08)
Inst herfindahl	-0.3185	-0.3178	-0.4672	-0.4418	-0.4448*	-0.4156*
	(-1.32)	(-1.36)	(-1.20)	(-1.18)	(-1.96)	(-2.04)
Neg Amihud	-0.3881**	-0.3860**	-0.7979**	-0.7793**	-0.4311	-0.4136
	(-2.51)	(-2.63)	(-2.55)	(-2.71)	(-1.69)	(-1.72)
Constant	0.3854***	0.3925***	0.2954***	0.3271***	0.1571***	0.1830***
	(41.42)	(13.46)	(11.84)	(6.33)	(8.93)	(5.59)
Proposal & year FE	YES	YES	YES	YES	YES	YES
Observations	3,372	3,372	3,372	3,372	3,372	3,372
Adjusted R2	0.339	0.340	0.198	0.202	0.118	0.119

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Panel B. Returns

	(1)	(2)	(3)	(4)
	CAR (-1, +1d)		*Monthly return (FF4)*	
	Majority passed		Implemented	
Individual	0.0001	0.0088	0.0169*	0.0209**
	(0.04)	(1.28)	(2.14)	(3.07)
Generic prop	0.0036		0.0031	
	(0.57)		(0.70)	
Individual x Generic prop	-0.0234**		-0.0261**	
	(-3.23)		(-3.16)	
Unfocused prop		0.0071*		0.0062
		(2.16)		(1.87)
Individual x Unfocused prop		-0.0316***		-0.0269**
		(-5.35)		(-3.97)
Size	0.0000	0.0000*	0.0000	0.0000
	(1.29)	(2.18)	(0.48)	(0.57)
Tobin's Q	-0.0018*	-0.0017*	0.0024	0.0027
	(-2.26)	(-2.00)	(0.98)	(1.28)
Sales growth	-0.0169***	-0.0180***	-0.0007	-0.0050
	(-4.53)	(-4.68)	(-0.09)	(-0.68)
ROA	0.0155	0.0195	-0.0198	-0.0015
	(1.20)	(1.69)	(-0.49)	(-0.03)
Cash flow	-0.0008	-0.0008	0.0011	0.0010
	(-0.74)	(-0.76)	(0.88)	(1.16)
Lag ann return	0.0103*	0.0103*	-0.0016	-0.0028
	(2.28)	(2.06)	(-0.22)	(-0.45)
Book lev	0.0036	0.0017	0.0088	0.0037
	(0.47)	(0.25)	(0.76)	(0.25)
Div yld	0.0055**	0.0058*	-0.0091	-0.0104
	(2.66)	(2.18)	(-1.88)	(-1.67)
R&D	0.0234	0.0150	-0.0669**	-0.1098**
	(0.97)	(0.57)	(-2.80)	(-3.90)
Inst own percent	0.0148	0.0160	-0.0257**	-0.0193
	(1.48)	(1.17)	(-2.96)	(-1.69)
Inst herfindahl	0.0506	0.0615	-0.0634	-0.0575
	(1.05)	(1.31)	(-0.54)	(-0.61)
Neg Amihud	-0.0374	-0.0466	-0.0724	-0.0887
	(-0.82)	(-0.96)	(-0.88)	(-1.20)
Meeting dissent	0.0190	0.0240	0.0085	0.0228
	(0.87)	(1.11)	(0.49)	(1.36)
Constant	-0.0003	-0.0033	-0.0487***	-0.0533***
	(-0.07)	(-1.12)	(-17.96)	(-10.67)
Controls for other proposals & their type	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES
Observations	441	441	152	152
Adjusted R2	0.115	0.118	0.751	0.741

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Table 9. Informed shareholders and proposals by active individual sponsors

This table summarizes various proxies for the level of information of a firm's shareholder base (Panel A) and OLS estimates of a proposal's probability of passing with a majority (Panel B) and of being implemented (Panel C). In Panel A, R^2 is a fund-family level measure of (lack of) information acquisition, obtained from a regression of the mutual fund's vote "For" on any proposal the fund voted on over the sample period on an ISS recommendation "For" and 43 proposal category dummies. A firm's *Informed ratio* is the average of the 1/R^2 of its mutual fund owners, weighted using the proportion of shares owned by a fund family out of the shares held by mutual funds. Mutual fund holdings as of the quarter before the vote are obtained from the CRSP Mutual Fund database and linked by fund CIKs to ISS NPX file numbers. Panel A also reports ownership statistics for the proportion of shares outstanding held by institutional investors with blocks in excess of 5% (*5% Block owners*), the proportion of shares outstanding held by the top 10 owners (*Top10 owners)*, and the proportion of shares outstanding held by dedicated institutional investors as defined by Bushee (1998; 2001) (*Dedicated inst)*. *Informed MFs* in column 1 of Panels B and C is a dummy equal to one if a firm's informed ratio is greater than the median, and zero otherwise. All regressions cluster standard errors by proposal type and firm. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

Panel A. Informed investors	Mean	Median	St Dev	Min	Max	Obs
Fund-family characteristic						
R^2 (by fund family)	0.7152	0.7032	0.1907	0.0705	1.0000	745
Firm characteristics						
Informed ratio (firm MF ownership)	1.6258	1.6196	0.1336	1.1539	3.7685	660
5% Block owners	0.1796	0.1651	0.1384	0.0000	0.5528	777
Top10 owners	0.4928	0.4791	0.0976	0.3448	0.8304	777
Dedicated inst	0.0424	0.0159	0.0655	0.0000	0.3135	711

Panel B. Majority passing

	(1)	(2)	(3)	(4)
	Majority passing			
	Informed MFs	5% Block owners	Top10 owners	Dedicated inst
Informed base (*column heading*)	-0.0157	-0.1462	-0.0647	-0.0522
	(-1.25)	(-0.60)	(-0.24)	(-0.25)
Top10 indiv prop	0.1454*	0.1595*	0.6009***	0.0075
	(2.29)	(2.32)	(8.16)	(0.16)
Informed MFs x Top10 indiv prop	-0.3068***			
	(-4.90)			
5% Block owners x Top10 indiv prop		-0.6198**		
		(-2.65)		
Top10 owners x Top10 indiv prop			-1.1744***	
			(-7.86)	
Dedicated inst x Top10 indiv prop				-0.8080**
				(-3.38)
Constant	0.2616***	0.3101***	0.3155*	0.2470***
	(7.70)	(3.98)	(2.03)	(7.47)
Firm-level controls	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES
Observations	3,271	3,271	3,271	3,121
Adjusted R2	0.244	0.231	0.219	0.180

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Panel C. Implementation

	(1)	(2)	(3)	(4)
	Implementation			
	Informed MFs	5% Block owners	Top10 owners	Dedicated inst
Informed base (*column heading*)	0.0467**	-0.1216	-0.1132	-0.0216
	(2.50)	(-1.44)	(-1.69)	(-0.09)
Top10 indiv prop	0.1728**	0.1142	0.4260**	-0.0182
	(2.75)	(1.62)	(3.41)	(-0.32)
Informed MFs x Top10 indiv prop	-0.3748***			
	(-10.08)			
5% Block owners x Top10 indiv prop		-0.4832***		
		(-5.50)		
Top10 owners x Top10 indiv prop			-0.8504**	
			(-3.16)	
Dedicated inst x Top10 indiv prop				-0.5179**
				(-2.82)
Constant	0.1611***	0.2336***	0.2679***	0.1815***
	(7.66)	(4.68)	(5.81)	(5.82)
Firm-level controls	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES
Observations	3,271	3,271	3,271	3,121
Adjusted R2	0.160	0.119	0.108	0.0780

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Table 10. Informed shareholders and the performance of proposals

This table reports OLS regressions of short-term (long-term) CARs for majority-passed (majority-passed and implemented) shareholder proposals in firms with an informed shareholder base. In Panel A, we consider three-day CARs around the meeting date, estimated using the market model over a 250-day estimation window, stopping 60 days before the meeting. In Panel B, we consider abnormal returns in the 12 months starting from the month of the meeting, computed as monthly alphas from a Fama and French (1993) four-factor model (denoted "FF4"), estimated over a rolling window of 60 months before the meeting. In both panels, we include firms with a proposal that receives between 30% and 70% of votes. *Informed base* is a dummy equal to one for firms with an above-median value of the measure in the column heading. We cluster standard errors by firm and proposal type. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

Panel A. Short-term CARs

	(1)	(2)	(3)	(4)
	CAR (-1, +1d)			
	Informed MFs	5% Block owners	Top10 owners	Dedicated inst
Informed base (*column heading*)	0.0042	-0.0024	-0.0043	-0.0013
	(1.34)	(-0.99)	(-1.28)	(-0.65)
Maj pass	-0.0005	-0.0029	-0.0037	-0.0031
	(-0.13)	(-1.16)	(-0.94)	(-0.89)
Informed MFs x Maj pass	0.0155**			
	(3.47)			
5% Block owners x Maj pass		0.0132**		
		(2.64)		
Top10 owners x Maj pass			0.0143**	
			(2.47)	
Dedicated inst x Maj pass				0.0162***
				(6.24)
Constant	-0.0015	0.0014	0.0031	0.0005
	(-0.72)	(0.48)	(0.95)	(0.25)
Firm-level controls	YES	YES	YES	YES
Controls for other proposals & meeting dissent	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES
Observations	1,127	1,127	1,127	1,127
Adjusted R2	0.0777	0.0591	0.0601	0.0657

Panel B. Long-term CARs

	(1)	(2)	(3)	(4)
	Monthly return (FF4)			
	Informed MFs	5% Block owners	Top10 owners	Dedicated inst
Informed base (*column heading*)	0.0028	0.0001	0.0008	-0.0019
	(1.22)	(0.05)	(0.25)	(-0.99)
Implementation	0.0054	0.0018	0.0009	0.0011
	(1.94)	(0.49)	(0.23)	(0.30)
Informed MFs x Implementation	0.0161***			
	(5.38)			
5% Block owners x Implementation		0.0162*		
		(2.37)		
Top10 owners x Implementation			0.0186**	
			(2.62)	
Dedicated inst x Implementation				0.0193**
				(2.70)
Constant	-0.0406***	-0.0398***	-0.0398***	-0.0387***
	(-18.49)	(-17.28)	(-16.45)	(-18.68)
Firm-level controls	YES	YES	YES	YES
Controls for other proposals & meeting dissent	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES
Observations	1,000	1,000	1,000	1,000
Adjusted R2	0.744	0.740	0.743	0.743

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Table 11. Informed mutual funds' trading after voting against shareholder proposals

This table reports OLS regressions studying mutual funds' trading after the funds' votes on shareholder proposals. The unit of observation is at the fund-stock-quarter level. We regress a fund's percentage change in ownership around the shareholder meeting on a dummy capturing the fund's information and another dummy that takes a value equal to one if the fund opposed an active individual shareholder's proposal at that meeting. Column 1 includes only stocks of firms with proposals that passed with a majority; Column 2 includes only stocks of firms with proposals that failed to pass. The change in mutual fund holdings is calculated as a fund's % ownership in the quarter ending after the meeting minus the fund's % ownership in the quarter ending before the meeting, divided by the fund's % ownership in the quarter before the meeting. *Informed MF* is an indicator capturing a mutual fund's propensity to acquire information and equals one for mutual funds with above median 1/R^2. R^2 is estimated from a regression of the mutual fund's vote "For" a proposal on a dummy for an ISS recommendation "For" and 43 proposal type dummies. All regressions include firm-by-year and proposal type fixed effects and cluster standard errors by fund. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	Change in fund ownership	
	Majority passed	Failed to pass
Informed MF	-0.0649	-0.0104
	(-1.49)	(-0.48)
Oppose Top10 indiv prop	-0.0690	-0.0298
	(-1.62)	(-0.78)
Oppose Top10 indiv prop x Informed MF	-0.1168**	-0.0145
	(-2.31)	(-0.69)
Constant	0.2648***	0.2406***
	(8.35)	(7.87)
Firm-year & proposal FE	YES	YES
Observations	69,346	400,647
Adjusted R2	0.0214	0.0186

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Appendix. Additional tables

Table A1. Examples of proposal implementation

Panel A (Panel B) of this table lists examples of shareholder proposals over 2003-2014 that are implemented (not implemented) by the targeted firm. To establish whether a proposal has been implemented, we search SEC proxy filings and 8K reports between the meeting at which the proposal is voted upon and the subsequent meeting.

Panel A. Implementation

Company name	*Meeting date*	*Proposal description*	*Company response*
Torchmark Corporation	26-Apr-07	Commit to Board Diversity	Directors should be selected so that the Board reflects appropriate diversity. Only under exceptional and limited circumstances, the Governance and Nominating Committee and Board may approve the candidacy of a director nominee who may not necessarily satisfy all of these criteria, if they believe the service of that nominee is in the best interests of the Company and its shareholders.
American International Group, Inc.	19-May-04	Report on Political Contributions/Activities	Management will provide the Public Policy and Social Responsibility Committee with a report, at least annually, with respect to all political contributions that have been made since the last such report. The Public Policy and Social Responsibility Committee will report to the Board, at least annually, with respect to its review of the report provided by management on political contributions.
Anaren, Inc.	7-Nov-12	Require a Majority Vote for the Election of Directors	The nominees receiving a majority of the votes represented in person or by proxy at the Meeting will be elected Directors. Nominees not receiving a majority of the votes will, pursuant to the Company's bylaws, be deemed to have tendered his or her resignation to the Board.
Cigna Corporation	24-Apr-13	Report on Lobbying Payments and Policy	Cigna supports the goals of transparency and accountability with regard to corporate political expenditures. We also provide specific details regarding: (1) the direct political contributions that Cigna makes at a corporate level; (2) contributions that Cigna makes through the Cigna Political Action Committee; and (3) the total amount of dues paid to any industry trade association to which Cigna pays $50,000 or more in annual dues, as well as the portion of any such dues that they inform us are allocable to any non-deductible lobbying expenses. We encourage our shareholders to review our 2013 report which is available on Cigna's website. The Corporate Governance Committee of the Board reviews Cigna's political and lobbying activities on a bi-annual basis.
Cisco Systems, Inc.	20-Nov-14	Establish Public Policy Board Committee Reporting	As a result of discussions with shareholders, Cisco has elected to expand its disclosure around payments to trade associations, industry groups and certain other organizations. Cisco's public policy engagement approach, including these enhancements, is disclosed on Cisco's public website on a webpage entitled "Cisco Public Policy Engagements." This webpage can be accessed by clicking the "About Cisco" link on our website homepage, then on the resulting webpage clicking on the "Government Affairs" link, then on the resulting webpage clicking on the "View More Information About Cisco Public Policy Engagements" link.

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Eastman Kodak Company	10-May-06	Claw-back of Payments under Restatements	The Board, based on the Governance Committee's recommendation, adopted a policy requiring the recoupment of bonuses paid to named executive officers upon certain financial restatements. Under the policy, the Company will require reimbursement of a certain portion of any bonus paid to a named executive officer where: The payment was predicated upon the achievement of certain financial results that were subsequently the subject of a restatement; and In the Board's view, the officer engaged in fraud or misconduct that caused the need for the restatement;
Exxon Mobil Corporation	28-May-08	Require Director Nominee Qualifications	The Board has adopted guidelines outlining the qualifications sought when considering non-employee director candidates and they are published on our Web site at exxonmobil.com/governance. The key criteria the Board seeks across its membership to achieve a balance of diversity and experiences important to the Corporation include: financial expertise; experience as the CEO of a significant company or organization or as a next-level executive with responsibilities for global operations; experience managing large, complex organizations; experience on one or more boards of significant public or non-profit organizations; expertise resulting from significant academic, scientific or research activities. The Board also seeks diversity of life experiences and backgrounds, as well as gender and ethnic diversity.
Ryman Hospitality Properties, Inc.	10-May-12	Allow Shareholder Rights Plan (Poison Pill) to Expire	Under the terms of the 2012 TRT Letter Agreement, we agreed to include a shareholder proposal in our 2012 proxy statement which requested that our Board not extend the August 12, 2012 expiration date of the amended and restated rights agreement dated as of March 9, 2009 (the "Rights Plan"), between us and Computershare Trust Company N.A., as amended, unless our stockholders approved such extension. The proposal was approved by our stockholders at our 2012 annual meeting, and we did not extend the term of the Rights Plan following its expiration on August 12, 2012.
General Electric Company	24-Apr-13	Establish Term Limits for Directors	Term limits. The Board adopted a 15-year term limit for independent directors (with a 2-year transition period for existing directors).
Host Hotels & Resorts, Inc.	18-May-06	Require a Majority Vote for the Election of Directors	On October 25, 2006, the Board of Directors of Host Hotels & Resorts, Inc. (the "Corporation") approved amendments to Article II, Section 7 of the Bylaws of the Corporation to change the voting standard for the election of directors from a plurality to a majority of all the votes cast in uncontested elections. The Board of Directors also amended, effective October 25, 2006, the Corporate Governance Guidelines to require any director nominee who not elected by the vote required in the Corporation's Bylaws and who is an incumbent director to immediately tender his or her resignation to the Board for consideration.
Navistar International Corporation	10-Mar-14	Submit Shareholder Rights Plan (Poison Pill) to Shareholder Vote	At the 2014 Annual Meeting, a non-binding advisory vote to terminate the Rights Plan was proposed and was overwhelmingly approved. On June 17, 2014, the Rights Plan was amended to expire on July 1, 2014, shortening its term by nearly a year.
NetApp, Inc.	31-Aug-12	Reduce Supermajority Vote Requirement	A stockholder proposal to change all supermajority voting provisions in the Certificate and Bylaws to a simple majority vote was included in last year's proxy statement. The proposal received the favorable vote of the holders of over a majority of the Company's outstanding common stock at the 2012 Annual Meeting. Following the 2012 Annual Meeting, the Board carefully considered the advantages and disadvantages of eliminating the supermajority voting requirements. Based on such consideration, the Board has determined that the Proposed Amendments are in the best interest of NetApp and its stockholders and has approved the amendments to the Charter and Bylaws described below.

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Qwest Communications International Inc.	16-Dec-03	Submit Severance Agreement (Change-in-Control) to Shareholder Vote	Last year a resolution seeking shareholder approval of future "golden parachute" severance agreements was supported by nearly 97% of the shares voted. We believe the award of extraordinary pension benefits should likewise be submitted for shareholder approval, as part of a "checks and balances" system to ensure reasonable SERP formulas for future agreements.
Rayonier Inc.	15-May-14	Require Independent Board Chairman	Our Board of Directors has determined that its current structure, with separate Chairman and CEO roles, is in the best interests of the Company and its shareholders at this time.
Bank of America Corporation	7-May-14	Adopt Proxy Access Right	We recently adopted a proxy access right to permit a stockholder, or a group of up to 20 stockholders, owning continuously for at least 3 years shares of our company representing an aggregate of at least 3% of the voting power entitled to vote in the election of directors, to nominate and include in our proxy materials director nominees constituting up to 20% of our Board, provided that the stockholder(s) and the nominee(s) satisfy the requirements in our bylaws.

Panel B. No implementation

Company name	*Meeting date*	*Proposal description*	*Company response*
Adobe Systems Incorporated	9-Apr-03	Establish Director Stock Ownership Requirement	The Board believes that our past and current equity compensation policies for our executive officers and directors have been successful in enhancing our ability to attract and retain talented people and in motivating them to build long-term value for our stockholders. Not only do our compensation policies align our executives' interests with our stockholders' long-term interests, they are also in line with those of our peer companies. Few companies have adopted stock ownership guidelines at all, and to our knowledge none of the companies in our compensation benchmarking group have such guidelines for their executives. We believe that the ratio levels suggested by the stockholder would seriously distort our carefully-crafted compensation policies for our executives, making us unable to attract and retain the talented executives we need to continue building stockholder value.
Aetna Inc.	27-Apr-07	Restore or Provide for Cumulative Voting	The Board continues to believe that a system of voting for Directors that does not permit shareholders to cumulate their votes provides the best assurance that the decisions of the Directors will be in the interests of all shareholders. Many shareholders in corporate America want more say when it comes to electing directors. Cumulative voting is one of those issues that may favor special interest groups. Cumulative voting could make it possible for such a group to elect one or more Directors beholden to the group's narrow interests. This could increase the likelihood of factionalism and discord within the Board, which may undermine its ability to work effectively as a governing body on behalf of the common interests of all shareholders. For these reasons, while the Board carefully considered cumulative voting as a part of its review of governance issues in the last several years, the Board continues to believe that this proposal is not in the best interests of Aetna or its shareholders.

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Allergan, Inc.	6-May-14	Require Independent Board Chairman	Our Board of Directors has considered this proposal and has concluded that it is not in the best interests of the Company or its stockholders. The Company's governing documents permit the roles of the Chairman of the Board and Chief Executive Officer to be filled by the same or different individuals. This flexibility permits the Board to choose a leadership structure that can be tailored to the strengths of the Company's officers and directors and best addresses the Company's evolving and highly complex business needs. Given Mr. Pyott's unique skillset, the Company's independent Board structure, role of the lead independent director and other strong corporate governance practices, the Board believes that mandating a separation of the positions of Chairman of the Board and Chief Executive Officer would weaken the Company's current leadership structure.
United Technologies Corporation	12-Apr-06	Establish Term Limits for Directors	The Board of Directors believes that requiring all outside directors to leave the Board after six years of service would not be in the best interests of the Board, UTC or its shareowners. Such a policy would deprive UTC of directors who have gained valuable knowledge and insight concerning UTC's operations, and whose tenure has given them an important perspective on the development and implementation of UTC's long term strategies. Rather than adopting fixed term limits, the Board believes it is more beneficial to periodically review the Board's effectiveness.
Google Inc.	2-Jun-11	Reduce Supermajority Vote Requirement	Our board of directors believes that the existing voting standards in our certificate of incorporation, which was approved by stockholders, are appropriate and in the best interests of the company. More than a simple majority vote is required in only a few instances, including approval of a change in control of the company and certain amendments to our certificate of incorporation. The board of directors believes that a supermajority vote is appropriate for these limited issues, given the long-lasting, significant impact of these actions on our future. Replacing individually calibrated voting standards with a blanket simple majority vote will not improve either the corporate governance or the long-term financial performance of the company.
General Electric Company	28-Apr-04	Report on Pay Disparity	All of our employees make important contributions to our success, and we strive to provide competitive and fair wages and benefits to all. The management development and compensation committee, which consists entirely of independent directors, strives to recruit, retain and motivate executives with superior ability and dedication because it believes the company's people are its greatest strength. It establishes levels of executive compensation that it considers to be necessary to achieve this objective. We do not believe that the report requested in this proposal would assist us or the committee in recruiting, retaining or motivating the executives who we believe will provide the performance with integrity needed to create long-term shareowner value.
Johnson & Johnson	26-Apr-12	Require Shareholder Vote to Approve Political Contributions	While the proponent raises a number of concerns about corporate political contributions in general, the Board believes that adopting this proposal could restrict the ability of the company to make political contributions in support of those whose policy positions are supportive of the legitimate business interests of the company and its shareholders. The legal and regulatory environment for health care companies, such as Johnson & Johnson, has undergone considerable changes in recent years. The Board believes these changes could continue into the future, with a potentially negative impact on the company's business results. Thus, the company has a business interest in expressing its voice through the political process. This proposal would effectively take away a potentially important tool.

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Internet Appendix for

The Costs and Benefits of Shareholder Democracy: Gadflies and Low-Cost Activism

Supplemental and robustness results:

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Table IA.1. Proposals by active sponsors – Short- and long-term CARs (robustness)

Panel A of this table reports OLS regressions of CARs for majority-passed proposals, where CARs are estimated using the market model over a 250-day estimation window, stopping 60 days before the meeting. Panel B reports OLS regressions of market-adjusted CARs for majority-passed proposals, estimated by subtracting the VW CRSP index from raw firm daily returns. Panel C reports OLS regressions of market-model CARs for majority-passed proposals, excluding voting proposals in the categories - Require a majority vote for director elections, Provide for cumulative voting, Reduce supermajority vote requirement, Amend vote requirements to amend articles/bylaws/charter. Panel D reports OLS regressions of market-model CARs, including controls for the ISS recommendation 'For' and dummies capturing whether one (two or more) shareholder proposals passed at the meeting. Panels A-D include only majority-passed proposals within 20% above the passing threshold, except in columns 1-2 of Panel D which studies all majority-passed proposals. Panel E reports abnormal monthly returns in the 12 months starting from the month of the meeting. Included are all implemented proposals. In column 1, we compute monthly alphas from a Fama and French (1993) four-factor model ("FF4"), estimated over a rolling window of 60 months before the meeting. In column 2, we subtract from raw firm monthly returns the returns of the characteristic-based benchmarks of Daniel et al. (1997), who sort stocks by size, book-to-market, and prior return quintiles ("DGTW"). We cluster standard errors by firm and proposal type. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Market-model CARs

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1d)		CAR (0, +1d)		CAR (-1, +2d)	
Individual	0.0012	-0.0031	0.0056	0.0084	0.0068	0.0027
	(0.22)	(-0.33)	(1.18)	(1.60)	(0.90)	(0.27)
Top10 sponsor	0.0077	0.0078	0.0087*	0.0121*	0.0101	0.0085
	(1.51)	(1.12)	(1.93)	(2.10)	(1.41)	(0.72)
Individual x Top10 sponsor	-0.0242***	-0.0213**	-0.0148***	-0.0209**	-0.0243***	-0.0239**
	(-3.92)	(-2.51)	(-2.69)	(-2.66)	(-2.80)	(-2.49)
Size		0.0000**		0.0000		0.0000
		(2.60)		(0.79)		(0.83)
Tobin's Q		-0.0023**		-0.0026*		-0.0002
		(-2.73)		(-2.36)		(-0.06)
Sales growth		-0.0174***		-0.0024		0.0080
		(-5.27)		(-0.35)		(1.13)
ROA		0.0208		0.0117		-0.0143
		(1.77)		(1.47)		(-0.69)
Cash flow		-0.0007		0.0003		-0.0006
		(-0.70)		(0.34)		(-1.12)
Lag ann return		0.0102		0.0063		0.0157*
		(1.86)		(1.15)		(2.40)
Book lev		0.0070		0.0186		0.0175
		(0.99)		(1.90)		(1.43)
Div yld		0.0031		-0.0018		0.0030
		(1.18)		(-0.42)		(0.92)
R&D		0.0244		0.0933***		0.0147
		(0.93)		(6.34)		(0.38)
Inst own percent		0.0124		0.0056		0.0073
		(0.81)		(0.31)		(0.37)
Inst herfindahl		0.0719		0.0679		0.0158
		(1.41)		(1.08)		(0.23)
Neg Amihud		-0.0339		0.0228		-0.0231
		(-0.71)		(0.92)		(-0.37)
Meeting dissent		0.0215		0.0149		0.0231
		(0.99)		(0.57)		(0.75)
Constant	-0.0039	-0.0059	-0.0054	-0.0135*	-0.0082	-0.0079
	(-0.82)	(-0.98)	(-1.29)	(-2.09)	(-1.22)	(-0.63)
Controls for other proposals & their type	NO	YES	NO	YES	NO	YES
Proposal & year FE	NO	YES	NO	YES	NO	YES
Observations	545	441	545	441	545	441
Adjusted R2	0.0906	0.106	0.0177	0.0313	0.0262	0.0311

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Panel B. Market-adjusted CARs

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1d)		CAR (0, +1d)		CAR (-1, +2d)	
Individual	0.0058	0.0109	0.0065	0.0104*	0.0132*	0.0144
	(0.94)	(1.14)	(1.34)	(2.15)	(1.87)	(1.20)
Top10 sponsor	0.0123**	0.0170	0.0084*	0.0129*	0.0155**	0.0189
	(2.06)	(1.49)	(1.83)	(2.16)	(2.32)	(1.35)
Individual x Top10 sponsor	-0.0175**	-0.0250*	-0.0153***	-0.0230**	-0.0246***	-0.0297*
	(-2.43)	(-2.17)	(-2.75)	(-3.11)	(-3.03)	(-2.29)
Size		0.0000		0.0000		0.0000
		(1.11)		(0.94)		(1.18)
Tobin's Q		-0.0002		-0.0023		-0.0011
		(-0.07)		(-1.69)		(-0.37)
Sales growth		-0.0064		-0.0046		-0.0058
		(-1.00)		(-0.69)		(-0.94)
ROA		-0.0002		0.0178**		-0.0007
		(-0.01)		(2.60)		(-0.05)
Cash flow		-0.0009		-0.0001		-0.0012
		(-0.79)		(-0.11)		(-1.52)
Lag ann return		0.0075		0.0058		0.0144**
		(1.72)		(1.08)		(2.49)
Book lev		0.0129		0.0102		0.0008
		(1.68)		(1.30)		(0.10)
Div yld		-0.0037		-0.0024		-0.0003
		(-0.74)		(-0.51)		(-0.08)
R&D		0.0486		0.0860**		0.0156
		(1.83)		(3.50)		(0.51)
Inst own percent		-0.0002		0.0001		-0.0040
		(-0.03)		(0.01)		(-0.29)
Inst herfindahl		0.0538*		0.0505		-0.0091
		(2.28)		(0.90)		(-0.11)
Neg Amihud		0.0385		0.0270		-0.0017
		(1.01)		(1.15)		(-0.04)
Meeting dissent		0.0088		0.0095		0.0092
		(0.34)		(0.36)		(0.30)
Constant	-0.0081	-0.0158	-0.0055	-0.0135*	-0.0114*	-0.0142
	(-1.47)	(-1.54)	(-1.29)	(-2.01)	(-1.83)	(-1.12)
Controls for other proposals & their type	NO	YES	NO	YES	NO	YES
Proposal & year FE	NO	YES	NO	YES	NO	YES
Observations	542	438	542	438	542	438
Adjusted R2	0.0177	0.0296	0.0162	0.0310	0.0156	0.0254

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Panel C. Excluding voting proposals

	(1)	(2)
	CAR (-1, +1d)	
Individual	0.0068	0.0048
	(1.03)	(0.34)
Top10 sponsor	0.0138**	0.0152
	(2.16)	(1.58)
Individual x Top10 sponsor	-0.0303***	-0.0285**
	(-4.09)	(-2.16)
Size		0.0000*
		(2.01)
Tobin's Q		-0.0027
		(-1.45)
Sales growth		-0.0220***
		(-4.75)
ROA		0.0182*
		(1.73)
Cash flow		-0.0006
		(-0.55)
Lag ann return		0.0077
		(1.05)
Book lev		0.0072
		(1.31)
Div yld		0.0003
		(0.10)
R&D		0.0299
		(0.84)
Inst own percent		0.0176
		(1.30)
Inst herfindahl		0.0493
		(1.02)
Neg Amihud		-0.0889**
		(-2.27)
Meeting dissent		0.0415*
		(1.88)
Constant	-0.0094	-0.0102
	(-1.57)	(-1.09)
Controls for other proposals & their type	NO	YES
Proposal & year FE	NO	YES
Observations	411	330
Adjusted R2	0.104	0.136

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Panel D. Controlling for the ISS recommendation and other passed proposals

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1d)					
	All maj pass proposals		Maj pass proposals (+20%)		Anticipation adjusted - Maj pass proposals (+20%)	
Individual	-0.0002	0.0011	0.0012	-0.0019	-0.0004	-0.0008
	(-0.04)	(0.24)	(0.22)	(-0.23)	(-0.06)	(-0.10)
Top10 sponsor	0.0091***	0.0105***	0.0077	0.0089	0.0159***	0.0140***
	(2.62)	(5.12)	(1.51)	(1.57)	(2.64)	(3.89)
Individual x Top10 sponsor	-0.0222***	-0.0236***	-0.0242***	-0.0222**	-0.0268***	-0.0254***
	(-5.08)	(-5.75)	(-3.92)	(-2.59)	(-3.55)	(-3.58)
Size		0.0000		0.0000***		0.0000*
		(1.85)		(3.83)		(1.90)
Tobin's Q		-0.0004		-0.0020*		-0.0004
		(-0.39)		(-1.94)		(-0.28)
Sales growth		-0.0026		-0.0169***		-0.0034
		(-1.55)		(-6.24)		(-1.65)
ROA		0.0025		0.0226		-0.0003
		(0.17)		(1.80)		(-0.01)
Cash flow		-0.0004		-0.0008		-0.0005
		(-0.92)		(-0.79)		(-0.91)
Lag ann return		0.0087**		0.0115**		0.0119**
		(3.07)		(2.52)		(2.48)
Book lev		0.0145**		0.0059		0.0218*
		(3.24)		(0.72)		(1.99)
Div yld		0.0001		0.0032		-0.0002
		(0.34)		(1.36)		(-0.27)
R&D		0.0108		0.0178		0.0065
		(0.78)		(0.65)		(0.16)
Inst own percent		0.0075		0.0137		0.0092
		(0.44)		(0.97)		(0.46)
Inst herfindahl		0.0277		0.0883		0.0481
		(0.49)		(1.62)		(0.70)
Neg Amihud		-0.0618		-0.0271		-0.0790*
		(-1.67)		(-0.58)		(-1.86)
ISS rec FOR		0.0207		0.0000		0.0237
		(1.07)		(0.00)		(1.38)
Meeting dissent		0.0103		0.0184		0.0156
		(0.87)		(1.01)		(0.82)
One proposal passes		0.0035		-0.0124		0.0071
		(0.45)		(-1.62)		(0.66)
Two proposals pass		0.0074		-0.0058		0.0136
		(0.77)		(-0.61)		(1.12)
Constant	-0.0062*	-0.0304	-0.0039	0.0046	-0.0109*	-0.0391*
	(-1.93)	(-1.32)	(-0.82)	(0.67)	(-1.96)	(-1.91)
Proposal & year FE	NO	YES	NO	YES	NO	YES
Observations	933	739	545	441	441	441
Adjusted R2	0.0795	0.0920	0.0906	0.119	0.0564	0.0627

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Panel E. Long-term CARs (all implemented proposals)

	(1)	(2)
	Monthly return (FF4)	Monthly return (DGTW)
Individual	0.0067	0.0107
	(1.82)	(1.98)
Top10 sponsor	0.0039	0.0083
	(1.10)	(1.82)
Individual x Top10 sponsor	-0.0147**	-0.0142**
	(-3.34)	(-3.64)
Size	0.0000	0.0000
	(0.18)	(1.05)
Tobin's Q	0.0002	-0.0015
	(0.12)	(-0.87)
Sales growth	-0.0119	-0.0078
	(-1.08)	(-1.04)
ROA	-0.0041	0.0531***
	(-0.13)	(10.75)
Cash flow	0.0019**	-0.0009*
	(3.27)	(-2.04)
Lag ann return	0.0117	0.0206***
	(1.81)	(4.21)
Book lev	-0.0070	-0.0135**
	(-0.40)	(-2.67)
Div yld	-0.0069	-0.0038
	(-1.58)	(-1.73)
R&D	0.0071	0.0099
	(0.18)	(0.46)
Inst own percent	-0.0218	0.0048
	(-1.89)	(0.28)
Inst herfindahl	-0.0452	0.0106
	(-0.81)	(0.16)
Neg Amihud	0.0176	-0.0181
	(0.29)	(-0.33)
Meeting dissent	0.0077	0.0175
	(0.71)	(1.96)
Constant	-0.0447***	-0.0123***
	(-6.53)	(-5.46)
Controls for other proposals & their type	YES	YES
Proposal and year FE	YES	YES
Observations	248	249
Adjusted R2	0.633	0.112

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Table IA.2. Characteristics of firms and meetings at which active individual proposals pass

This table compares characteristics of the meetings (Panel A) and firms (Panel B) at which proposals by active individual sponsors pass with a majority. In Panel A, we regress meeting characteristics on a dummy variable that equals one if a proposal sponsored by an active individual shareholder receives majority support, and equal to zero if the active individual proposal does not receive majority support. In Panel B, the dependent variables are firm characteristics before the meeting at year *t*-1 and changes in firm characteristics between years *t*-2 and *t*-1. Even-numbered columns include year fixed effects and cluster standard errors by firm. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Meeting characteristics

	(1)	(2)
	Majority passing	
% Withhold votes (director election) - mean	0.006	-0.000
	(1.032)	(-0.032)
% Withhold votes (director election) - max	0.005	-0.002
	(0.729)	(-0.291)
ISS recommendation "Against"	-0.064	-0.081*
	(-1.376)	(-1.773)
% Vote "Against" mgmt. supported prop - mean	-0.014	-0.013
	(-1.558)	(-1.508)
% Vote "Against" mgmt. supported prop - max	-0.026	-0.013
	(-1.490)	(-0.775)
% Vote "For" mgmt. opposed prop - mean	-0.044	-0.063
	(-1.026)	(-1.524)
% Vote "For" mgmt. opposed prop - max	-0.021	-0.038
	(-0.480)	(-1.012)
Multiple shareholder proposals	0.067	0.058
	(1.388)	(1.085)
Year FE & SE clustered by firm	NO	YES

Pane B. Firm characteristics

	(1)	(2)	(3)	(4)
	Before meeting (*t*-1)		Change (*t*-2 to *t*-1)	
Size	8302.639***	8481.946***	-0.048	-0.008
	(5.916)	(3.971)	(-1.002)	(-0.210)
Tobin's Q	-0.164	-0.099	-0.064	-0.036
	(-1.484)	(-0.856)	(-1.262)	(-1.427)
Sales growth	-0.002	0.015	0.222	0.180
	(-0.115)	(0.851)	(0.465)	(0.323)
ROA	0.005	0.011	-0.036	0.009
	(0.444)	(0.950)	(-0.396)	(0.092)
Cash flow	-0.004	0.080	-0.020	0.042
	(-0.019)	(0.649)	(-0.111)	(0.266)
Annual return	-0.003	-0.001	0.593	0.765
	(-0.084)	(-0.028)	(0.967)	(1.351)
Book lev	-0.010	-0.015	-0.166	-0.192
	(-0.643)	(-0.903)	(-1.004)	(-1.601)
Div yld	0.015	0.015	0.001	0.062
	(0.193)	(1.465)	(0.007)	(0.794)
R&D	-0.002	-0.001	-0.020	-0.037
	(-0.453)	(-0.245)	(-0.431)	(-1.027)
Inst own percent	-0.007	-0.008	-0.009	-0.021*
	(-0.346)	(-0.398)	(-0.543)	(-1.763)
Inst herfindahl	-0.002	-0.003	-0.024	-0.021
	(-0.891)	(-1.018)	(-0.823)	(-0.749)
Neg Amihud	0.003	0.005	-0.017	-0.048*
	(0.936)	(1.412)	(-0.626)	(-2.114)
Year FE & SE clustered by firm	NO	YES	NO	YES

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Table IA.3. Return on assets following proposal implementation

This table reports OLS regressions of return on assets in the year after the annual meeting at which a proposal passes with a majority (column 1) and the three and five years after the annual meeting at which the proposal passes and is subsequently implemented. Return on assets is defined as operating cash flow divided by lagged book value of assets. The sample includes shareholder proposals over 2003-2014. All specifications include year and proposal type fixed effects and cluster standard errors by firm and proposal type. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)
	Return on assets		
	Majority pass	Implemented	
	t+1	*t*+3	*t*+5
Individual	0.0359	-0.0135	-0.0184
	(1.02)	(-0.48)	(-0.91)
Top10	0.0581	-0.0069	0.0068
	(1.59)	(-0.22)	(0.27)
Individual x Top10	-0.0715*	-0.0758*	-0.0833**
	(-1.87)	(-2.50)	(-3.02)
Size	0.0000**	-0.0000	-0.0000
	(2.48)	(-0.80)	(-0.71)
Tobin's Q	0.0353**	0.0239	0.0241**
	(2.21)	(1.92)	(2.61)
Sales growth	0.0279	-0.0184	-0.0149
	(1.01)	(-0.56)	(-0.51)
ROA	0.1777*	0.2814***	0.2271***
	(1.94)	(4.67)	(5.93)
Cash flow	-0.0026	-0.0027	-0.0013
	(-0.64)	(-1.87)	(-0.49)
Lag ann return	0.0279	0.0539**	0.0577***
	(1.14)	(4.01)	(5.13)
Book lev	0.0102	0.0004	-0.0161
	(0.17)	(0.01)	(-0.17)
Div yld	0.0698*	0.1184	0.1273*
	(1.76)	(1.53)	(2.50)
R&D	-0.0149	-0.0557	-0.0959
	(-0.07)	(-0.27)	(-0.42)
Inst own percent	0.0260	0.0084	0.0251
	(0.37)	(0.52)	(1.44)
Inst herfindahl	0.1671	0.2066	0.3855
	(0.78)	(0.82)	(1.02)
Neg Amihud	-0.1911	-0.1185	-0.0537
	(-1.39)	(-0.63)	(-0.18)
Constant	0.0413	0.1049**	0.1044***
	(0.99)	(3.92)	(7.18)
Proposal and year FE	YES	YES	YES
Observations	224	154	141
Adjusted R2	0.332	0.313	0.374

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Table IA.4. Categories and specific topics of shareholder proposals

This table reports categories (Panel A) and specific topics (Panel B) for shareholder proposals sponsored by active individual sponsors, other individuals, and institutions. In Panel A, proposals are classified into seven broad categories. In Panel B, proposals are classified into 43 specific topics. *Active individuals* are individual sponsors that are among the top 10 sponsors for the number of submitted proposals within a year. The sample includes shareholder proposals over the 2003-2014 period.

Panel A. Broad proposal categories

	Active individuals	Other individuals	Institutions
Voting	39.72%	27.11%	19.25%
Board	22.44%	25.63%	18.43%
Compensation	18.43%	19.11%	27.33%
Gov. disclosure	5.79%	6.37%	13.80%
Operations	5.43%	5.63%	4.18%
Poison pill	7.21%	3.85%	1.27%
CSR	0.98%	12.30%	15.75%
Total count	*1,123*	*675*	*2,203*

Panel B. Top 10 specific topics

Active individuals	Count	Percent	Cum.
Restore or Provide for Cumulative Voting	151	13.45	13.45
Require Independent Board Chairman	124	11.04	24.49
Amend Articles/Bylaws/Charter -- Special Meeting	116	10.33	34.82
Declassify the Board of Directors	86	7.66	42.48
Provide Right to Act by Written Consent	86	7.66	50.13
Submit Shareholder Rights Plan (Poison Pill)	73	6.50	56.63
Stock Retention/Holding Period	53	4.72	61.35
Advisory Vote to Ratify Named Executive	38	3.38	64.74
Political Contributions Disclosure	35	3.12	67.85
Company-Specific -- Shareholder Miscellaneous	33	2.94	70.79

Other individuals	Count	Percent	Cum.
Declassify the Board of Directors	114	16.89	16.89
Reduce Supermajority Vote Requirement	52	7.70	24.59
Amend Articles/Bylaws/Charter -- Special Meeting	44	6.52	31.11
Company-Specific -- Shareholder Miscellaneous	36	5.33	36.44
Require Independent Board Chairman	25	3.70	40.15
Submit Shareholder Rights Plan (Poison Pill)	23	3.41	43.56
Company Specific-Governance Related	22	3.26	46.81
Advisory Vote to Ratify Named Executive	18	2.67	49.48
Restore or Provide for Cumulative Voting	18	2.67	52.15
Social Proposal	17	2.52	54.67

Institutions	Count	Percent	Cum.
Require a Maj. Vote for the Election of Directors	290	13.16	13.16
Political Contributions Disclosure	221	10.03	23.20
Require Independent Board Chairman	177	8.03	31.23
Declassify the Board of Directors	163	7.40	38.63
Performance-Based and/or Time-Based Equity Comp.	97	4.40	43.03
Company-Specific -- Shareholder Miscellaneous	90	4.09	47.12
Advisory Vote to Ratify Named Executive	77	3.50	50.61
Improve Human Rights Standards or Policies	65	2.95	53.56
Stock Retention/Holding Period	54	2.45	56.01
Report on Sustainability	48	2.18	58.19

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Table IA.5. Informed mutual funds

Panel A of this table compares fund characteristics between informed and uninformed mutual funds (MF), where funds are classified based on their voting records on shareholder proposals. *Informed MF* is an indicator capturing a mutual fund's propensity to acquire information and equals one for mutual funds with above median 1/R^2. R^2 is estimated from a regression of the mutual fund's vote "For" a proposal on a dummy for an ISS recommendation "For" and 43 proposal type dummies. Funds' total net assets, management fees, and turnover ratios are from the CRSP Mutual Fund database. Fund managers' tenures are computed based on data from Morningstar and fund managers' monthly alphas are calculated using the Fama and French (1993) four-factor model. Panel B compares firm characteristics between firms with informed and uninformed shareholders. *Informed base* is a dummy equal to one if a firm's informed ratio – as defined in Table 9 of the paper – is greater than the median, and zero otherwise. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Fund characteristics

	(1)	(2)	(3)	(4)	(5)	(6)
	Informed MF = 1		Informed MF = 0		Difference in means	
	# obs.	Mean	# obs.	Mean	Difference	t-stat
Total net assets	2427	14718.507	2423	10162.888	4555.619	6.32***
Manager tenure	2087	13.716	2032	11.668	2.048	8.79***
Management fee	2427	0.561	2423	0.543	0.018	2.06**
Turnover ratio	2427	0.594	2423	0.598	-0.004	-0.22
Alpha	2394	-0.029	2311	-0.029	0.000	0.27

Panel B. Firm characteristics

	(1)	(2)	(3)	(4)	(5)	(6)
	Informed base = 1		Informed base = 0		Difference in means	
	# obs.	Mean	# obs.	Mean	Difference	t-stat
Size	1947	29182.741	1879	22667.849	6514.892	10.15***
Tobin's Q	1944	1.371	1875	1.369	0.003	0.07
Sales growth	1946	0.058	1879	0.070	-0.012	-1.62
ROA	1942	0.143	1801	0.134	0.009	1.51
Cash flow	1902	0.669	1749	0.441	0.228	1.91*
Annual return	1949	0.016	1879	0.034	-0.018	-1.66*
Book lev	1944	0.254	1875	0.262	-0.008	-1.47
Div yld	1949	0.077	1879	0.079	-0.002	-0.06
R&D	1946	0.020	1879	0.019	0.001	0.54
Inst own percent	1747	0.714	1648	0.708	0.007	1.28
Inst herfindahl	1747	0.039	1649	0.041	-0.001	-1.43
Neg Amihud	1947	-0.012	1879	-0.019	0.008	9.25***

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Table IA.6. Informed shareholders and the performance of active individual proposals

This table reports OLS regressions for short-term (long-term) abnormal returns for majority-passed (majority-passed and implemented) proposals by active individual sponsors (*Top10 indiv prop*) in companies with an informed shareholder base. In Panel A, we consider three-day CARs around the meeting date, estimated using the market model over a 250-day estimation window, which stops 60 days before the meeting. In Panel B, we consider abnormal returns in the 12 months starting from the month of the meeting, computed as monthly alphas from a Fama and French (1993) four-factor model (denoted "FF4"), estimated over a rolling window of 60 months before the meeting. In both panels, the sample includes firms with a shareholder proposal that received between 50% and 70% of the votes. *Informed base* is an indicator equal to one for firms with an above-median value of the measure in the column heading. We cluster standard errors by firm and proposal type. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

Panel A. Short-term CARs

	(1)	(2)	(3)	(4)
	CARs (-1, +1d)			
	Informed MFs	5% Block owners	Top10 owners	Dedicated inst
Informed base (*column heading*)	0.0201***	0.0147**	0.0060	0.0176***
	(3.74)	(2.50)	(1.26)	(3.79)
Top10 indiv prop	-0.0135***	-0.0131	-0.0195**	-0.0147
	(-3.83)	(-0.85)	(-2.48)	(-1.87)
Informed MFs x Top10 indiv prop	-0.0093			
	(-0.76)			
5% Block owners x Top10 indiv prop		-0.0113		
		(-0.66)		
Top10 owners x Top10 indiv prop			-0.0006	
			(-0.08)	
Dedicated inst x Top10 indiv prop				-0.0066
				(-0.91)
Constant	-0.0002	-0.0013	0.0050	-0.0023
	(-0.03)	(-0.22)	(0.65)	(-0.26)
Firm-level controls	YES	YES	YES	YES
Controls for other proposals & meeting dissent	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES
Observations	317	317	317	304
Adjusted R2	0.171	0.147	0.136	0.140

Panel B. Long-term CARs

	(1)	(2)	(3)	(4)
	Monthly return (FF4)			
	Informed MFs	5% Block owners	Top10 owners	Dedicated inst
Informed base (*column heading*)	0.0174**	0.0168**	0.0179*	0.0133***
	(3.84)	(3.77)	(2.36)	(5.03)
Top10 indiv prop	0.0017	0.0052	0.0074	-0.0027
	(0.50)	(0.79)	(0.98)	(-0.52)
Informed MFs x Top10 indiv prop	-0.0146			
	(-1.86)			
5% Block owners x Top10 indiv prop		-0.0171		
		(-1.60)		
Top10 owners x Top10 indiv prop			-0.0163	
			(-1.00)	
Dedicated inst x Top10 indiv prop				-0.0097
				(-1.30)
Constant	-0.0288***	-0.0324***	-0.0303***	-0.0243***
	(-5.19)	(-11.43)	(-7.25)	(-5.33)
Firm-level controls	YES	YES	YES	YES
Controls for other proposals & meeting dissent	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES
Observations	242	242	242	242
Adjusted R2	0.572	0.549	0.570	0.556

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