Department of Finance
Working Paper Series 1998

FIN-98-046

Shareholder Proposals and Corporate Governance

Kose John, April Klein

March 1995

This working paper series has been generously supported by a grant from

CDC Investment Management Corporation

BEING REVISED

SHAREHOLDER PROPOSALS AND CORPORATE GOVERNANCE

Kose John and April Klein
Leonard M. Stern School of Business
New York University
New York, New York 10012

First Draft: March 1994
Current Draft: March 1995

We would like to thank Eli Bartov, Amar Gande, Jeffrey Callen, Jeffrey Gordon, Bill Green, Paul Malatesta, N. R. Prabhala, Jack Slain, Ralph Walkling and Wanda Wallace for comments and suggestions. We would also like to thank the participants at the American Finance Association meetings in Washington D.C. and in the workshops at NYU and College of William and Mary for helpful comments.

Shareholder Proposals and Corporate Governance

I. Introduction

The role and effectiveness of corporate internal control systems of publicly-held modern corporations are of growing interest to financial economists. With the reduced effectiveness of the market for corporate control due to legal and regulatory constraints, it has been argued that the internal control systems headed by the board of directors have become increasingly important (see, e.g., Jensen (1993)). Although shareholders elect directors who manage their corporations and vote to approve certain fundamental corporate transactions such as mergers, the typical role of shareholders in the proxy solicitation and voting process is limited and management-dominated. One feature of shareholder participation which is not dominated by management is shareholder proposals. Since 1942, the Securities and Exchange Commission (SEC) requires management to include shareholder-sponsored proposals in its solicitation materials. The shareholder proposal mechanism is governed by Rule 14a-8.

Although the rule, which has been amended many times, has been the subject of controversy, its role in changing the corporate governance structure has increased in recent years. Recent corporate governance proposals have dealt with the conduct of shareholder meetings, make-up of the board of directors, executive compensation, voting mechanisms, rights of shareholders, changes in the state of incorporation or requests to the board for more extensive financial information.

In this paper, we study shareholder proposals. Although we examine the shareholder

Shareholder Proposals and Corporate Governance

Kose John and April Klein
Leonard M. Stern School of Business
New York University
New York, New York 10012

Abstract

Shareholder-sponsored proposals are studied focusing on those seeking changes in corporate governance and the incentive structure of managers. The sample contains 334 proposals made by shareholders of 485 of the S&P 500 firms between July 1, 1991 and June 30, 1992. We test hypotheses on the determinants of the likelihood of a corporate governance proposal being made as well as the votes obtained. We find that likelihood of a firm being the target of one or more corporate governance proposals to be significantly affected by firm size, presence of negative net income, percentage of outside directors with outside directorships in other S&P 500 firms, the percentage of institutional ownership and whether or not shareholders vote on the choice of auditor and last year 's vote. We also examine the determinants of the likelihood of specific types of proposals and of particular proponents.

proposal mechanism in general, we focus on proposals seeking changes in corporate governance and incentive structures of managers. We examine 334 proposals made by shareholders of 485 S&P 500 firms between July 1, 1991 and June 31, 1992. We categorize these proposals into two broad classes, corporate governance proposals or social proposals. We examine the different types of proposals in each category, characteristics and identity of the sponsors and the votes they obtained.

In addition to the descriptive characterization of shareholder proposals, we analyze in detail two aspects of corporate governance proposals. The first part of our analysis studies the determinants of the likelihood of a corporate governance proposal being made. This analysis is structured by the following simple model. We view the corporate governance shareholder proposal as a tool of shareholder activism. When outsider shareholders (individual or institutional) believe that the internal and external control systems in place are not functioning properly, they initiate shareholder proposals. Thus, shareholder proposals seeking changes in corporate governance structure will more likely occur for firms with weakened control mechanisms. Manifestations of weak control mechanisms are of two types: the first type consists of direct evidence of poor constitution or functioning of the different alternative control mechanisms; the second type consists of overall poor firm performance based on alternative measures of performance. Examples of direct indications of weak control mechanisms include ineffective boards of directors, low inside share ownership, low institutional ownership, and the presence of antitakeover provisions in place which weaken the external mechanisms of corporate control. Examples of manifestations of poor firm performance include low cumulative stock returns and the presence of negative net income.

We also argue that a higher incidence of shareholder-initiated proposals will be positively related to the "conduciveness of the environment" towards such proposals. For a given level of effectiveness of control mechanisms, shareholders are more likely to initiate proposals if they expect a favorable environment. Aspects of such a favorable environment are an activist shareholder body, high quality outside directors and enthusiastic reception (say, indicated by past voting behavior) for such proposals.

In the hierarchy of mechanisms to influence and control corporate policy, it seems clear that shareholder proposals would only be third in effectiveness compared to hostile takeovers and proxy contests with incumbent managers. On the other hand, the costs of these alternative mechanisms are too high to be used periodically in the normal course of the routine functioning of a firm. We also argue that the effectiveness of the shareholder proposals varies a great deal among different proposals and different types of proponents. In some cases the shareholder proposal may be a simple expression of general disapproval (say, at high management compensation). In other cases it could be a well-orchestrated move to undo an antitakeover measure or restore cumulative voting[1]. We study the factors which influence the likelihood of different types of shareholder proposals and different types of proponents to initiate shareholder

---

[1]Even though few of the shareholder proposals not supported by management pass, many of them may accomplish their objective indirectly. In many cases boards subsequently adopt failed shareholder proposals. For example, in the 1940's and 1950's one prevalent shareholder proposal was to require yearly shareholder approval of a firm's outside auditor. This proposal never passed; nevertheless 68.4% of the firms in our sample had a management-sponsored proposal with the same content. In many cases, boards of firms with defeated shareholder proposals from a particular proxy season will adopt measures which enhance shareholders rights as early as the next proxy season. We were able to identify at least nine firms from the 1990-1991 proxy season that fell into this category.

proposals[2].

Our empirical results support many of our hypotheses. We find the likelihood of a firm being the target of one or more corporate governance proposals to be positively and significantly affected by size of the firm, presence of negative net income, percentage of outside directors with outside directorships in other S&P 500 firms, whether or not shareholders vote on the choice of auditor and the previous year's maximum vote for any shareholder proposal. The percentage of institutional ownership has a negative and significant effect on the incidence of shareholder proposals.

We also examine the determinants of the likelihood of different types of proposals. We find that the presence of staggered boards and poison pills and the percentage of outside board members who are on the boards of other Fortune 500 firms increases the likelihood of governance proposals pertaining to antitakeover provisions. The firm being in a state (of the US) considered to be hostile to takeovers reduces the likelihood of such governance proposals. The salary of the board of directors, firm size and the presence of negative income significantly and positively affects the incidence of shareholder proposals seeking changes in the board structure. Firm size, negative income and the presence of interlocking boards are associated with the

---

[2] After the first draft of our paper was written, a paper by Karpoff, Malatesta and Walkling (1994) has come to our attention. They consider the announcement effects on stock prices focusing on the date the firm mailed proxy material to shareholders that included a discussion of the proposal. (For a small subset of their sample they also focus on the date the *Wall Street Journal* first published an article referring to the proposal). Karpoff, Malatesta, and Walkling (1994) present evidence that they interpret to be consistent with such a differential wealth effects for different types of proposals and proponents. Overall, they interpret their evidence to indicate that proposals are not associated with wealth increases. Many of their results do not seem to be statistically significant. Given the nature of the shareholder proposal mechanism and the sequence of events prior to registration and mailing of the proxy material, it may be hard to pinpoint a single day during which most of the "surprise" regarding the proposal event gets incorporated in the stock price. Moreover, there may be other confounding information contained in the proxy material. This suggests that wealth effects associated with shareholder proposals may not be detected even when they are present.

likelihood of shareholder proposals seeking changes or additional disclosures in the firm's executive compensation structure.

In our study of factors which increase the likelihood of a particular type of proponent to propose shareholder proposals, we find other interesting relationships. For example, pension funds seem to target large firms with poor stock return performance which have large institutional ownership. On the other hand, the United Shareholder Association, a shareholder activist group, seems to target smaller firms with a large fraction of prominent outside directors and one or more restrictive features (poison pills, staggered boards, no confidential voting and golden parachutes).

We also study the votes obtained by the shareholder proposals. During the 1991-92 proxy season, no shareholder proposal not supported by management was passed; however, many proposals received substantial votes. For example, 51 corporate governance proposals received over 33% positive votes; 23 received over 40% affirmative votes. In contrast, only one social proposal received over 33% of positive votes. In our detailed analysis of the votes obtained by governance proposals, we hypothesize that the votes are determined by poor control mechanisms, type of proposal, identity of the proponent, and ownership structure.

We find the percentage of favorable votes to be significantly and positively related to the percentage of institutional ownership, whether or not it was a common proposal, and whether or not it was a proposal related to repealing an antitakeover measure or related to shareholder voting. The fraction of favorable votes was negatively influenced by firm size, past cumulative stock returns, total ownership of directors, and whether or not the proposals were related to seeking changes in the board of directors. The identity of the proponent also had a significant

impact on the favorable votes obtained, e.g., proposals by Gilbert brothers, pension funds, and the United Shareholders Association elicited significantly higher votes than the other proponents. Gordon and Pound (1993) also examine voting behavior on shareholder proposals based on a sample of 266 proposals from the 1990 proxy season. They too find that the voting behavior is affected by the identity of the sponsor, the type of proposal, ownership structure, and firm performance. However there are differences in the details of the results which are discussed later.

The remainder of the paper is organized as follows. In section II, we describe the shareholder proposal mechanism. In section III, the basic hypotheses are developed. Data description and sample selection criteria are described in Section IV. The empirical specifications and results are presented in Section V. Section VI concludes.

II. The Shareholder Proposal Mechanism

Shareholders proposals are governed by Rule 14a-8 pursuant to Section 14 of the Securities Exchange Act of 1934 which regulates the proxy system of voting. Rule 14a-8 requires management to include all eligible shareholder proposals within their own proxy solicitations. The joint purpose of the rule is to notify voting shareholders of upcoming shareholder proposals and to allow these shareholders to vote on these matters *in absentia*.

Rule 14a-8 was established in 1942.[3] Since 1942, the SEC has revised Rule 14a-8 ten separate times,[4] in turn expanding and contracting the scope of allowable proposals. Several

---

[3]In 1942, it was originally known as Rule 14a-7.

[4]The rule was amended in 1947, 1948, 1951, 1954, 1966, 1972, 1976, 1978, 1979 and 1983. For a detailed discussion of these changes, see Liebeler (1984).

of these amendments were aimed at curbing perceived abuses of the proxy system. Other amendments were in response to federal court decisions.[5]

Currently, Rule 14a-8 regulates the eligibility, timeliness, number, and scope of shareholder proposals. An eligible proponent must own at least 1% or $1000 market value of voting securities for at least one year prior to submission.[6] Each individual can submit only one proposal per meeting, which must be presented to the firm with an accompanied supporting statement no longer than 500 words as well as his name, address and shareholder history.[7] Submission must take place at least 120 calendar days prior to the proxy statement's expected mailing date.

Rule 14a-8(c) gives management the right to exclude shareholder proposals for thirteen separate reasons. Rule 14a-8(c)(1) allows for exclusion if the proposal is not a proper subject for action by security holders under the incorporated state's corporate laws. For example, under Delaware law, shareholder proposals mandating the board to perform most actions are not considered proper subject matter, while proposals suggesting or recommending such actions may be allowed. As a result, all shareholder proposals in Delaware are precatory or advisory in nature. Rules 14a-8(c)(2) and (3) preclude the inclusion of proposals that would violate state

[5]For example, one of the 1972 amendments significantly restricted management's ability to omit so-called "social action" proposals by shareholders. This amendment followed the decision in *Medical Committee for Human Rights v. SEC* (432 F.2d 659 (D.C. Cir. 1970), *vacated as moot*, 404 U.S. 403 (1972)) in which the Court of Appeals for the District of Columbia suggested that all stockholders should have access to the proxy process.

[6]Management can request documentary support for a proponent's claim of beneficial ownership of the required number of shares. Further, the proponent is supposed to own continuously the requisite shares through the time of the meeting. If he does not own the shares on the meeting date, management cannot strike the proposal from the agenda. Instead, management may exclude any proposals submitted by the proponent in its proxy material for any meeting held in the following two calendar years (Rule 14a-1(a)(1))

[7]This material may be omitted at the proponent's request on the face of the proxy statement but must be available upon written or oral request of other shareholders.

law, federal law, or proxy rules or regulations. Rules 14a-8(c)(4), (6), (9), (10) and (11) allow the firm to omit proposals that are personal grievances, are beyond the firm's power to effectuate, are counter to a management proposal, have been rendered moot or are duplicative of another shareholder proposal in the firm's proxy statement. Proposals prescribing board elections (Rule 14a-8(c)(8)) or cash or stock dividends (Rule 14a-8(c)(13)) are also excludable. To curb any shareholder from submitting the same proposal year after year, Rule 14a-8(c)(12) prohibits the resubmission of a prior proposal if predetermined thresholds in the number of positive votes cast are not met.

Rule 14a-8(c)(5) allows management to omit proposals relating to operations accounting for less than 5 percent of the firm's total assets and less than 5% of the firm's total net earnings and gross sales if the proposal is not otherwise significantly related to the firm's business. Rule 14a-8(c)(7) provides for the exclusion of proposals that refer to matters "relating to the conduct of the ordinary business operations" of the firm. These two rules are the most commonly used by firms when attempting to omit shareholder proposals.

To exclude a shareholder proposal, the firm must file its reason(s) for exclusion with the SEC not later than 80 days prior to its proxy filing date. If the SEC agrees with management, a "no-action letter" is issued indicating that no action will be taken against the firm's decision to exclude the shareholder proposal. However, no-action letters are not legally binding and have been successfully challenged by the proponent in federal court.[8] If the SEC disagrees with management, then the firm must either include the proposal within its proxy materials or challenge the SEC's decision. Such challenges are rare since they may hold up the issuance of

[8]See, for example, *Amalgamated Clothing and Textile Workers Union v. Wal-mart Stores, Inc.* 821 F.Supp. 877 (1993).

the proxy statement to shareholders, thus postponing the scheduled annual meeting date.

Shareholder proposals may be and almost always are accompanied by statements of opposition or agreement by management in the proxy statement. Only one shareholder proposal in our sample, calling for a voluntary reduction in irrelevant shareholder proposals, was supported by management.[9] Opposing statements must be filed with the SEC no later than 30 calendar days prior to the filing date of the proxy statement.

III. Hypotheses

Both external and internal mechanisms are used to alleviate agency problems between managers and shareholders. External mechanisms are those foreign to the firm and include the market for corporate control, the market for managers and bankruptcy reorganization which may exercise a discipline on management. However, external mechanisms are time consuming and expensive and therefore cannot be relied upon on a day-to-day basis to provide monitoring and discipline on the management. In the routine functioning of the corporation, internal mechanisms of corporate control will be important in alleviating managerial incentive problems. Monitoring by the board of directors is an important internal mechanism developed by modern corporations to mitigate the agency problem between top-management and shareholders (Fama and Jensen (1983)). Top-management compensation structures with large incentive features or increased managerial ownership can work to reduce the agency problem. More concentrated shareholdings by outsiders can induce increased monitoring by these outsiders and so improve the performance of managers (Shleifer and Vishny (1986)).

---

[9]We excluded this proposal from our sample.

The effectiveness of internal mechanisms in fulfilling their monitoring role has been called into question[10]. Jensen (1993) argues that internal control systems generally have failed to cause managers to maximize efficiency and value. He points to the low productivity of R&D and capital expenditures as direct evidence of these failures. Jensen argues that resurrecting active investors (individuals or institutions who hold large debt and/or equity positions in the company) is crucial to a well-functioning governance system. He claims that active investors have the financial interest and independence to view firm management and policies in an unbiased way and therefore have the incentives to buck the system and correct problems early rather than late. In this sense, we view shareholder-initiated proposals with corporate governance content as acts of shareholder activism. In recent years, governance proposals have been used increasingly by large institutional investors and dissidents to seek a variety of changes in corporate governance and incentive structure (Ryan 1988). In particular, they have often been used to challenge antitakeover measures such as poison pill plans (which do not require a concurring shareholder vote) and to introduce provisions which improve the effectiveness of the shareholder vote (Gordon and Pound (1993)).

We hypothesize that shareholder proposals regarding corporate governance are more likely for firms in which the external and internal mechanisms for corporate control are not functioning adequately. We posit that a more active or effective board of directors would be associated with a lower likelihood of corporate governance shareholder proposals. Features that make the board of directors more effective include high outside representation on the board, high

[10] John, Lang and Netter (1992) examine how internal control systems respond to performance declines in large firms. Ofek (1993) and Brown, James and Ryngaert (1992) study how the speed of response is higher with higher leverage.

attendance at the board meetings and high frequency of meetings. Similarly, we argue that corporations that have enacted measures restricting the voting rights of shareholders or antitakeover measures insulating management from the market for corporate control are more likely targets of shareholder proposals involving confidential voting, cumulative voting, rescission of super-majority provisions, repeal of poison pill adoptions or repeal of classified boards. We also posit that more concentrated shareholdings by outsiders (institutions or blockholders) provide a mechanism for monitoring managers and hence make the likelihood of shareholder proposals lower.

Worsening of the firm's economic performance suggests potential problems with incumbent management and hence failure of one or more of the control mechanisms. A decline in measures of firm performance should make the governance proposals more likely. For example, firms with a prior period of negative earnings or low cumulative abnormal stock returns would be more likely targets of shareholder proposals.

We also hypothesize an additional set of factors which lead to a higher incidence of shareholder-initiated governance proposals. These factors are collectively termed as "conduciveness of the environment". Attributes of the body of shareholders (whether they are prone to activism or not, whether they are called upon to vote routinely on board decisions, whether shareholder organizations have targeted the firm for activism), attributes of the board of directors such as their independence and quality, and the previous acceptance of shareholder proposals, and consequently the anticipated level of support for the proposal are dimensions of this conduciveness factor. Proxies for this factor include the highest vote obtained by any of last year's corporate governance proposals and whether shareholders are routinely asked to vote on

other board decisions[5]. A proxy for the quality of the board of directors is the number of outside directorships held by outside directors (Shivadasani (1993)). The likelihood of shareholder proposals would be higher in a more conducive environment.

Some of the factors which indicate a favorable setting for shareholder proposals apply generally to all types of proposals and proponents. For example, the presence of an activist shareholder body or a high degree of favorable voting on shareholder proposals may be conducive to any type of shareholder proposals. On the other hand, there may be groups of factors which indicate a favorable setting for a specific type of proposal or a specific type of proponent. For example, pension funds may find large firms with a high institutional ownership and a history of low cumulative stock return performance a particularly conducive target for shareholder proposals (see, e.g. Ryan (1988)). Similarly, firms with unusual levels of management compensation may be susceptible to proposals seeking changes in executive pay or additional disclosures about them. We study how the proxies for weakening control mechanisms and conduciveness of the environment affect the likelihood of shareholder proposals in general. In separate tests we examine how these factors affect the incidence of different types of proposals and by different types of proponents.

Based on arguments made above, we hypothesize that many of the factors associated with a failure of monitoring mechanisms will not only increase the likelihood of a governance proposal but will also lead to more votes for the proposal. For example, governance proposals which aim to increase shareholder rights will elicit more votes when the corporation has enacted measures that restrict the rights of shareholders. Similarly higher board activity and

[5]An example is the auditor vote provision, i.e.,shareholders are asked to vote to ratify the outside auditor at the annual meetings.

independence will be associated with lower votes for governance proposals. Lower measures of firm performance also lead to larger votes for shareholder proposed governance proposals.

On the other hand, there are some factors which, while reducing the likelihood of a shareholder proposal with governance content, may increase the votes obtained once it is proposed. A high percentage of institutional ownership or outsider block-holding may decrease the likelihood of a shareholder proposal; however, once proposed it may get support by the institutions or other large outside shareholder(s), leading to a high vote. Similarly, the likelihood of a shareholder proposal is high for a large firm with widely dispersed ownership and resulting weakened monitoring; however, shareholder dispersion makes it difficult for shareholders to act together, leading to a low vote. Finally, a large fraction of outsiders on the board may increase the effectiveness and independence of the board such that likelihood of a governance proposal is low. However, once a governance proposal has been made, shareholders may perceive a more receptive environment leading to more favorable votes.

Based on arguments similar to those for the incidence of shareholder proposals, we posit that the percentage of favorable votes obtained by a corporate governance proposal will depend on the nature of the proposal and the identity of the proposer. Governance proposals increasing shareholder rights (e.g., repeal of poison pills, confidential voting, cumulative voting) should command higher votes than others. Shareholder proposals made by large professional or institutional investors should receive more votes than those by small individual investors or groups.

To test these hypotheses, we use proxies for the efficiency of the alternative monitoring mechanisms, firm performance, different measures of ownership structure (director ownership,

institutional ownership), dummy variables for the nature of the proposals and dummy variables for the identity of the proponents. First, we run a logistic model of the incidence of governance proposals on the different relevant variables mentioned above. Logistic models are estimated for all proposals, for specific types of proposals and for different proponents. Second, we regress the vote obtained on the relevant variables.

IV. Data Description and Sample Selection

A. Shareholder Proposals

Proxy statements, 10K filings and annual reports for annual shareholder meetings held between July 1, 1991 and June 30, 1992 for U.S. firms listed on the March 31, 1992 S&P 500 were obtained. Hard copies of the proxy statements and reports were mailed by request by over 400 firms; the LEXIS-NEXIS services of Mead Data Central provided information for most of the remaining firms. Nine foreign companies listed on the S&P 500 were deleted. One firm, Security Pacific merged into Bank America during the period and did not have a proxy statement. Required information for five other firms were unavailable, resulting in their exclusion. The final sample consists of 485 of the original S&P 500 firms.

In all, there were 334 shareholder proposals over the 1991-1992 proxy season. The number of proposals per firm varied from zero for 311 firms to seven for one firm. Table 1 presents a breakdown of the number of proposals by firm.

Each shareholder proposal was read and categorized by content into 49 separate categories. We further cast each shareholder proposal as either dealing with corporate governance or social issues. Corporate governance proposals relate directly to the conduct of

shareholder meetings, executive compensation, voting mechanisms, rights of shareholders, make-up of the board of directors, changes in the state of incorporation or requests to the board for more extensive financial information. Social proposals deal with environmental issues, abortion and human rights, investments in foreign countries (most notably South Africa and Northern Ireland), the firm's relation with the military or the U.S. government and other issues of that ilk. Although most proposals can be unambiguously classified as either corporate governance or social, we used the Investor Responsibility Research Center's (IRRC) classification for equivocal proposals.[6]

Table 2 presents a break-down of the number of shareholder proposals by classification. One hundred sixty-nine proposals deal with corporate governance issues and 165 with social changes. The most popular corporate governance proposals are calls to eliminate classified boards (24), to institute cumulative voting for board elections (23), to abolish or prohibit poison pills (20), to have confidential voting in tabulating board elections (19), and to request more information on executive compensation (18).[7] The most frequent social proposals call for the firm to boycott or end economic ties with South Africa (61), environmental issues (34) and abolishing economic ties with Northern Ireland (16).

Voting results for shareholder proposals are tabulated by the IRRC and published within

[6]The equivocal cases were proposals calling for information on political donations by firms, calls against the marketing of harmful products and the call against having religious discrimination in hiring practices. Consistent with the IRRC, we classified each of these proposals as social.

[7]Classified or staggered boards are boards in which only a portion of the board is up for election each year. Usually, classified boards provide for staggered three-year terms. For this sample, 60.3 percent of the firms have staggered boards. Confidential voting is a system in which all proxies, ballots and voting tabulations identifying shareholders are kept secret from management and other shareholders. Cumulative voting, which applies only to the election of directors, is a method of shareholder voting in which the number of votes each shareholder receives is equal to the number of total shares owned multiplied by the number of directorships to be filled.

their Corporate Governance Bulletin. Consistent with previous studies, no shareholder proposal in the S&P 500 sample not supported by management was approved.[8] However, unlike previous studies, many proposals received substantial pluralities.

For all proposals, the average "yes" vote was 17.0%; the median was 12.2%. However, there was a great deal of dispersion in shareholder voting patterns, with corporate governance issues receiving more support than social proposals. As the last column of Table 2 shows, the majority of corporate governance proposals received, on average, double-digit votes ranging up to 43.0% for poison pill issues. Social issue proposals, on average, accrued lower percentages of positive votes. Examination of individual proposals revealed that while 51 corporate governance proposals received over 33% positive votes (23 had over 40% affirmative votes), only one social proposal (Tektronix- South Africa) received over one-third support. Thus, the drive towards adopting corporate governance shareholder proposals appears to be on the upswing.[9] A further implication of these voting trends is embedded in Rule 14a-8(c)(12) which says management can exclude any proposal from its proxy statement for the next three years if that proposal (a) was submitted by the same shareholder over a five year period and (b) did not garner the stated minimum percentage of affirmative votes. The thresholds for omission are: 3% if submitted once over five years; 6% if submitted twice; 10% if submitted three times.

When available, the proponent of the shareholder proposal was also recorded. Previous studies document that shareholder proposals are dominated by a few individuals (e.g., see Ryan

---

[8]However, this does not mean that all shareholder proposals received less than 50% of the votes cast. Four corporate proposals (for Browning-Ferris, Sonat, Polaroid and Ryder System) received 50 percent or higher of the votes cast but did not pass due to the fact that the firm calculates abstentions as no votes.

[9]Ryan (1988) reports that for anti-poison pill proposals, the average favorable vote was 29.4% during the 1987 proxy season and 38.7% during the 1988 season.

(1988), Gordon and Pound (1993)). For our sample, Mrs. Evelyn Y. Davis of Washington D.C. and the Gilbert brothers (Lewis D. and John J) of New York City were responsible for 74 shareholder proposals, i.e., 22.2% of all proposals. Mrs. Davis introduced 40 corporate governance proposals and six social proposal. The Gilberts were the authors of 28 corporate governance proposals.[10] Twenty-four corporate governance proposals were put forth by individuals on companies specifically targeted by the United Shareholders Association (USA), a shareholders' rights lobbying group established by T. Boone Pickens in 1986. According to a 1991 USA newsletter, USA supported four types of corporate governance shareholder proposals over the 1992 proxy season: repeal of poison pills, confidential voting, elimination of golden parachutes and opting out of state anti-shareholder laws. Remaining shareholder proposals were put forth by other individual shareholders, churches or non-profit organizations, unions, pension funds or insurance companies. Table 3 contains a break-down of the proponents by corporate governance and social proposals. As might be expected, social proposals were primarily put forth by churches and other nonprofit groups. Corporate governance proposals were mainly proposed by individuals. No authorship was provided in 22 cases.

B. Other data

(1) Internal Monitoring: Boards of Directors

Rule 14a-3(8) of the Securities Exchange Act of 1934 requires proxy statements associated with the election of directors to furnish information about all current directors and nominees. Specific instructions are contained in Schedule 14A. Among the required data items are: name of director, business experience during the last five years, significant current or

---

[10]We note the passing on of Lewis Gilbert in the fall of 1993.

proposed transactions with management and 'certain business relationships' with the firm. Item 404(a) of Regulation S-X specifies a threshold of $60,000 for a transaction to be considered significant. Item 404(b) of Regulation S-X defines 'certain business relationships' to include significant payments to the firms in return for services or property, significant indebtedness by the firm, outside legal counselling, investment banking, consulting activities and other joint ventures.

Consistent with previous studies (Vicknair, Hickman and Carnes (1993), Hermalin and Weisbach (1991), Rosenstein and Wyatt (1990)), we classify directors as insiders, outsiders and affiliates or "grey" directors. Insiders are current employees of the firm. Outsiders have no affiliation with the firm beyond being a member of the firm's board. Affiliates are former employees, relatives of the CEO or have significant transactions or business relationships with the firm. Directors of interlocking boards are also defined as affiliates. On average, boards are comprised of 23.5% insiders, 58.0% outsiders and 18.5% affiliates.

The primary role of outside directors is to monitor management, i.e., to measure management's performance and then reward, admonish or fire management based upon their evaluation of their actions (Fama and Jensen (1983)). Evidence consistent with outside directors being good monitors can be found in Weisbach (1988), Byrd and Hickman (1992), Kosnik (1987), Brickley, Coles and Terry (1994) and Klein (1994).[11] The predicted sign between "Outside Directors", the percentage of outside directors on the board, and the likelihood of

---

[11]Weisbach finds a positive relation between the proportion of outside directors and CEO turnover. Byrd and Hickman report a positive relation between outside directors and the returns to bidding firms in tender offers. Kosnik reports a negative association between greenmail payments and the proportion of outside directors. Brickley, Coles and Terry find that the stock market reaction to poison pills depends on whether the board has a majority of outside directors and Klein finds that placing outside directors on monitoring board committees results in increased monitoring for the firm as a whole.

shareholder proposals, however, is ambiguous. If independent boards are perceived by shareholders to be indicative of a well-functioning internal control system, then we would expect to see a negative relation between Outside Directors and the introduction of corporate governance proposals. However, if outside board members are perceived as being sympathetic to outside corporate governance changes, then we would expect to see a positive relation between Outside Directors and the likelihood of firms being the targets of corporate shareholder proposals.

A second measure of the monitoring ability of outside directors is "DIR500" which is the percentage of outside directors with outside directorships in other S&P 500 firms. Fama (1980) envisions a market for outside directors in which directors' abilities are assessed and priced accordingly, with more productive directors serving on other boards in the same capacity. Evidence of a link between outside directors' effectiveness and the number of outside directorships is provided by Shivadasani (1993), Kaplan and Reishus (1990) and Gilson (1990). The impact of DIR500 on the likelihood of corporate shareholder proposals is posited to be the same as Outside Directors.

Board Activism

"Board Activism" is a summary statistic encompassing two positive aspects of board vitality. It is equal to the percentage of directors that attended at least 75% of all board meetings plus a dummy variable equal to one if the number of regularly scheduled board meetings over the fiscal year was greater than the median (eight meetings) and zero otherwise. Schedule 14A requires firms to report both the number of regularly scheduled board meetings and to indicate which directors did or did not attend at least 75% of all board meetings. On average, 88% of

all directors attended at least 75% of all board meetings.

Director Shareholdings

Director shareholdings are taken from the proxy statements. Consistent with Hermalin and Weisbach (1991), we include all shares over which the director had voting power. This includes shares for which the director beneficially owned as well as shares owned by members of his family and shares in which the director was the trustee of a foundation or of a trust.[12] On average, directors hold 944,427 shares as a group. The median holdings are only 111,800 shares, indicating a large dispersion among firms.[13] In percentage terms, directors hold an average of 8.57% of the firm's holdings and a median of 1.75%.[14]

(2) Outside Monitoring: Institutional Ownership

Institutional ownership was collected from Disclosure.[15] Both the number of shares and the percentage of total common stock owned by institutions were tabulated. Since Disclosure releases this information on a quarterly basis only, we took the quarter closes to but preceding the proxy mailing date. The average percentage of ownership by institutions was 55.7%; the median was 57.5%. These percentages are consistent with our firms being among the largest

---

[12]As Hermalin and Weisbach (1991) note, in many cases this requires the interpretation of lengthy footnotes or the making of "judicious" decisions as to the degree of voting power that the director has over the shares.

[13]For individual directors, the mean holding is 761,6500 shares but the median share ownership is only 6,200. Many outside directors (over 25%) have no voting interest suggesting that firms do not encourage such ownership.

[14]Several studies have suggested that the relation between director shareholdings and increased firm performance may be non-linear (e.g., Stulz (1988), Morck, Shleifer and Vishny (1988) and Byrd and Hickman (1991)). These papers suggest that directors contribute to corporate wealth as their stake in the firm increases, but, that "too much" ownership leads to entrenched management. To test for this phenomenon we included dummy variables equal to one if the total percentage of director ownership is greater than 5% (or other cut off points) and zero otherwise. The results reported in this paper were not significantly affected by these cutoffs and therefore, we do not include the analyses with these dummy variables.

[15]We would like to thank Lee-Seok Hwang for providing this data.

and having the most actively traded securities.

(3) Performance Measures and Firm Size

Returns data are available on the CRSP daily returns tape. Revenues, net income, dividends, long-term debt, assets and other financial data are on Compustat. We predict positive correlations between the incidence of corporate governance shareholder proposals and poor firm performance.

Firm size is measured by the natural logarithm of total assets (in 000's) which is available from Compustat. The variable is included as a proxy for shareholder dispersion since the concentration among nonblockholders is negatively related to firm size (e.g., see Brickley, Lease and Smith (1988)).[16] We predict a negative relation between the percentage of positive votes on corporate shareholder proposals and firm size.

(4) Restrictive Measures

Restrictions on shareholders' rights include poison pills and golden parachutes which may insulate management from the market for corporate control. Staggered boards are also considered widely to be an anti-takeover device (e.g., see Bhagat and Brickley (1984) and Mergers and Acquisitions (1994)). Restrictions on shareholders' voting rights include no provisions for confidential voting or for cumulative voting. Information on these restrictive measures are found in the proxy statements and 10-K filings for the firms. In our sample, 72.8% of firms have poison pills, 53.4% have golden parachutes, 60.3% have staggered boards. Thus, the majority of all U.S. firms in the S&P 500 have at least one form of anti-takeover provision. The lack of confidential or cumulative voting is even more prevalent. Only 10.3%

---

[16]The Spearman correlations between institutional shareholdings, director shareholdings and the log of firm assets is negative.

of firms have confidential voting provisions and only 13.9% of firms allow for cumulative voting.

We predict a positive relation between the number of restrictions and the incidence of corporate governance shareholder proposals. The variable called Restrictive Measures is equal to the sum of five dummy variables; each dummy variable is equal to one if the restriction exists and zero otherwise. On average, Restrictive Measures is equal to 3.63, suggesting that the average firm has between three and four of the five stated restrictions on shareholders' rights.

(5) Probability of Passage or Support of the Proposal

An important piece of our story is that the likelihood of a corporate governance shareholder proposal being introduced is related to the probability that it will pass or, at least, accrue a substantial plurality of votes. One method of assessing the probability of passage is to examine past voting patterns of shareholder proposals, i.e., a positive intertemporal relation between positive votes exists. Voting percentages for corporate governance shareholder proposals from the previous year's annual meeting are available from the IRRC. "Last Year's Vote" is the highest positive percentage of votes obtained by any previous year's governance proposal.

We also propose that shareholder proposals are more likely to occur when management (the board) is perceived as being sympathetic, or at least not unfriendly, to these proposals. Management has a great deal of influence over the proxy process and, if they choose, can mobilize a substantial amount of resources to defeat an unfriendly proposal.[17] Since proposals

[17]In the late 1960's, Ralph Nader targeted General Motors with a series of shareholder proposals aimed at opening up General Motors' board to minorities, women and employees of the firm. This strategy was dubbed "Campaign GM." General Motors spent large resources to repel these proposals. In the end, Nader's proposals received less than 3% of shareholder approval.

must reach a threshold of positive voter support in order to be reintroduced, it would not be in the proponent's interest to introduce a proposal that may be challenged by management.[18]

More importantly, boards have broad discretion in implementing new policies. Many boards have adopted failed shareholder proposals as a compromise or concession to existing shareholders. For example, in the 1940's and 1950's, one prevalent shareholder proposal was to require yearly shareholder approval of the firm's outside auditor. This proposal never passed; nevertheless, 68.4% of the firms in our sample had a management sponsored proposal asking eligible shareholders to ratify the board's choice of outside auditor. More pertinent to our study, through the USA Advocate (1992a, 1992b), we were able to identify nine firms with defeated corporate governance proposals in the 1991 season whose boards subsequently adopted shareholder rights policies, including confidential voting, termination of poison pills, termination of golden parachutes and more independent boards.[19]

We use several variables as possible indicators of a conducive environment. "Auditor Vote" is a dummy variable equal to one if shareholders are asked to ratify the outside auditor at the annual meeting and zero otherwise. If outside directors are more sympathetic to change than non-outside directors, then "Outside Directors" and "DIR500" will also be positively related to the likelihood of the firm having a corporate governance shareholder proposal.

V. Empirical Specifications and Results

A. Shareholder Proposals: All corporate governance proposals

[18]Campaign GM was prior to the introduction of the threshold voting requirement in Rule 14a-8.

[19]These firms are Boise Cascade, Brunswick, ITT, Pfizer, Pittson, Ryder, Textron, Time Warner and Wendy's.

Table 4 contains a comparison of mean performance and monitoring measures for firms with and without corporate governance proposals. T-tests for differences in the averages are presented in the third column. F-statistics using an analysis of variance between groups are presented in the last column.

We use both accounting and market measures of profitability. The accounting measures are net income, earnings before depreciation interest and taxes (EBDIT) and the dividend payout ratio. The market variables are raw returns and beta-and-market-adjusted returns. All profitability measures end in the fiscal year prior to the firm's annual shareholders' meeting. Although one and three-year accounting measures are calculated, we report only the three-year variables in Table 4. Both one and two-year market measures are shown in Table 4.

Firms with corporate governance proposals tend to be larger than firms without proposals. Firms with proposals also have lower measures of both net income before extraordinary items and EBDIT over the three-year period immediately preceding the annual meeting. Investors also are more likely to see negative earnings for the fiscal year immediately preceding the annual meeting for firms with corporate governance than for firms without -- 23.7% vs. 12.6%. The differences in means are each significant at the .05 level or better, supporting our premise that shareholder proposals are linked to firms with poor corporate accounting performances. These findings are consistent with Malatesta and Walkling's (1988) results that firms adopting poison pill defenses have smaller accounting profitability measures than the average firm in their respective industries. They are also consistent with Karpoff, Malatesta and Walking (1994) who find that firms subject to shareholder corporate governance proposals over the 1987-1990 proxy season had lower accounting profitability measures than a

sample of matched firms.

In contrast, little evidence is presented suggesting significant differences between groups in market performance. Raw market returns for the fiscal year preceding the annual meeting are 13.9% for firms with corporate governance proposals and 14.3% for firms without these proposals. Beta-and-market-adjusted returns are -0.15% and -0.28%, respectively. All differences are insignificant at conventional levels. Market returns for the two-year period preceding the annual meeting date produce similar, insignificant results. Other measures of market performance produce corresponding results.[20]

The degree of monitoring is measured by board composition, board activism and director and institutional shareholdings. One year of data is used for these variables. Consistent with our hypotheses, significant differences in these variables are found between firm groups. Firms with corporate governance proposals have boards of directors with significantly more outside directors (62.2%) than firms without such proposals (56.7%). Director shareholdings are greater for firms without corporate governance proposals. Finally, firms with these proposals are more likely to ask their shareholders to ratify the board's choice of outside auditor.

We use a logistic model to test our hypotheses relating the presence and efficiency of alternative monitoring mechanisms to the likelihood of observing corporate governance shareholder proposals for firms listed in the S&P 500.[21] The binary dependent variable is equal

---

[20]We calculated market-adjusted and market-model-adjusted returns for both groups. Their means were insignificantly different from each other.

[21]To determine the sensitivity of our results to the choice of a logistic model, we also used a probit model. Because the cumulative normal distribution and the logistic distribution are very close to each other, except at the tails, similar results should be observed (Maddala 1993). To examine the comparability of the two models, we examined the goodness-of-fit tests, the significance levels of the individual independent variables and compared the coefficients on the two models. In almost all cases, the goodness-of-fit tests and the significance levels were comparable to each other within a range of .001-.02. Following Maddala, who cites Ameimiya (1981), we

to one if the firm had a corporate governance shareholder proposal over the period tested and zero otherwise. By using the S&P 500 as our population, we avoid the biases associated with the use of non-random, equal share samples in the model estimation. As Palepu (1986) shows, using a matched sample methodology leads to inconsistent and biased estimates of the model parameters for binary state (e.g., logit) models if the probability of observing one state is not equal to 50%. Only 24% of the firms in the S&P 500 had corporate governance proposals. The independent variables include proxies for the efficiency of alternative monitoring mechanisms, measures of firm profitability and the likelihood that management will be receptive towards these proposals.

Table 5 contains the coefficients and probability levels for the coefficients for two models. In column (1), we present a model using firm size (Size), firm performance (Negative Income, two-year Stock Returns),[22] monitoring by large blockholders (Director Share Ownership and Institutional Ownership), board independence and activism (Outside Directors, Board Activism and DIR500), the number of restrictive measures on shareholder rights (Restrictive Measures) and board sympathy (Auditor Vote, Outside Directors and DIR500). In column (2), we use the percentage of last year's vote (Last Year's Vote) as a measure of likelihood of passage.

As shown in Column (1) of Table 5, the likelihood of observing a corporate governance proposal at the annual meeting is an increasing function of firm size (p=.01), the reporting of

transform the logit estimates into approximations of the probit estimates by multiplying the logit estimates by 1/1.6. This transformation produced estimates that, in almost all cases, were within 10% of the point estimates for the probit models.

[22]Other accounting measures of firm productivity (e.g., net income, EBDIT, ▲Net Income) produce similar results and are not reported.

negative income for the year (p=.03) and the number of restrictions placed on shareholders' rights (p=.05). The coefficient on institutional ownership is significantly negative (p=.07), supporting our hypothesis that firms with greater outside monitoring will be less subject to shareholder proposals.[23] The significantly positive coefficient on DIR500 suggests that boards whose outside directors are asked to serve on other S&P 500 boards are more likely to be the recipient of a corporate governance shareholder proposal. One plausible explanation behind this finding is that shareholders will submit proposals for firms whose boards are perceived to be receptive to structural changes introduced by non-management shareholders. The significantly positive coefficient on Auditor Vote confirms this view. No significant relation is found between stock returns, the degree of director ownership, board activism, the percentage of outside directors on the board and the incidence of shareholder proposals.

In Column (2) of Table 5, we include Last Year's Vote, the maximum vote received during last year's proxy season by the firm for any corporate governance shareholder, as an additional variable. We posit that the probability of passage of this year's proposal will be positively related to how well last year's proposals were received. The results in column (2) confirm this conjecture; the coefficient on Last Year's Vote is positive and significant at the .01 level. The coefficients and significance levels of the other variables remain qualitatively the same. Note, however, that the logistic models in columns (1) and (2) are not directly comparable to each other. Specifically, in column (2), Last Year's Vote is included but Outside

[23]Karpoff, Malatesta and Walkling (1994) find a significantly positive relation between institutional ownership and the likelihood a firm received at least one corporate governance shareholder proposal. However, their logistic regressions differ from ours in two important ways. First, their sample is from 1987-1990 while our sample is from 1991-1992. Second, they match their firms using firms from the CRSP daily master file. We use all firms listed on the S&P 500 at March 1992. As result, it is difficult to make direct comparisons between these two studies.

Directors, DIR500, Restricted Measures and Auditor Vote are excluded. The problems of multicollinearity between Last Year's Vote and these variables dictated this analysis and presentation. Last Year's Vote is equal to the maximum vote received on any corporate governance proposal that may have occurred or to zero if there was no corporate proposal. As constructed, Last Year's Vote is perfectly correlated to whether **last year** the firm had a corporate governance proposal. Therefore, according to our hypotheses, Last Year's Vote should be related to the same independent variables used in our logistic model -- lagged one year. Thus, Last Year's Vote will be highly corrlated to variables whose levels remain relatively constant year to year. Because of these problems, we only use variations of the first estimation model for future analyses.[24]

B. Shareholder Proposals by Type of Proposal

In this section, we further examine the incidence of shareholder proposals by stratifying

[24]There are no solutions to multicollinearity aside from isolating the collinear independent variables as was done here. One consequence of including all of the variables in the same logistic estimation is that the standard errors of the estimates on the collinear variables are overstated making it difficult to disentangle the relative influences of the various independent variables. Orthogonalizing one variable on the other two only further confounds the interpretation of the logistic model (e.g., see Christie, Kennelley, King and Schaefer(1984) for a discussion of orthogonalization within an OLS context).

Two further points should be made. First, if our hypotheses are correct with respect to which variables should be included, then the coefficients on Outside Directors, DIR500, Restrictive Measures and Auditor Vote in Column (1) and Last Year's Vote in Column (2) will be biased in the direction of the omitted variables. Second, detecting multicollinearity in logistic models is much more subtle than detecting multicollinearity within an OLS framework because logistic models are non-linear. To examine the degree of bias and multicollinearity within our logistic estimations, we estimated a third logistic model consistent with columns (1) and (2), but with all variables included. In this model, Last Year's Vote had a coefficient of 6.57, significant at the .01 level. This compares to a coefficient of 7.16, significant at the .01 level for column (2). Outside Directors, DIR500, Restrictive Measures and Auditor Vote had coefficients of -0.54, 2.03, .12 and .58 respectively. Outside Directors remains insignificant at the .10 level; DIR500 is significant at the .05 level; Rstrictive Measures and Auditor Vote are now insignificant at the .10 level. These coefficients compare to -0.87, 2.98, 0.24 and 0.59 in column (1). Thus, the coefficients on the first three variables appear to be biased due to the omitted variable. The other coefficients in the "full" logistic model are consistent with those presented in column (1), suggesting little multicollinearity between Last Year's Vote and the other independent variables.

the proposals by type. As Table 2 shows, there were 32 types of corporate governance proposals over the 1991-1992 season. However, most of the proposals can be classified into one of four categories. **Takeover proposals** include the abolishment or prohibition of poison pills, shareholder approval of preferred stock, staggered (classified) boards, and other anti-takeover provisions. **Changes in Board Structures** proposals include proposals dealing with board composition or with compensation for outside directors. **Voting proposals** contain proposals affecting how shareholders can vote at annual meetings. Cumulative and confidential voting are included. **Executive Pay proposals** include proposals dealing with how officers of the firm are paid.

In Table 6, we present four separate logistic models measuring the probability that a firm will have a specific type of corporate governance shareholder proposal. The models in Table 6 differ from those in Table 5 in that we select, *ex ante*, variables that we believe should persuade shareholders to either introduce or not to introduce the specific type of proposal.

Takeover Proposals

The first model in Table 6 measures the probability that a firm will receive a takeover proposal. We augment the general model from column (1) of Table 5 by adding the variable Anti-takeover State and by including only two components of Restrictive Measures, Poison Pill and Staggered Board. Anti-takeover State is a dummy variable representing ten states that in 1991 had pre-emptive statutes making it very difficult for bidders to engage in hostile takeovers. The states chosen represent those states that have legislated at least three of the most draconian

anti-takeover statutes into their corporation laws.[25] We predict that firms incorporated in these states are less likely to have takeover proposals because the laws of these states act as a deterrent against takeovers.[26]

We also predict a positive relation between the incidence of takeover shareholder proposals and Poison Pills and Staggered Boards. Our underlying presumption is that firms with poison pills and/or staggered boards are perceived as being more hostile to being taken over. All states allow poison pills and classifed boards. One state, Massachusetts, requires all companies incorporated in that state to have staggered terms for their boards of directors.

Of the 485 firms used in the sample, 43 had takeover shareholder proposals. As shown in column (1), the coefficient on Anti-takeover State is significantly negative at the .05 level. This suggests that shareholders are less likely to submit these proposals in states with relatively unfavorable climate against takeovers. The coefficients on poison pill and staggered boards are significantly positive at the .06 and .01 levels, respectively, supporting our contention that presence of anti-takeover devices increase the likelihood of receiving these types of proposals. None of the other variables, with the exception of DIR500, is significant at the .10 level. The

---

[25]We considered six separate statutes. Business Combination (or freeze-out) statutes prohibit interested investors who purchase more than a minimum threshold interest in a target corporation from engaging in any type of business combination with the target for a period of between 2-5 years. Control Share Acquisition statutes require approval of voting rights from disinterested stockholders for their shares. Poison Pill statutes authorize company directors to enact shareholder rights plans that have the potential to deter hostile takeovers. Severance Pay/Labor contracts statutes provide for severance pay for all employees who lose their jobs as a result of a takeover or provide for the assumption of collective bargaining agreements by the acquiror. Recapture of Profits statutes allow companies to recapture the profits of bidders who put them into play. Mandatory Classified Board statutes require all companies to have staggered terms for their boards. Our approach differs from Comment and Schwert (1994) who define anti-takeover states as those having either control share laws or business combination laws.

[26]To test the sensitivity of this classification, we also estimated the model using two other estimates of Anti-takeover State. First, we picked 7 states that informal discussions with legal scholars deemed to have pre-emptive takeover laws. Second, we chose any state that had at least five (of 11 possible) anti-takeover provisions in its corporation law. The results with these two classifications were qualitatively th same to the one reported in Table 6.

positive coefficient on DIR500 suggests that shareholders will submit these type of proposals for firms with boards deemed to be more receptive to change.

Changes in Board Structure Proposals

In Table 6, Column (2), we present the results from the logistic model predicting a shareholder proposal calling for a change in board structure. Only 18 firms had this type of corporate governance proposal. We augment the model from Table 5 by adding two variables, the natural log of total non-inside directors' compensation (Directors' Salary) and the percentage of board members serving on each other's boards (Interlocking Board).[27] We predict that shareholders will be more likely to submit proposals advocating changes in board structure if directors were perceived as being overcompensated or if there were an interlock among board members. The positive coefficient on Director Salary ($p=.04$) supports our contention that boards with higher compensated directors more likely will be the target of these types of proposals. In a similar vein, the significantly positive coefficient on negative income suggests that poorly performing firms also are more apt to receive these types of proposals.

Shareholders' Voting Rights Proposals

Column (3) of Table 6 contains the coefficients and significance levels for the logistic model measuring the likelihood of firms receiving a shareholder proposal related to shareholders' voting rights. Twenty-eight firms received these types of proposals over the 1991-1992 voting season.

First, we hypothesize that firms with diffuse shareholder ownership will be more susceptible to these types of proposals. The coefficient on size is significantly positive at the

---

[27]Directors' compensation is equal to the sum of annual fees, board meeting fees, committee member stipends and committee meeting fees. Retirement benefits and stock options are not included.

.06 level. If larger firms have more diffuse shareholder ownership, then this finding supports our assertion.

Second, we predict that firms with restrictive voting rights provisions in place will more likely be the subject of these types of proposals. The variable, Voting Restrictions, is equal to the sum of two dummy variables. The first variable is equal to one if the firm has no cumulative voting and zero otherwise; the second variable equals one if the firm has no confidential voting and zero otherwise. We find a positive, but insignificant, association betwen Voting Restrictions and the incidence of these Voting Proposals.[28] We note, however, that most firms (around 90%) have either no cumulative nor confidential voting provisions in their by-laws or articles of certification.

Executive Pay Proposals

Column (4) of Table 6 presents the logistic model measuring the likelihood that firms will be the recipient of a shareholder proposal dealing with the disclosure or changes in top executive pay. Twenty-one firms over the 1991-1992 proxy season received such proposals. We hypothesize that shareholders will target firms that are performing poorly, are paying executives large salaries or whose boards appear to be captive of management. To measure board captivity, we include Compensation Committee, the percentage of the board's compensation committee comprised of inside directors and Interlocking Board, the percentage of directors with director interlocks, as additional variables. To measure excessive management compensation (Excess CEO Compensation), we use the natural log of the dollar amount that the CEO was overly compensated for the prior year vis-a-vis the industry standard. The dollar amount was obtained

[28]Similar results are found when we use each of the dummy variables as separate inputs in one equation.

from Executive Compensation in Corporate America '91, a publication of the United Shareholders Association. CEO compensation includes salary, bonus, present value of stock option grants, value of restricted stock, performance payouts and interest-free loans.

The results reported in Column (4) confirm some of our hypotheses. Negative Income has a significantly positive coefficient (p=.06), suggesting that poorly-performing firms are more likely to have executive pay proposals. The coefficient on Interlocking Board is also positive at the .06 level, suggesting a relation between the percentage of interlocking board members and the probability of a firm having such proposals.

In constrast, the coefficient on "Excess CEO Compensation", is insignicantly different from zero indicating that the likelihood of a firm receiving an executive compensation-type shareholder proposal is unrelated to the degree of shareholder compensation. We find similar results using the amount of CEO compensation and the percentage of excess CEO compensation as separate independent variables. These results concur with those reported by Karpoff, Malatesta and Walkling (1994) who find no significant differences between the average compensation of CEOs for firms with and without executive compensation proposals. We also report an insignificant coefficient on Golden Parachute, a dummy variable equal to one if the firm has a golden parachute in place and zero otherwise.

C. Shareholder Proposals by Identity of the Proponent

In this section, we categorize the proposals by the proponent's identity. We identify five proponents: Evelyn Davis, John and Lewis Gilbert, Pension Funds, United Shareholder Association and everyone else. Evelyn Davis and the Gilbert Brothers are self-proclaimed

individual shareholder activists. Pension Funds and the USA are more organized advocates. Consistent with Gordon and Pound (1993) and Karpoff, Malatesta and Walkling (1994), we find an association between proposal type and proponent. For example, of the 40 corporate governance proposals put forth by Evelyn Davis, 15 dealt with executive pay and 12 called for the declassification of boards. Half (14) of the Gilbert Brothers' proposals were for firms to institute cumulative voting. Pension funds primarily were interested in confidential voting (7) and poison pills (3) (see Gordon and Pound (1993)). USA, as previously mentioned, concentrated on poison pills (13), confidential voting (5), golden parachutes (3) and state reincorporations (2). This suggests differing agenda among the proponents, which further suggests that each proponent may use different criteria in selecting which firm to target.

In Table 7, we present five separate logistic models measuring the probability that a firm will have a specific proponent introducing a corporate governance shareholder proposal. The results in Table 7 are consistent with the proposition that different proponents look at different factors. From column (1), we see that the likelihood of a firm being the target of an Evelyn Davis shareholder proposal is positively related to size, director share ownership and DIR500, the quality of the board's outside directors. Column (2) reveals an association between negative income and the likelihood of a Gilbert Brother shareholder proposal. Interestingly, column (3) shows that the likelihood of a firm receiving a shareholder proposal from a pension fund is negatively related to the firm's previous two-year stock return (the coefficient is -1.31, significant at the .06 level) and positively related to firm size, director share ownership and institutional ownership. The negative coefficient on stock return and the positive sign on institutional ownership suggest that share value enhancement may be the prime motivating factor

behind pension funds' attempts to enhance shareholder rights. From column (4), it appears that the United Shareholders Association targets firms that have specific restrictions in place (Restrictive Measures-USA) and have highly qualified outside directors (Dir500).[29] The positive sign on Dir500 is consistent with USA's desire to "work with" firms' boards to increase shareholders' rights.

Summary

Table 6 presents logistic models for four distinct types of corporate governance shareholder proposals: Takeover provisions, Changes in board structure, Shareholders' voting rights and Executive pay. Three interesting results are found. First, despite the relatively small number of firms receiving each type of proposal, we are able to isolate factors that appear to be systematically associated the likelihood that firms will receive these proposals. Second, as predicted, the likelihood factors vary from proposal to proposal. Takeover proposals are related to the firm's state of incorporation and whether the firm has a poison pill in place or a staggered board. Changes in board structure proposals are related to director compensation and poor firm performance. Shareholder voting rights are related to poor firm performance dispersion of shareholders. Executive pay proposals are related to the percentage of board interlocks, firm size and poor firm performance. These findings are consistent with several of our predictions. Third, comparisons between the results in Table 6 and Column (1) of Table 5 reveal differences between modelling all corporate shareholder proposals and specific types of proposals. For example, for all proposals, Negative Income has a positive coefficient, significant at the .03

[29]Restrictive Measures-USA is equal to the sum of the four dummy variables reflecting the type of firms that USA claims that they target - firms without confidential voting, with poison pills, golden parachutes or staggered boards.

level. However, in Table 6, Negative Income is most strongly associated with changes in board structure and executive pay proposals only. Similarly, DIR500, the percentage of outside directors with outside directorships, plays an important role only for investors deciding whether to introduce a proposal advocating a repeal of a firm's antitakeover provision.

Table 7 presents logistic models for four proponents of corporate governance shareholder proposals: Evelyn Davis, the Gilbert Brothers, Pension funds and United Shareholders Alliance. Similar to Table 6, we find systematic differences in which factors prompt these activists to submit their proposals. Two additional results are noted. First, only pension funds are more apt to target firms with lower stock returns. This is consistent with Ryan's (1988) contention that pension funds will use the shareholder proposal mechanism to increase their share values. Second, only Evelyn Davis and the USA are related to DIR500, our proxy for board sympathy. This suggests that these two advocates are more likely to target firms whose management may be conducive to change.

The results presented in Tables 5 through 7 dispel the "conventional wisdom" that a few "agitators" clutter proxy statements with "proposals of little interest" to other shareholders (Dent 1985).[30] Instead, it appears that the incidence and type of corporate shareholder proposals are directed towards firms with attributes conducive towards their introduction.

D. Shareholder Votes

Shareholder proposals usually are voted upon via a proxy card with final tabulation taking place at the annual shareholders' meeting.[31] Rule 14a-4(b)(1) provides for approval,

---

[30]The title of the Dent study is "SEC Rule 14a-8: A Study in Regulatory Failure."

[31]Rule 14a-4 governs the form of the proxy.

disapproval or abstention to each shareholder proposal put forth. The percentage of votes needed for passage is contained in the firm's certificate of incorporation and/or its by-laws. Most firms require a majority of shares voted or outstanding for passage. Supermajority rules exist for a small number of firms. Abstentions are ignored for most firms.

Voting results, requirements for passage and whether the proposal passed are published by the IRRC. No shareholder proposal not sponsored by management passed over the 1991-1992 season for the sample of S&P 500 firms.[32] Several proposals were approved by a majority of voting shareholders, but did not pass because of the way the company calculates its votes. For example, Browning-Ferris includes abstentions in its total vote count. As a result, although its shareholder proposal to redeem or vote on poisons received more affirmative than negative votes, it did not receive a majority of all votes cast and therefore did not pass.

We use regression analysis to determine what factors, if any, influence the percentage of positive votes received (abstentions ignored). Since the dependent variable is bounded by 0%-100%, we transform the percentages into a logit link function, thereby producing a linear logistic model of the form

$$\text{logit}(p) = \ln(p/(1-p)) = \alpha + \beta' x$$

where p is the percentage of positive votes, α is the intercept parameter, and β is the vector of slope parameters. Sensitivity analysis reveals that these results differ from those using a straight percentage of affirmative votes as the dependent variable.

We examine the basic premise that shareholders will only vote for (or against) shareholder proposals when they perceive that the benefits of voting outweigh the costs.

[32]Some shareholder proposals for non S&P 500 firms did pass. For example, Hartmarx shareholders approved a proposal to redeem or vote on future poison pills by a vote of 64% approval to 35% disapproval.

Malatesta and Walkling (1988), Ryngaert (1988), and Comment and Schwert (1994) present evidence that the stock price effects surrounding the adoption of antitakeover measures are negative. Comment and Schwert find these effects to be most pronounced for NYSE and AMEX firms (e.g., larger firms). These papers imply that the removal or prevention of these pills will increase shareholder wealth. Bhagat and Brickley (1984) present evidence that cumulative voting rights have a positive effect on firm value, suggesting that shareholder proposals calling for the implementation of cumulative voting will be beneficial to shareholders. Whereas several studies have shown a positive relation between the percentage of outside directors and board monitoring (e.g., Kosnik (1987), Weisbach (1988), Byrd and Hickman (1991), Klein (1994) and Brickley, Coles and Terry (1994)), no evidence has been shown of a positive link between outside directors and firm productivity. This implies a small benefit for voting for shareholder proposals advocating changes in the board's structure. Finally, Jensen and Murphy (1988) present evidence of a positive connection between firm value and executive compensation, suggesting that proposals calling for ceilings on executive pay are value decreasing.

However, the benefits to small blockholders from voting for these proposals is minimal, suggesting that they have weaker incentives than large blockholders to invest in voting on corporate shareholder proposals. Easterbrook and Fischel (1983) refer to this as the "collective choice problems" that attend voting in corporations with large numbers of shareholders. These collective action problems suggest that voting patterns should be related to the number of shareholders, to the percentage of inside (director) shareholdings and to the percentage of

institutional shareholdings.[33]

Table 8 contains the regression results. In column (1), we use firm performance (Negative Income, Stock Returns), board sympathy (Outside Directors) and ownership concentration among different constituencies (Institutional Ownership, Director Share Ownership, and ownership dispersion (Size)) as our independent variables.

As column (1) shows, the degree of positive votes is related to firm performance and ownership concentration. First, the coefficient on stock returns is significantly negative. Gordon and Pound (1993) find a similar result for their sample of all 1990 corporate governance shareholder proposals recorded by the IRRC. Second, the coefficient on Size is significantly negative. Since management always opposes shareholder proposals, this result suggests that it is more difficult for shareholders with small shareholdings to "band together" against management. In a similar vein, Brickley, Lease and Smith (1988) report a significantly negative relation between firm size and the percent of outstanding stock voted against management-sponsored antitakeover amendments in 1984. Next, the coefficient on director share ownership is significantly negative, suggesting that management increasingly votes against shareholder proposals. In contrast, Pound (1988) finds no relation between proxy contest outcomes and director shareholdings. On the other hand, Brickley, Lease and Smith find that managers tend to vote for management-sponsored antitakeover amendments.[34] Finally, we find a weak

---

[33]All of the proposals in our sample were initiated prior to the SEC's new rule allowing for better communication among shareholders. Therefore, it is possible the phenomenon of the collective choice problem may no longer be as prominent. Examination of shareholder proposals over the 1992-1993 proxy season should shed light on this subject.

[34]Gordon and Pound's (1993) findings are not directly comparable to ours. They find negative coefficients on "insider share" defined as the percent of voting power held by insiders, including the chairman, other officers and the founder's family and on "director share" defined as the percent of voting power held by 5% blockholders who

positive relation between institutional ownership and the percentage of positive votes.

To further examine what factors influence shareholder vote, we sequentially add variables based upon what the vote is about and who the proponent is. The results in Tables 6 and 7 suggest that shareholder vote may be influenced by these two factors. In column (2), we add "Common Proposal," a dummy variable equal to one if the shareholder proposal pertains to either cumulative voting, classified boards, poison pills, confidential voting or executive compensation. As shown in Table 2, these five proposals were the most common. The purpose of including Common Proposal as an independent variable is to see if there is a drive towards adopting certain type of corporate governance actions. In column (3), we examine if the vote is affected by the identity of the proponent though the use of dummy variables for Davis, Gilbert, Pension fund and USA. This makes the "base case" equal to all proposals put forth by all other proponents. One purpose of including these variables is to see if Davis' and the Gilberts' perception that they are shareholder advocates is shared their fellow shareholders. A second purpose is to see if organized groups have more impact than individual shareholders, e.g., see Ryan (1988).[35]

The coefficient on Common Proposal is 0.79, significantly positive at the .01 level. This suggests that, on average, these proposals generate significantly more positive votes than other corporate governance proposals. The coefficients on the other variables remain qualitatively the same except for Institutional ownership which now is insignificantly positive. This suggests a

---

sit on the board but are not insiders.

[35] For example, Brickley et al. (1988) find that the percent of outstanding stock voted against management-supported antitakeover proposals for 1984 was positively related to the percent of shares owned by non-bank and non-insurance institutions.

collinear relation between institutional ownership and the type of proposal put forth. Further evidence on the impact of subject matter on the vote can be seen by examining the incremental explanatory power through the increase in the R-squared values which jumps dramatically from .23 to .41. The F-statistic measuring the increase in the adjusted R-square is significant at the .01 level.

In column (3), the coefficient on Davis is insignificantly negative, suggesting that proposals put forth by Evelyn Davis receive no greater support proposals than those introduced by the base case proponents. In contrast, the coefficient on Gilbert is significantly positive. The significantly positive coefficients on Pension Fund and on USA support the assertion that pension funds and more organized activist groups have more clout and/or credibility than individual shareholders. The F-statistic measuring for the incremental explanatory value of column (3) vis-a-vis column (1) is significant at the .01 level.

Finally, In column (4), we segregate proposals by type and by proponent. We predict that takeover and voting proposals will garner a relatively large amount of support in that they are associated with share value enhancement. The benefits of board of director and executive pay proposals are less clear and therefore should not accrue large percentages of positive votes.

Consistent with our predictions, the coefficients on Takeover Proposal and Voting Proposal are significantly positive at the .01 level. The coefficients on Board of Directors Proposal is significantly negative at the .10 level. The coefficient on Executive Pay Proposal is insignificantly negative. The coefficients on the proponents remain qualitatively the same as in column (3) with the exception of Gilbert which now is insignificantly negative. The coefficients on director ownership, stock returns and size are similar to those reported in

columns (1) - (3). F-statistics testing for the incremental explanatory power of column (4) vis-a-vis columns (1) and (3) are significant at the.01 level.

VI. Conclusion

In this paper, we examine 334 proposals made by shareholders of 485 of the original S&P 500 firms between July 1, 1991 and June 31, 1992. We categorize these proposals into two broad classes, corporate governance proposals or social proposals. We examine the different types of proposals in each category, characteristics and identity of the sponsors and the votes they obtained.

In addition to the descriptive characterization of shareholder proposals, we analyze in detail two aspects of corporate governance proposals. The first part of our analysis studies the determinants of the likelihood of a corporate governance proposal being made. We view the corporate governance shareholder proposal as a tool of shareholder activism. When outsider shareholders (individual or institutional) believe that the internal control systems in place are not functioning properly, they initiate shareholder proposals. Thus, shareholder proposals seeking changes in corporate governance structure will more likely occur for firms with weakened alternative control mechanisms. We find the likelihood of a firm being the target of one or more corporate governance shareholders to be significantly related to firm performance, the size of the firm and the likelihood that the firm's board will be sympathetic to changes in shareholders' rights.

We also study the votes obtained by the shareholder proposals. We hypothesize that the votes are determined by the costs and benefits to shareholders associated with voting for or

against these proposals. The empirical results support many of our hypotheses..

References

Amemiya, T., 1981, Qualitative Response Models: A Survey, *Journal of Economic Literature 19(4)*, 483-536.

Bhagat, Sanjai and James A. Brickley, 1984, Cumulative Voting: The value of minority shareholder voting rights, *Journal of Law & Economics 27(2)*, 339-366.

Brickley, James A., Jeffrey L. Coles and Rory L. Terry, 1994, Outside directors and the adoption of poison, *Journal of Financial Economics 35*, 371-390.

Brickley, James A., Ronald C. Lease and Clifford W. Smith, Jr., 1988, Ownership structure and voting an antitakeover amendments, *Journal of Financial Economics 20*, 267-92.

Brown, David, Christopher James and Mike Ryngaert, 1992, The effects of leverage on operating performance: An analysis of firms' responses to poor performance, Working Paper, University of Florida.

Byrd, John W. and Kent A. Hickman, 1992. Do outside directors monitor managers? Evidence from tender offer bids. *Journal of Financial Economics 32*, October, 195-222.

Christie, Andrew A., Michael D. Kennelley, J. William King and Thomas F. Schaefer, 1984, Testing for incremental information content in the presence of collinearity, *Journal of Accounting and Economics 6*, 205-17.

Comment, Robert and G. William Schwert, 1994, Poison or Placebo? Evidence on the deterrent and wealth effects of modern antitakeover measures, *Journal of Financial Economics*, forthcoming.

Dent, George W., Jr., 1985, SEC Rule 14a-8: A study in regulatory failure, *New York Law School Law Review 30*, No. 1, 1-38.

Easterbrook, Frank H. and Daniel R. Fischel, 1983, Voting in corporate law, *Journal of Law & Economics 26*, June, 395-427.

Fama, E., 1980, Agency problems and the theory of the firm, *Journal of Political Economy*, April, 288-307.

Fama, E. and M. Jensen, 1983, Separation of ownership and control, *Journal of Law and Economics*, June, 301-326.

Gilson Stuart C., 1990, Bankruptcy, boards, banks and blockholders: Evidence on changes in

corporate ownership and control when firms default, *Journal of Financial Economics 27*, 355-88.

Gordon, Lilli A. and John Pound, 1993, Information, ownership structure, and shareholder voting: Evidence from shareholder-sponsored corporate governance proposals, *Journal of Finance 48, No. 2*, 697-718.

Hermalin, B. E. and M. S. Weisbach, 1991, The effects of board composition and direct incentive on firm performance, *Financial Management*, Winter, 101-112.

Jensen, Michael C., 1993, Presidential address: The modern industrial revolution, exit, and the failure of internal control systems, *Journal of Finance 48*, 831-880.

Jensen, Michael C. and Kevin J. Murphy, 1990, Performance pay and top-management incentives, *Journal of Political Economy 98(2)*, 225-64.

Jensen, M. and R. Ruback, 1983, The market for corporate control: The scientific evidence, *Journal of Financial Economics*, April, 5-51.

John, Kose, Larry Lang and Jeffrey Netter, 1992, The voluntary restructuring of large firms in response to performance decline, *Journal of Finance 47*, 891-918.

Kaplan, Steven N. and David Reishus, 1990, Outside directorships and corporate performance, *Journal of Financial Economics 27*, 389-410.

Karpoff, Jonathan M., Paul H. Malatesta and Ralph A. Walkling, 1994, Corporate governance and shareholder initiatives: Empirical evidence, working paper, University of Washington and Ohio State University.

Klein, April, 1994, An examination of board committee structures, working paper, New York University.

Kosnik, Rita D., 1987, Greenmail: A study of board performance in corporate governance, *Administrative Science Quarterly 32*, 163-85.

Liebeler, S. W., 1984, A proposal to rescind the shareholder proposal rule, *Georgia Law Review 18*, 425-468.

Maddala, G. S., 1993, *Limited-Dependent and Qualitative Variables in Econometrics*, Cambridge University Press.

Malatesta, Paul H. and Ralph A. Walkling, 1988, Poison pill securities: Stockholder wealth, profitability and ownership structure, *Journal of Financial Economics 20*, 347-76.

Mergers and Acquisitions, 1994, The roll of states with takeover control laws,

September/October, 52-53.

Morck, R., A. Shleifer and R. Vishny, 1988, Management ownership and market valuation: An empirical analysis, *Journal of Financial Economics*, January/March, 293-316.

Moyer, R.C., R. Rao and P.M. Sisneros, 1992, Substitutes for voting rights: Evidence from dual class recapitalizations, *Financial Management*, Autumn, 35-47.

Palepu, Krishna G., 1986, Predicting takeover targets, *Journal of Accounting and Economics 8*, 3-35.

Pound, John, 1988, Proxy contests and the efficiency of shareholder oversight, *Journal of Financial Economcis 20*, (January/February), 237-266.

Rosenstein, S. and J. G. Wyatt, 1990, Outside directors, board independence, and shareholder wealth, *Journal of Financial Economics*, August, 175-191.

Ryan, P. J., 1988, Rule 14a-8, institutional shareholder proposals, and corporate democracy, *Georgia Law Review 23*, 97-184.

Ryngaert, Michael, 1988, The effect of poison pill securities on shareholder wealth, *Journal of Financial Economics 20(1/2)*, 377-418.

Shivadasani, Anil, 1993, Board composition, ownership structure, and hostile takeovers, *Journal of Accounting & Economics 16*, 167-98.

Shleifer, A. and R. Vishny, 1986, Large shareholders and corporate control, *Journal of Political Economy*, June, 461-488.

Stulz, Rene M., 1988, Managerial control of voting rights: Financing policies and the market for corporate control, *Journal of Financial Economics 20 (1/2)*, 25-54.

USA Advocate, 1992a, 1992b, *USA Foundation for Research and Education*, Washington D.C., (January/February and March/April).

Vicknair, D., Hickman, K., and K. C. Carnes, 1993, A note on audit committee independence: Evidence from the NYSE on "grey" area directors, *Accounting Horizons* (March), 53-57.

Weisbach, Michael S., 1988, Outside directors and CEO turnovers, *Journal of Financial Economics 20*, 431-460.

TABLE 1

The Number of Shareholder Proposals Per Firm over the 1991-1992 Proxy Season for U.S. Firms listed by the S&P 500

Number of Proposals per Firm	Frequency	Percent
0	311	64.1%
1	88	18.1
2	48	9.9
3	15	3.1
4	14	2.9
5	6	1.2
6	2	0.4
7	1	0.2
	485	100.0

TABLE 2

Tabulation of Shareholder Proposals over the 1991-1992 Proxy Season for U.S. Firms Listed on the S&P 500

Corporate Governance Proposals

Proposal	Frequency	Percent	Average Yes Vote
No classified boards	24	14.2	32.7
Cumulative voting	23	13.6	20.5
Abolish or prohibit poison pills	20	11.8	43.0
Confidential voting	19	11.2	39.2
Information on executive compensation	18	10.7	12.5
Repeal or prohibit golden parachutes	11	6.5	24.8
Minimum stock ownership of directors	9	5.3	10.6
Change date or site of annual meeting	6	3.6	11.2
Restrict tenure of directors	5	3.0	15.8
More independent directors on board	3	1.8	19.2
Appoint a special board committee	3	1.8	27.0
Shareholder approval of preferred stock	3	1.8	39.4
Issue post-annual report to shareholders	2	1.2	10.0
Vote on mergers by shareholders	2	1.2	18.9
Change state of incorporation	2	1.2	20.2
Restore preemptive rights	2	1.2	16.2
Union representation on board	2	1.2	5.9
Abolish repricing of options	1	0.6	6.6
Director compensation	1	0.6	8.5
Ceiling on pensions	1	0.6	6.3
Information on dividend reinvestment	1	0.6	10.9
Information on tender offers	1	0.6	7.2
Issue 10K report to shareholders	1	0.6	5.5
Provide list of high paid consultants	1	0.6	17.4
More insiders on board	1	0.6	7.4
No retired people on board	1	0.6	6.5
Shareholder approval of auditors	1	0.6	16.2
Call for special shareholder meeting	1	0.6	25.6
Split Chairman from CEO	1	0.6	27.4
Information on retirement policy	1	0.6	17.6
Debt policy	1	0.6	3.4
Provide list of former gov't workers	1	0.6	5.4
Total	169	100.0	

Social Proposals

Proposal	Frequency	Percent	Average Yes Vote
South Africa	61	37.0	10.3
Environment	34	20.6	9.8
Northern Ireland	16	9.7	11.6
Foreign affairs or military	12	7.3	5.6
Tobacco or drinking	11	6.7	5.3
Information on political donations	7	4.2	7.2
Abortion	4	2.4	5.5
SDL program	3	1.8	4.4
Affirmative action	3	1.8	7.8
Animal rights	2	1.2	5.1
Global debt	2	1.2	3.5
Information on plant closings	2	1.2	5.0
Nuclear facilities	2	1.2	3.8
Charitable Contributions	2	1.2	6.7
El Salvador	1	0.6	4.6
Human rights	1	0.6	3.2
Religious discrimination	1	0.6	4.5
Total	165	100.0	

TABLE 3

Proponents of Shareholder Proposals

Proponent	No. of Corporate Government Proposals	No. of Social Proposals
Evelyn Davis	40	6
John and Lewis Gilbert	28	0
Another Individual	34	24
Church or Nonprofit Group	2	61
Pension Fund	13	27
United Shareholder Association	24	0
Shareholder Alliance	3	2
Union	3	0
Does no say	22	45

TABLE 4

Monitoring and Performance Measures for 114 Firms with Corporate Goverance Shareholder Proposals and for 371 Firms without Corporate Governance Shareholder Proposals

	Average for Firms With Corporate Governance Proposals	Average for Firms Without Corporate Goverance Proposals	T-statistic for Differential Means	F-statistic for Differential Means (ANOVA)
	Performance Measures			
Size ($000)	73,648	21,569	-4.78***	46.49***
Net Income	.039	.052	2.65***	7.51***
▲Net Income	.761	-.222	-1.12	3.24*
Negative Income	.237	.126	-2.07**	6.46**
EBDIT	.126	.146	2.31***	5.45**
▲EBDIT	-.058	.021	0.62	1.25
▲Dividend Payout Ratio	.029	-.009	-0.07	0.30
Dividend Payout Ratio Increase	.491	.473	-0.35	4.68**
Dividend Payout Ratio Decrease	.491	.478	-0.25	0.82
Long-term Debt	.212	.197	-0.95	1.04
Beta	1.200	1.123	-1.68	2.83*
Raw Return (one year)	.139	.143	0.13	0.02
Raw Return (two year)	.197	.192	0.13	0.01
Beta-adjusted Return (one year)	-.015	-.028	-0.48	0.46
Beta-adjusted Return (two year)	-.087	-.074	0.32	0.09
	Monitoring Measures			
Board of Directors				
Insiders (%)	.219	.240	1.67*	1.94
Affiliates (%)	.159	.193	2.65***	6.29**
Outsiders (%)	.622	.567	-3.34***	8.14***
Director Share Ownership (%)	.053	.095	2.40**	3.93**
Institutional Share Ownership (%)	.540	.562	1.44	2.08
Director Attendance (%)	.857	.880	1.09	2.76*
CEO Tenure (Years)	11.39	13.60	2.60	4.46**
Board Meetings (Number)	9.32	7.89	-3.14***	4.44**
Auditor Vote	.837	.632	-4.81	17.68***

*(**)(***) significant at the .10(.05)(.01) level

Notes to Table 4

Size is the three-year average book value of assets.
Net Income is the three-year average taken before extraordinary items.
Negative Income is a dummy variable equal to one if the firm had negative earnings before extraordinary items and zero otherwise.
EBDIT, earnings before depreciation, interest and taxes, is the three-year average.
The Dividend Payout Ratio is dividends paid to common shareholders divided by net income. **Long-term Debt** is the three-year average.
Long-term Debt is the three-year average of long-term debt.
Beta is the beta coefficient taken from the market model in the fiscal year proceding the annual meeting.
Raw Return is the return on common stock and **Beta-adjusted Return** is the abnormal beta-and-market adjusted return.

Insiders is the percentage of the firm's board of directors directly employed by the firm.
Outsiders are directors that have no affiliation with the firm beyond being on the firm's boards.
Affiliates are directors who are either past employees, relatives, have significant transactions with the firm, work for entities that have significant transactions with the firm or are on interlocking boards of directors.
Director Share Ownership is the total shares owned by all directors.
Institutional Share Ownership is the total shares owned by financial institutions.
Director Attendance is the percentage of meeting that the directors attended over the year.
CEO Tenure is the number of years that the CEO has been on the board.
Board Meetings is the number of regular board meetings scheduled over the year.
Auditor Vote is a dummy variable equal to one if shareholders are called upon to ratify the Board 's choice of external auditor and zero otherwise.

Net Income, EBDIT and Long-term Debt are all scaled by Assets. All averages end in the fiscal year preceding the annual meeting. Δ is the one-year change.

TABLE 5

Logistic Models Measuring the Probability that a Firm Will Have a Corporate Governance Shareholder Proposal Coefficients and Probability Levels are Shown for Each Model

Variable	(1)	(2)
Intercept	-7.31 (.01)	-5.74 (.01)
Size	0.59 (.01)	0.61 (.01)
Negative Income	0.72 (.03)	0.51 (.08)
Stock Return	0.16 (.68)	0.32 (.49)
Outside Directors	-0.87 (.36)	
Dir500	2.98 (.01)	
Board Activism	0.10 (.71)	-0.11 (.71)
Director Share Ownership	0.30 (.68)	0.18 (.81)
Institutional Ownership	-1.72 (.07)	-3.07 (.01)
Restrictive Measures	0.24 (.05)	
Auditor Vote	0.59 (.07)	
Last Year's Vote		7.16 (.01)
Log Likelihood	-201.83	-174.41

Notes to Table 5

Size is the natural log of the three-year average book value of assets.

Negative Income is a dummy variable equal to one if the firm had negative earnings before extraordinary items and zero otherwise.

Stock Return is the two-year raw returns ending in the fiscal year before the shareholder meeting.

Outside Directors is the percentage of directors with no affiliation with the firm beyond being on the firm's boards.

DIR500 is the percentage of outside directors with outside directorships in other S&P 500 firms.

Board Activism is a summary statistic measuring the relative activity of the firm's board of directors. It is equal to the percentage of directors that attended at least 75% of all board meetings plus a dummy variable equal to 1 (0 otherwise) if the number of board meetings is greater than the mediam for all S&P 500 firms.

Director Share Ownership is the percentage of shares owned by all directors.

Institutional Ownership is the percentage of shares owned by financial institutions.

Restrictive Measures is a summary statistic measuring the number of restrictions th firm has placed on the rights of existing shareholdings. It is equal to the sum of five dummy variables. The dummy variables represent whether the firm has a poison pill in place, no cumulative voting rights, no confidential voting, a golden parachute, and a staggered board, respectively.

Auditor Vote is the dummy variable equal to one if shareholders are called upon to ratify the Board's choice of external auditor and zero otherwise.

Last Year's Vote is the maximum vote received for a corporate government shareholder proposal for the prior (1990-1991) Proxy season.

TABLE 6

Logistic Models Measuring the Probability that a Firm will have a Specific Type of Corporate Governance Shareholder Proposal

Variable	(1) Takeover Provision	(2) Changes in Board Structure	(3) Shareholders' Voting Rights	(4) Executive Pay
Intercept	-5.62 (.01)	-16.20 (.01)	-6.67 (.01)	-13.32 (.01)
Size	0.13 (.38)	0.42 (.09)	0.30 (.06)	1.11 (.01)
Negative Income	0.01 (.92)	1.17 (.08)	0.78 (.13)	1.27 (.06)
Stock Returns	0.05 (.93)	1.22 (.17)	0.09 (.89)	-0.45 (.63)
Outside Directors	-0.43 (.77)	2.56 (.26)	-2.39 (.14)	-0.61 (.81)
Dir500	3.30 (.01)	-0.58 (.76)	2.52 (.11)	0.01 (.99)
Board Activism	0.22 (.57)	-0.16 (.77)	0.26 (.58)	0.01 (.99)
Director Share Ownership	-1.93 (.39)	1.26 (.08)	-0.93 (.61)	-2.89 (.55)
Institutional Ownership	-0.98 (.46)	-2.78 (.19)	-0.62 (.69)	-2.64 (.26)
Staggered Board	1.12 (.01)			
Poison Pill	1.09 (.06)			
Anti-takeover State	-1.48 (.05)			
Interlocking Board		1.12 (.67)		4.76 (.06)
Directors' Salary		1.26 (.04)		
Voting Restrictions			0.70 (.19)	
Auditor Vote			0.58 (.33)	
Compensation Committee				-5.22 (.38)
Golden Parachute				0.52 (.41)
Excess CEO Compensation				0.17 (.65)
Log Likelihood	-115.23	-60.82	-90.23	-49.23

Notes to Table 6

Size is the natural log of the three-year average book value of assets.
Negative Income is a dummy variable equal to one if the firm had negative earnings before extraordinary items and zero otherwise.
Stock Return is the two-year raw returns ending in the fiscal year before the shareholder meeting.
Outside Directors is the percentage of directors with no affiliation with the firm beyond being on the firm's boards.
DIR500 is the percentage of outside directors with outside directorships in other S&P 500 firms.
Board Activism is a summary statistic measuring the relative activity of the firm's board of directors. It is equal to the percentage of directors that attended at least 75% of all board meetings plus a dummy variable equal to 1 (0 otherwise) if the number of board meetings is greater than the mediam for all S&P 500 firms.
Director Share Ownership is the percentage of shares owned by all directors.
Institutional Ownership is the percentage of shares owned by financial institutions.
Staggered Board is a dummy variable equal to one if the board is classified and zero otherwise.
Poison Pill is a dummy variable equal to one if the firm has a poison pill in place and zero otherwise.
Anti-takeover State is a dummy variable equal to one if the firm's state of incorporation is in an anti-takeover state and zero otherwise.

Interlocking Board is equal to the percentage of directors serving on each others' boards.
Directors' Salary is equal to the log of the total directors' salary.
Voting Restrictions is equal to the sum of two dummy variables representing if the firm does not have cumulative voting or confidential voting, respectively.
Auditor Vote is the dummy variable equal to one if shareholders are called upon to ratify the Board's choice of external auditor and zero otherwise.
Compensation Committee is equal to the percentage of insiders sitting on the board's compensation committee.
Golden Parachute is a dummy variable equal to one if the firm has a golden parachute and zero otherwise.
Excess CEO Compensation is equal to the natural log of the amount that the CEO was overly-compensated for the prior year vis-a-vis the industry standard.

TABLE 7

Logistic Models Measuring the Probability that a Firm will have a Corporate Governance Shareholder Proposal by a Specific Proponent

	Identity of Proponent				
	(1)	(2)	(3)	(4)	(5)
Variable	**Evelyn Davis**	**Gilbert Brothers**	**Pension Funds**	**United Sh. Associat.**	**Others**
Intercept	-12.37(.01)	-27.74 (.99)	-10.85(.01)	-4.40 (.16)	-3.35 (.01)
Size	0.87 (.01)	0.08 (.74)	0.44 (.04)	-0.29 (.23)	0.24 (.02)
Negative Income	0.82 (.11)	1.15 (.09)	-0.44 (.54)	-0.17 (.82)	0.06 (.86)
Stock Return	0.40 (.56)	0.78 (.35)	-1.31 (.06)	-0.03 (.97)	0.50 (.19)
Outside Directors	-0.86 (.61)	0.08 (.97)	0.14 (.93)	1.71 (.45)	-1.27 (.17)
Dir500	3.40 (.02)	-0.25 (.90)	-1.35 (.48)	3.61 (.05)	-1.50 (.20)
Board Activism	0.15 (.75)	0.05 (.94)	-0.32 (.51)	0.21 (.71)	0.27 (.32)
Director Share Ownership	2.11 (.03)	13.54 (.26)	2:10 (.05)	-7.46 (.23)	-1.50 (.20)
Institutional Ownership	-0.79 (.62)	-0.70 (.74)	4.27 (.04)	-0.32 (.88)	-1.42 (.14)
Restrictive Measures	0.09 (.64)	-0.15 (.54)	0.37 (.14)		0.18 (.13)
Restrictive Measures-USA				0.59 (.09)	
Auditor Vote	1.07 (.12)	24.86 (.99)	1.06 (.12)	-0.28 (.67)	-0.24 (.43)
Log Likelihood	-88.78	-55.63	-71.74	-58.30	-206.29

Notes to Table 7

Size is the natural log of the three-year average book value of assets.
Negative Income is a dummy variable equal to one if the firm had negative earnings before extraordinary items and zero otherwise.
Stock Return is the two-year raw returns ending in the fiscal year before the shareholder meeting.
Outside Directors is the percentage of directors with no affiliation with the firm beyond being on the firm's boards.
DIR500 is the percentage of outside directors with outside directorships in other S&P 500 firms.
Board Activism is a summary statistic measuring the relative activity of the firm's board of directors. It is equal to the percentage of directors that attended at least 75% of all board meetings plus a dummy variable equal to 1 (0 otherwise) if the number of board meetings is greater than the mediam for all S&P 500 firms.
Director Share Ownership is the percentage of shares owned by all directors.
Institutional Ownership is the percentage of shares owned by financial institutions.
Restrictive Measures is a summary statistic measuring the number of restrictions the firm has placed on the rights of existing shareholdings. It is equal to the sum of five dummy variables. The dummy variables represent whether the firm has a poison pill in place, no cumulative voting rights, no confidential voting, a golden parachute, and a staggered board, respctively.
Restrictive Measures-USA is a summary statistic measuring whether the firm has placed the USA-designated restrictions on the rights of existing shareholdings. It is equal to the sum of four dummy variables. The dummy variables represent whether the firm has a poison pill in place, no cumulative voting rights, no confidential voting, a golden parachute, and a staggered board, respectively.
Auditor Vote is the dummy variable equal to one if shareholders are called upon to ratify the Board's choice of external auditor and zero otherwise.

TABLE 8

Regression Analysis of Percentage of Positive Votes on Corporate Governance Shareholder Proposals

Variable	(1)	(2)	(3)	(4)
Intercept	0.59 (1.00)	-0.05 (-0.08)	0.10 (0.19)	-0.83 (-1.78)***
Size	-0.24 (-5.03)*	-0.21 (-4.95)*	-0.15 (-4.76)*	-0.08 (-2.08)*
Negative Income	-0.33 (-2.08)**	-0.30 (-2.09)**	-0.30 (-2.18)**	-0.19 (-1.55)
Stock Returns	-0.38 (-1.77)***	-0.33 (-1.74)***	-0.39 (-2.06)**	-0.30 (-1.88)***
Outside Directors	0.30 (0.63)	0.44 (1.07)	-0.24 (-0.59)	0.11 (0.31)
Director Share Ownership	-0.92) (-3.63)*	-0.82 (-3.67)*	-0.91 (-4.14)*	-0.78 (-4.14)*
Institutional Ownership	0.80 (1.65)***	0.32 (0.73)	0.17 (0.39)	0.05 (0.13)
Davis			-0.13 (-0.86)	-0.16 (-1.27)
Gilbert			0.53 (3.26)*	-0.01 (-0.03)
Pension			0.95 (4.04)*	0.65 (3.48)*
United Shareholder Ass'n			1.03 (5.59)*	0.62 (3.81)*
Common Proposal		0.79 (6.74)*		

Table 8 (Cont'd.)

Variable	**(1)**	**(2)**	**(3)**	**(4)**
Takeover Proposal				0.80 (6.15)*
Board of Directors Proposal				-0.27 (-1.63)***
Voting Proposal				0.58 (3.82)*
Executive Pay Proposal				-0.20 (-1.33)
Adjusted R-Square	.23	.41	.43	.60

*(**)(***) significant at the .01(.05)(.10)level

Size is the nature log of the three-year average book value of assets.
Negative Income is a dummy variable equal to one if the firm had negative earnings before extraordinary items and zero otherwise.
Outside Directors is the percentage of directors with no affiliation with the firm beyond being on the firm's boards.
Director Ownership is the percentage of shares owned by all directors.
Institutional Ownership is the percentage of shares owned by financial institutions.
Davis, Gilbert, Pension Fund and United Shareholder Ass'n are dummy variables representing if the proponent was Evelyn Y. Davis, Gilbert Brothers, a pension fund or the United Sharholder Association respectively.
Common Proposal is a dummy variable representing the five most common shareholder proposals.
Takeover Proposal, Board of Directors Proposal, Voting Proposal and Executive Pay Proposal are dummy variables representing the type of proposal put forth by the proponent.