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Corporate governance proposals and shareholder activism: the role of institutional investors[☆]

Stuart L. Gillan[a], Laura T. Starks[b,*]

[a]*Securities and Exchange Commission, Office of Economic Analysis, Washington, DC 20549, USA*
[b]*Department of Finance, University of Texas, Austin, TX 78712, USA*

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Abstract

We study shareholder proposals across a period of substantial activity and find systematic differences both across sponsor identity and across time. To measure the success of shareholder activism, we examine voting outcomes and short-term market reactions conditioned on proposal type and sponsor identity. The voting analysis documents that sponsor identity, issue type, prior performance and time period are important influences on the voting outcome. Proposals sponsored by institutions or

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* Corresponding author. Tel.: 1-512-471-5899; fax: 1-512-471-5073.

E-mail address: lstarks@mail.utexas.edu (L.T. Starks).

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coordinated groups appear to act as substitutes gaining substantially more support than proposals sponsored by individuals. The nature of the stock market reaction, while typically small, varies according to the issue and the sponsor identity.

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1. Introduction

During the last 15 years 'shareholder activism', also known as 'relationship investing', has evolved to become an important characteristic of financial markets. The primary emphasis of activist shareholders has been to focus on the poorly performing firms in their portfolio and to pressure the management of such firms for improved performance, thus enhancing shareholder value.

A key feature of this activism derives from the Securities and Exchange Commission (SEC). The SEC's Shareholder Proposal Rule 14a-8 allows shareholders to submit issues for inclusion in the proxy material and for subsequent presentation at the annual general meeting. If such issues are properly presented at the annual general meeting, they will be voted on. The use of shareholder proposal resolutions is often an expedient way in which activist shareholders can pursue their agendas. That is, the proxy process has provided these shareholders with a formal mechanism through which concerns about corporate governance and corporate performance can be raised.

While shareholder activism by institutional investors has gained increased prominence over the last few years, there has been limited empirical work investigating the effects of this activism.[1] The empirical work that has studied the issue has tended to concentrate on the activities of a particular institutional investor – Smith (1996), Huson (1997) and Nesbitt (1994) focus on the California Public Employees Retirement System (CalPERS); Carleton et al. (1998) focus on TIAA-CREF; Strickland et al. (1996) study a coalition of small investors – the United Shareholders' Association (USA); or specific proposals, e.g., poison pills (Bizjak and Marquette, 1998) and executive compensation (Johnson and Shackell, 1997). More recently, researchers have focused on the activities of

[1] Many legal scholars have discussed the implications of shareholder activism, e.g., Black (1992), Coffee (1993) and Romano (1993). Recent theoretical developments include Chidambaran and John (1998), Maug (1998) and Kahn and Winton (1998). For a more detailed overview of this literature, see Black (1998), Gillan and Starks (1998), or Karpoff (1998).

a broader set of institutional shareholder activists, for example, Del Guercio and Hawkins (1998), Opler and Sokobin (1995), and Wahal (1996).

In this paper we study the activities of several different types of activist investors, with an interest in how other shareholders react to the type of proposal and the identity of the proposal sponsor. We measure shareholder reaction through their votes and the change in stock price. We study the effects of proposals sponsored by public pension funds, coordinated groups of investors, and individual investors. Most importantly, we examine how institutional shareholder activism through proxy proposals evolved from its beginnings in the latter part of the 1980s until its diminution into an adversarial process in 1994.

In the next section, we discuss shareholder activism with a particular focus on the growing role of institutional investor and coordinated shareholder actions. We investigate the effectiveness of this activism through an analysis of 2042 corporate governance proposals over the 1987–1994 time period. These proxy proposals, as described in Section 3, exhibit systematic differences in the types of governance proposals put forth by institutional versus individual investors. In addition, the issues addressed by the proposals have changed over the sample period. In Section 4, we provide a measure of investor reaction to these proposals by analyzing the proxy voting results. Despite the fact that shareholder proposals typically do not receive majority approval, we find that over the sample period there has been an increase in the number of votes cast in favor of these proposals. Further, those proposals sponsored by institutions or through coordinated activities receive significantly more favorable votes than those sponsored by independent individuals or religious organizations. Our regression analysis shows that after controlling for the firm's prior performance, the voting outcome is strongly associated with sponsor identity, the issue addressed, the percentage of institutional ownership and whether the proposal was submitted later in the sample period. In Section 5, we provide an alternate measure of investor reaction by examining the short-term stock price performance around the release of information that firms have been targeted with shareholder proposals. While overall we find little market reaction to the proxy proposals, we do find that the nature of the stock market reaction varies according to the issue and the sponsor identity. Finally, we provide our conclusions in Section 6.

2. Institutional investors and shareholder activism

Institutional investors have become increasingly important as equity holders in the U.S. financial markets. The equity ownership of investment advisers, investment companies, bank trust departments, insurance companies, foundations, and pension funds increased dramatically during the 1980s and early

1990s. Sias and Starks (1998) find that these large institutions' ownership in equities increased from 24.2% in 1980 to just under 50% by the end of 1994, with much of the increase due to the growth of pension assets.

2.1. History of institutional shareholder activism

As institutions' ownership has increased, their role as shareholders has also evolved. Some institutional investors, particularly public pension funds and union pension funds, began to abandon their traditional passive shareholder role and become more active participants in the governance of their corporate holdings.[2] From 1987 to 1994, the Investor Responsibility Research Center reports that public pension funds sponsored 463 proxy proposals seeking changes in corporations' governance.

Although these funds could simply sell their holdings in underperforming companies (and many in fact do), often the holdings are so large that the shares cannot be sold without driving the price down and suffering further losses.[3] More importantly, for many public pension funds, the fact that they index a large portion of their portfolios precludes selling underperformers. For example, Carleton et al. (1998) find that TIAA-CREF indexes 80% of its domestic equity portfolio. The level of indexing in public pension funds is reflected by their very low turnover. CalPERS has annual turnover in its equity holdings of approximately 10%; and the New York Retirement funds have annual turnover of about 7% of total equity. The constraints on selling underperformers imposed by the indexing strategy have provided an important motivation for shareholder activism by public pension funds.

Institutional shareholder activism by public pension funds basically began with their submission of proxy proposals in 1987. (Only a few were submitted in 1986.) These proxy proposals have been primarily centered on corporate governance issues. At about the same time, the USA was coordinating individual investors into an activism force that began to formally submit proxy proposals in 1990. Also in the early 1990s, some of the public pension funds began to shift their approach, targeting firms on the basis of performance rather than employing a more general targeting approach as had been used earlier. For example, Huson (1997) points out that CalPERs changed their targeting approach in the early 1990s, and that performance became an important determinant of which firms were targeted. Consistent with Huson's findings, John and Klein (1995) document that from July 1, 1991 to June 31, 1992, a firm was more likely to be

[2] For a detailed history of the beginnings of institutional shareholder activism, see Monks and Minow (1995).

[3] There is much empirical evidence that institutional trading is associated with price pressure (e.g., Chan and Lakonishok, 1993; Holthausen et al., 1990; or Brown and Brooke, 1993).

the target of one or more corporate governance proposals if they had negative net income.

In 1992 the SEC passed new rules allowing shareholders to directly communicate with each other. With this change in communication rules, institutional shareholders no longer needed to rely on more expensive proxy proposals to communicate with other shareholders. Thus, the cost of creating shareholder coalitions to obtain more support for desired changes was substantially reduced. Consequently, institutional investors began having more direct negotiation with company management and less reliance on proxy proposals. Anand (1993) discusses the fact that by 1993, shareholder activism had evolved from a proxy season (March–June) phenomenon to a year-round activity. At the end of 1993, the USA quit operations on the basis that they had succeeded at their tasks. Wayne (1994) reports that corporate pension funds began joining the Council of Institutional Investors because the Council started shifting its approach and its focus to issues that would appeal to corporate as well as public pension funds.

2.2. Role of institutional investor shareholder activism

The role of institutional shareholder activism arises due to the conflict of interest between managers and shareholders.[4] To control such conflicts, special market and organizational mechanisms have evolved. For example, there is an inherent monitoring function in the stock market itself that pressures managers to orient their decisions toward stockholder interests. In addition, Fama and Jensen (1983) note that the market for takeovers provides competing management teams the ability to circumvent existing poor managers. However, Jensen (1993) argues that with the downturn in mergers, acquisitions, and other corporate control activity over the early 1990s, the capital markets have not been as effective and there has been a shift to reliance on often ineffective internal control mechanisms. Thus, large shareholders, i.e., individuals or institutions that simultaneously hold large debt and/or equity positions in a company, have been motivated to actively participate in the company's strategic direction.

Due to a free rider problem, it has been argued that only a large shareholder has the incentive to undertake monitoring or other costly control activities. All shareholders benefit from such activities even if they don't bear the costs of the process.[5] The investor with a larger stake in the firm has stronger incentives to undertake monitoring activities, as it is more likely that the large shareholder's increased return from monitoring is sufficient to cover the associated monitoring costs.

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[4] See Jensen and Meckling (1976).

[5] See, for example, Grossman and Hart (1980), Shleifer and Vishny (1986), Huddart (1993) and Admati et al. (1994).

Although the more active role of public pension funds has been widely touted, its efficacy has been the topic of considerable debate.[6] Proponents of the increased activism argue that a number of positive influences arise from such behavior. For example, since the very process by which firms are targeted entails closer monitoring of management performance, the activists are performing a function beneficial to all investors in the firm. The argument is also made that the activism focuses on the long-term and in so doing helps management improve long-term performance. In contrast to this positive view, opponents of the institutional activism argue that pension fund managers lack the expertise to advise corporate management. The opponents also maintain that the activism detracts from the primary role of pension funds, which is managing money for beneficiaries. Further, Murphy and Van Nuys (1994) question the incentives that public pension fund managers have to undertake such activities. Indeed, these authors contend that the incentive structure of the public pension funds is such that it is rather surprising that we see them engaged in this activity at all. Monks (1995) makes the point that public pension funds would have a more natural role as valuable allies for activism by other investors rather than as primary activists themselves.

The central question is whether the targeting of corporations through shareholder proposals results in changes in investor actions. We obtain two measures of such changes. First, we examine voting outcomes on the proposals. If shareholders believe that institutional activism through shareholder proposals is beneficial, then we should find a relation between proposal voting patterns and the proposal issue or the sponsor identity. Second, we examine the short-term market reaction surrounding the announcement of the proposals. The use of stock market reaction as a measure of investor actions is more problematic. As Jensen and Warner (1988) highlight with regard to other types of corporate announcements, the wealth effect consists of a real effect and an information effect. In terms of the real effect, if shareholder activism is perceived to be beneficial and if the information concerning such activism is revealed at the time of the proxy mailing date, then we would expect to see positive abnormal stock price reaction surrounding that date. On the other hand, the former chief investment officer of CalPERS, Dale Hanson (1993) notes that institutional investor activists usually first try to negotiate with management and submit a shareholder proposal only if management is not sufficiently responsive. Thus, there may also be a large information effect. That is, the public revelation of the shareholder proxy proposal may inform investors of managers' reluctance to respond to the shareholder's concern. In such a case, the information effect could counteract a positive real effect and the stock market reaction could be zero or negative.

[6] See, for example, Scism (1993).

3. Proposal types and sponsors

The shareholder proposals we study are all related to corporate governance and were submitted over the period 1987–1994 as reported by issues of the *Investor Responsibility Research Center (IRRC) Corporate Governance Bulletin*, 1991–1994. Our initial data set consists of 2042 shareholder proposals submitted at 452 companies over the 1987–1994 proxy sample period.

Table 1 reports the frequencies of companies receiving these proposals across the sample period and within a given proxy statement. Panel A of Table 1 provides a breakdown of the number of corporate governance proposals that companies received over the entire sample period. Over two-thirds of the 452 companies receiving shareholder proposals over this time frame received more than one proposal. Moreover, as shown in Panel B, companies commonly received multiple proposals in a single proxy statement.

The 2042 proposals in our sample were sponsored by public pension funds, union-based pension funds, individuals, investment groups, religious organizations and an individual investor association, i.e., the USA. Table 2 reports the number of proposals submitted in each year by the various classifications of investors. Over the 1987–1994 sample period, 463 (23%) were submitted by institutional investors. Of these, 36% were submitted by New York pension funds, 19% by California pension funds (CalPERS and CalSTRS), 26% by union pension funds, 13% by CREF, and the remainder by other state funds. Thus, the submissions by institutional investors were concentrated into a relatively small set of public institutional investors and, despite its prominence in the media, CalPERS was not the most prolific institutional sponsor.

An additional 213 proposals (10% of the total number of proposals) were submitted through the coordinated activities of other investors. These activities were either coordinated by a group of individuals such as the USA or by investment groups. As such they are very similar to the activities of the institutional investors.

The remaining 1366 shareholder proposals were dispersed among individual shareholder groups or individual investors.[7] The most predominant of these were the Gilbert brothers who had almost as many corporate governance proposals over this period (449) as all of the institutional investors combined. The next most active proposal sponsor was Evelyn Davis with 314 proposals. We also separate out the proposals submitted by prominent individuals who have reputations of being involved in corporate control changes (Robert

[7] Some of these investors (e.g., Evelyn Davis) have been labeled 'gadflys' by the business press and have been active in submitting proxy proposals for a number of years. Indeed, to some extent they were the first shareholders to use the proxy mechanism to address the governance issues we focus on in this paper.

Table 1
Frequency of companies whose proxy statements contained corporate governance proposals submitted by shareholders

This table reports the number of corporate governance proposals that individual companies received over the 1987–1994 sample period as reported by the Investor Responsibility Research Center. Panel A reports the frequency of a company receiving proposals over the entire sample period and Panel B reports the frequency of receiving proposals in a given proxy statement.

Panel A. Frequency of proposals over 1987–1994 period

Number of proposals received over the entire period	Number of companies receiving this many proposals	Total number of proposals
1	138	138
2	75	150
3	48	144
4	32	128
5	30	150
6	21	126
7	17	119
8	16	128
9	9	81
10	15	150
11-15	38	487
> 15	13	241
	452	2042

Panel B. Frequency of proposals in a given proxy statement

Number of proposals in a given year's proxy statement	Number of companies	Total number of proposals
1	974	974
2	288	576
3	97	291
4	23	92
5	9	45
6	8	48
8	2	16
		2042

Monks, Carl Icahn, and Harold Simmons). We identify these individuals because of the media attention that their activities command.

Table 2 also indicates how the number of proposals by each sponsor changed across time. Over the sample period, the number of individual-sponsored proposals shows less variation across the years than does the number of institutional and coordinated proposals, which show substantial variation with

Table 2
Frequency of proposals by sponsor identity

This table reports the number of proposals submitted by the major institutions, coordinated groups and individuals.[a]

Sponsor	1987	1988	1989	1990	1991	1992	1993	1994	Total
Institutional investors									
CalPERS	7	5	12	12	12	—	2	5	55
CalSTRS	12	3	8	4	3	—	2	—	32
Connecticut	—	—	—	2	—	—	—	—	2
TIAA-CREF	9	5	9	10	10	10	3	4	60
Florida	—	—	—	1	3	—	—	—	4
NY city	—	5	19	27	21	19	31	36	158
NYSCRF	—	—	—	—	6	—	1	—	7
SWIB	2	5	6	4	4	3	1	1	26
Union funds	2	3	11	9	8	10	27	49	119
Total	32	26	65	69	67	42	67	95	463
Coordinated activities of investors									
USA	—	—	—	34	62	39	40	—	175
Investment groups	1	1	3	9	2	10	1	11	38
Total	1	1	3	43	64	49	41	11	213
Individual investors and religious organizations									
Gilbert	33	65	78	85	75	42	37	34	449
Davis	9	27	26	45	52	49	51	55	314
Rossi		7	13	14	14	16	17	9	90
Prominent individuals	—	—	—	3	—	1	2	—	6
Religious organizations	1	1	2	2	4	4	22	17	54
Other individuals	15	40	40	35	39	63	101	85	418
Unidentified	3	1	22	2	4	—	—	3	35
Total	61	141	181	186	188	176	230	203	1366
Total Proposals	94	168	249	298	319	267	338	309	2042

[a] CalPERS – California Public Employees Retirement System.
CalSTRS – California State Teachers Retirement System.
TIAA-CREF – College Retirement Equities Fund.
Florida – Florida State Board of Administration.
NY city – New York City Employees' Retirement System; New York City Fire Department Pension Fund, New York Police Department Pension Fund, New York City Teachers' Retirement System.
NYSCRF – New York State Common Retirement Fund.
SWIB – State of Wisconsin Investment Board.
USA – United Shareholders Association.
Gilbert – Gilbert Brothers, activist individual investors.
Davis – Evelyn Davis, activist individual investor.
Rossi – A family group of activist investors.
Prominent individuals – Carl Icahn, Robert Monks, Harold Simmons.

the greatest activity occurring between 1990 and 1992 with the submission of proposals by the USA group. After 1992, many public funds cut back on the number of submissions and after their dissolution in 1993, the USA stopped submitting proposals altogether. In contrast, the union funds became more active over the period as corporate governance issues increasingly gained interest from unions. The proportion of their proposals in the institutional sample grew from 6% in the first year to 52% by the final year.

Table 3 provides a breakdown of the proposal submissions by year, issue addressed, and sponsor identity. Although there were some similarities of interest between the different types of sponsors, there were also a number of differences. The proposals sponsored by institutions or coordinated groups tended to focus on problems arising from potential conflicts of interest between management and shareholders. The resolution of these problems has been addressed through three proposed actions: a repeal of antitakeover devices; an institution of changes in voting rules, and an allowance for increased board independence. The largest number of proposals by institutional or coordinated activists have advocated the first of these actions, the elimination of antitakeover measures. The stated purpose of such proposals is to make management more accountable. As Table 3 shows, 48% of the institutional and coordinated proposals over the 1987–1994 sample period had the objective of repealing antitakeover devices.

The second most common proposed action, changes in voting rules, constitutes 33% of the institutional and coordinated proxy proposals, with the majority of these proposals recommending confidential voting. The rationale given for the confidential voting proposals is the need for other institutional shareholders to be free from conflict of interest problems.[8] For similar reasons, the activist funds have pursued their third major issue: increased director independence for the board and some of its subcommittees, e.g., the nominating and executive compensation committees. These independence proposals became important in the latter part of the time period with 61 of the 62 institutional and coordinated proposals occurring in the second half of the sample period.

In contrast to the similarity of issues addressed by institutions and coordinated groups, there was far greater dispersion in the issues addressed by the individual investors. This greater dispersion coincides with the greater diversity of investors in this group. Similar to the institutional and coordinated investor proposals there was emphasis on poison pill repeal, voting issues (in this case, cumulative voting was important rather than confidential voting), the repeal of classified boards, and issues associated with specific characteristics of the board of directors. Although it appears that individual investors have emphasized

[8] For example, Pound (1988) and Brickley et al. (1988) argue that institutional investors who have business relationships with a company may be coerced into voting the management slate even when doing so is contrary to their fiduciary interests.

board-related issues, we should point out the association between the particular issues sponsored and the identity of the proposal sponsor. For example, 249 of the 274 cumulative voting proposals were sponsored by Evelyn Davis or the Gilbert brothers. Similarly, 194 of the 382 proposals targeting director age, the level of director ownership, and executive or director compensation were sponsored by either Evelyn Davis or the Rossi family. Thus, many of those proposals related to the particular corporate governance issues of executive compensation or the board of directors have been sponsored by the so-called 'gadfly' investors.

4. Analysis of voting outcomes

One measure of the success of shareholder activism is the voting outcome on the proposals. In this section of the paper we focus on the voting results for the set of all proposals for which we have voting data available (1755 out of the original 2042 proposals). Initially we present an overview of the voting patterns. We then investigate the voting outcomes in more depth by focusing on the voting results by particular issues addressed and the identity of the sponsors.

4.1. Time trend of voting outcomes

For each year, Table 4 reports summary statistics for the distribution of votes in favor of the proposals. Two aspects of this distribution are important. First is the lack of general investor support for shareholder-submitted proxy proposals. Over our sample period, on average, less than a quarter of the votes were in favor of the corporate governance proposals. The second important aspect is the general increase in the mean (and median) percentage of votes over the latter part of the time period. The notable jump in the percentage vote received is particularly apparent from 1989 to 1990, a period coincident with the public pension funds employing a more focused targeting strategy based on performance and the entrance of the USA group into the process.

In order to ascertain whether the entry of institutional investors into this activity has had a measurable effect, we examine whether the voting outcomes and their changes over time are related to the identity of the proposal sponsor and/or the particular issue being proposed.

4.2. Voting outcome and sponsor identity

Table 5 provides the voting outcomes on an annual basis for proposals sponsored by institutions, coordinated investor groups, and individual investors. The results suggest that proposal sponsorship is an important determinant in the voting outcome. On average, proposals sponsored by institutional or coordinated investors receive over 175% as many votes as those sponsored by

Table 3
Shareholder proposals submitted according to issue type

This table presents the shareholder proposals submitted each year from 1987-1994 by issue type. Each year's entry shows the total proposals of an issue for the year. In parentheses is given the number of those proposals that were submitted by institutional investors or coordinated groups. The remainder were submitted by individual investors.

	1987	1988	1989	1990	1991	1992	1993	1994	Total
Issues related to repealing antitakeover devices									
Repeal classified board	22	37	47 (1)	45 (1)	44 (2)	34 (1)	42 (7)	43 (15)	314 (27)
Eliminate poison pill	33 (31)	21 (17)	26 (21)	41 (32)	52 (35)	32 (24)	29 (22)	15 (14)	249 (196)
Eliminate golden parachutes	1	—	1 (1)	11 (9)	28 (22)	18 (9)	10 (8)	9 (6)	78 (55)
Eliminate supermajority requirement	5 (1)	3 (1)	4	4	4	—	—	1 (1)	21 (3)
Opt-out of state antitakeover law	—	—	4 (4)	7 (4)	6 (4)	—	—	—	17 (12)
Prohibit greenmail payments	2	5 (2)	4 (3)	4 (2)	—	1 (1)	—	—	16 (8)
Targeted share placement	—	—	—	2 (2)	3 (3)	6 (6)	2 (2)	2 (2)	15 (15)
Reincorporate to another state	—	—	1 (1)	2	5 (4)	2 (2)	—	—	10 (7)
Fair price provision	1	2	—	—	—	—	—	—	3
Voting issues									
Cumulative	—	31	39	50	46 (1)	34	38 (1)	36 (2)	274 (4)
Confidential	4	9 (6)	51 (35)	55 (51)	46 (43)	35 (30)	29 (26)	23 (21)	252 (212)
Other voting related	4 (1)	—	—	4 (4)	1 (1)	1	—	7 (2)	17 (8)
Board and committee independence issues									
Director ownership	—	11	18	24 (1)	18	12	5	6	94 (1)
Other related to directors	—	1	—	1	1	11 (1)	20	14 (2)	48 (3)
Increase board independence	—	—	—	—	9 (9)	7 (5)	16 (15)	13 (12)	45 (41)
Limit director terms	—	7	6	6	5	8	4	7	43
Nomination of directors	2	2	2	2	4 (2)	3 (2)	4 (4)	10 (9)	29 (17)
Director compensation	—	—	—	—	—	—	4	6	10
Director attendance at meetings	—	10	—	—	—	—	—	—	10

Other issues									
Executive compensation	1	1	2	14	22 (1)	31 (1)	93 (6)	69 (5)	233 (13)
Annual meeting	—	6	11	—	2	3	4	6	32
Restore preemptive rights	—	1	9	8	5	2	1	—	26
Prohibit dual CEO/Chair	—	—	1	1	1	2 (2)	10 (8)	7 (7)	22 (17)
Audit committee	1	2	8	4	3	—	—	1 (1)	19 (1)
Sell the company	2	1	2 (1)	2	3 (1)	6 (3)	—	1	17 (5)
Establish shareholder committee	—	—	2 (1)	3 (3)	3 (2)	1	4	4 (1)	17 (4)
Restrict options	8	6	—	—	—	—	—	—	14
Equal access to proxy	—	6	2	—	—	2	2 (1)	1 (1)	11 (2)
Report on meetings	—	—	1	3	2	1	1	—	8
Limit pensions	2	2	—	—	—	1	—	—	5
Other	6	4 (1)	8	5 (3)	6 (1)	16 (4)	20 (8)	28 (5)	93 (22)
Total Issues	94 (33)	168 (27)	249 (68)	298 (112)	319 (131)	267 (91)	338 (108)	309 (106)	2042 (676)

Table 4
Voting results: entire sample by year

This table presents descriptive statistics for the percentage of votes in favor of the shareholder proposal. The sample is the set of 1755 corporate governance proposals for which voting data is available.

		Percentage of votes in favor of proposal			
Year	n	Mean (%)	Median (%)	Minimum (%)	Maximum (%)
1987	94	19.9	17.8	2.8	61.0
1988	168	18.0	14.7	1.3	61.2
1989	227	19.8	18.2	0.9	97.2
1990	281	25.0	24.0	1.0	66.4
1991	260	26.5	25.5	1.5	95.6
1992	224	24.8	23.2	1.8	97.1
1993	245	23.5	21.2	2.5	80.5
1994	256	22.5	20.2	1.6	84.7
Overall	1755	23.0	21.1	0.9	97.2

individuals. This is a difference that is statistically significant beyond the 1% level, according to a t-test for differences in means. In addition, in every year after 1988 there are significantly more favorable votes cast for proposals sponsored by institutions or coordinated groups than by individual investors.

To further highlight the distinction between proposal sponsorship among these three groups, we report the breakdown of votes received conditional on the proposal sponsor as shown in Table 6. These results are consistent with those found in the previous table. They indicate that the higher level of votes received by institutional proposals is not limited to one or two of the more active sponsors. While proposals sponsored by CalPERS often receive a comparatively higher level of support with a mean vote in favor of 41% (median of 43%), those sponsored by other institutional investors such as SWIB or TIAA-CREF also receive a higher level of support than proposals sponsored by individual investors. The coordination efforts of the USA and of the investment groups are also reflected in the fact that their proposals receive a comparatively high level of support relative to proposals sponsored by individuals. The higher vote totals of the proposals sponsored by prominent individuals reflect their status in the investment community and the media coverage that typically accompanies their actions. Finally, note that the gadfly investors typically receive relatively low levels of support.

Many of the proposals are resubmitted in subsequent years. Table 7 breaks down the voting data according to the number of times a proposal was submitted. As Panel A shows, if proposals are submitted in a subsequent year, the voting tends to be greater, albeit by a small amount. Panels B and C of

Table 5
Voting results by sponsor type and year of proposal

This table presents descriptive statistics for the percentage of votes in favor of the shareholder proposal for the set of 1755 corporate governance proposals for which voting data is available. The proposals are divided by sponsor type.

Year	*n*	Mean	Median	Minimum	Maximum
Proposals sponsored by institutions					
1987	32	29.1	29.1	10.0	45.9
1988	26	33.6	32.6	7.3	55.7
1989	51	31.9	30.4	7.4	97.2
1990	59	35.0	31.9	14.3	61.2
1991	45	36.6	37.4	8.5	95.6
1992	26	33.5	35.2	10.9	48.9
1993	41	33.0	34.6	5.2	63.2
1994	63	30.6	28.7	4.1	84.7
Overall	343	32.9	32	4.1	97.2
Proposals sponsored by coordinated groups					
1987	1	12.0	12.0	12.0	12.0
1988	1	49.9	49.9	49.9	49.9
1989	3	23.8	26.8	15.2	29.5
1990	41	35.2	36.1	15.8	60.2
1991	39	37.1	36.6	20.4	59.6
1992	37	39.1	38.6	6.6	97.1
1993	19	42.6	39.9	15.2	80.5
1994	10	49.1	48.8	25.2	67.3
Overall	151	38.2	37.5	6.6	97.1
Proposals sponsored by individuals					
1987	61	15.3	12.1	2.8	61.0
1988	141	14.9	12.5	1.3	61.2
1989	173	16.2	14.3	0.9	53.9
1990	181	19.5	17.7	1.0	66.4
1991	176	21.6	19.4	1.5	81.7
1992	161	20.1	17.9	1.8	53.4
1993	185	19.4	17.3	2.5	71.0
1994	183	18.3	15.4	1.6	57.4
Overall	1261	18.5	16.1	0.9	81.7

Table 7 separate the voting data according to times submitted and proposal sponsor. Votes in favor of proposals resubmitted by institutions or coordinated groups tend to increase substantially in the first two years of resubmission and then level off. The votes in favor of proposals resubmitted by individuals tend to increase somewhat over the next six years of resubmission.

Some of the increase in votes for proposal resubmission is likely due to selection bias. That is, we only observe those proposals being resubmitted in

Table 6
Voting results by sponsor identity

This table presents descriptive statistics for the percentage of votes in favor of the shareholder proposal for the set of 1755 corporate governance proposals for which voting data is available. The proposals are divided by sponsor identity.

Sponsor	*n*	Mean	Median	Minimum	Maximum
Proposals sponsored by institutions					
NY City pension funds	110	29.1	29.0	7.3	63.2
Union funds	94	30.5	31.0	4.1	62.7
CREF	54	35.5	35.7	20.8	49.6
CalPERS	30	41.3	43.1	14.0	84.7
CalSTRS	27	33.9	32.0	7.4	61.2
SWIB	21	45.8	41.2	25.5	97.2
NYSCRF	3	17.2	17.7	8.0	25.9
Connecticut	2	44.7	44.7	29.3	60.0
Florida	2	25.0	25.0	15.0	35.0
Proposals sponsored by coordinated groups					
USA	117	38.1	37.7	15.2	80.5
Investment groups	34	38.5	35.7	6.6	97.1
Proposals sponsored by individuals					
Gilbert	445	20.4	19.3	1.3	66.4
Individual	361	19.5	16.3	1.8	81.7
Davis	309	16.1	14.2	1.0	50.8
Rossi	85	16.0	13.8	3.8	45.0
Religious Organizations	26	10.3	8.1	2.9	36.5
Prominent Individuals	3	35.8	42.9	8.0	56.5
Unidentified	32	15.6	8.4	0.9	53.3

which the sponsor expects greater success. In addition, the increase may be influenced to some extent by the shareholder proposal rule permitting companies to exclude proposals not reaching certain threshold levels of support. Specifically, if a proposal does not receive at least 3% of the votes on the first submission, the company may choose to exclude it from resubmission for a three-year period. This threshold increases to 6% on the second submission, then to 10% on the third. Schroeder (1998) reports that the SEC had recently considered increasing the above required percentages to 6%, 15% and 30%, respectively, for resubmission eligibility. Panels B and C of Table 7 indicate that after the first year, these more stringent requirements would not have been met by a large percentage of the resubmissions by individual sponsors. However, the requirements would have been met by over 50% of the resubmissions by institutions or coordinated groups.

Table 7
Voting results by history of the proposal

This table presents descriptive statistics for the percentage of votes in favor of the shareholder proposal for the set of 1,755 corporate governance proposals for which voting data is available. The proposals are divided by the number of times they have been presented to the shareholders at that firm for a vote. Panel A shows the votes for all proposals. Panel B shows the votes for proposals sponsored by institutions or coordinated groups, and Panel C shows the votes for proposals sponsored by non-institutional shareholders.

Times submitted	*n*	Mean	Median	Minimum	Maximum
Panel A: All proposals					
First	905	21.5	18.0	0.9	97.2
Second	384	22.4	20.0	1.3	95.6
Third	198	25.3	22.5	2.9	84.7
Fourth	127	26.2	25.1	2.5	62.7
Fifth	71	28.1	26.2	6.4	53.9
Sixth	42	27.8	28.0	5.6	42.7
Seventh	25	29.7	27.1	6.6	50.8
Eighth	3	24.9	27.2	7.5	40.1
Panel B. Proposals sponsored by institutions or coordinated groups					
First	291	32.6	31.1	4.1	97.2
Second	115	35.7	35.6	5.2	95.6
Third	48	38.9	38.4	12.8	84.7
Fourth	25	40.0	38.8	21.4	62.7
Fifth	11	41.7	42.8	24.6	53.9
Sixth	3	37.8	39.9	31.8	41.8
Eighth[a]	1	40.1	40.1	40.1	40.1
Panel C. Proposals sponsored by individuals					
First	614	16.3	13.1	0.9	81.7
Second	269	16.7	14.4	1.3	71
Third	150	20.9	19.5	2.9	66.4
Fourth	102	22.8	22.9	2.5	57
Fifth	60	25.5	24.2	6.4	49.4
Sixth	39	27.0	27.5	5.6	42.7
Seventh	25	29.7	27.1	6.6	50.8
Eighth	2	17.4	17.4	7.5	27.2

[a] The jump between sixth and eighth is attributable to the seventh time proposal being submitted by an individual rather than a coordinated group

4.3. Voting outcome and issue type

Table 8 shows the voting results by issue type. Two of the issues that received the most support were those that have particular institutional investor support: the elimination of poison pills and confidential voting. In general, the takeover-related proposals receive greater support than do those involving other issues.

Table 8
Voting results by issue type

This table presents mean and median voting results for shareholder proposals relating to antitakeover measures, voting issues, the board of directors and the a selection of other issues over the entire period from 1987–1994.

Issues	n	Mean	Median
Issues related to antitakeover devices			
Repeal classified board	299	26.62	26.10
Eliminate poison pill	211	40.70	39.80
Eliminate golden parachutes	60	29.62	28.80
Eliminate supermajority requirement	21	32.78	31.20
Opt-out of state antitakeover law	16	26.30	23.15
Prohibit greenmail payments	14	29.39	25.05
Targeted share placement	11	38.48	40.10
Reincorporate to another state	7	22.46	20.40
Fair price provision	3	32.60	32.30
Voting issues			
Cumulative	272	19.15	18.90
Confidential	192	32.93	32.90
Board and committee independence issues			
Director ownership	88	11.05	10.10
Other related to directors	26	12.35	8.30
Increase board independence	17	20.79	23.30
Limit director terms	42	9.25	6.80
Nomination of directors	20	14.39	11.45
Director compensation	10	27.04	27.55
Director attendance at meetings	10	11.85	12.55
Other issues			
Executive compensation	194	12.15	10.00
Other	72	12.67	9.00
Annual meeting	31	6.15	5.30
Restore preemptive rights	26	11.72	12.15
Prohibit dual CEO/Chair	15	18.77	17.20
Audit-related	17	15.58	11.60
Sell the company	17	18.44	14.60
Restrict options	14	7.44	7.30
Equal access to proxy	11	11.17	8.30
Establish shareholder committee	9	25.01	10.30

Variation in voting support is highlighted in the case of proposals pertaining to executive compensation, director ownership, and the limitation of director terms (those commonly proposed by the so-called 'gadfly' investors). With median votes ranging from 9% to 12%, it is apparent that these proposals are not met with widespread support, and are thus not perceived by other shareholders as being as powerful as the poison pill or confidential voting proposals in pressuring corporate management to pursue reform.

4.4. Influence of sponsor identity and issue type on voting outcome

Given the differential voting across issues and times submitted, we need to separate out the influence of proposal sponsorship from the other factors that may affect the vote totals. Thus, we focus on the relationship between the percentage of votes received in favor of a proposal and the identity of the proposal sponsor while controlling for institutional ownership, past firm performance and issue type. Specifically, we estimate the parameters of the following model:

$$\begin{aligned}\%\text{VOTES} = \alpha &+ \beta_1(\text{Sponsor}) + \beta_2(\%\ \text{institutional ownership})\\ &+ \beta_3(\text{Takeover-related})\\ &+ \beta_4(\text{Takeover-sponsor interaction}) + \beta_5(\text{Relative return})\\ &+ \beta_6(\text{Times submitted}) + \beta_7(\text{Y9091} + \beta_8(\text{Y9294}) + \varepsilon, \quad (1)\end{aligned}$$

where Sponsor is a dummy variable equal to one if the proposal is sponsored by an institutional investor or a coordinated investor, or equal to zero otherwise. The coefficient on this variable can be interpreted as the incremental percentage vote attributable to public fund or coordinated sponsorship, respectively. The percentage of institutional ownership controls for the possibility that the institutional and coordinated proposals receive more support simply because they are submitted to firms with a higher level of institutional ownership. Another possibility is that proxy proposals for firms with poor performance elicit more shareholder votes because the shareholders are more concerned. To control for this possibility, we include the target firm's 5-year stock market performance relative to the Standard and Poor's 500 Index performance as a control variable. Specifically, we take the 5-year buy-and-hold return for each company less the 5-year buy-and-hold return on the S&P 500. Thus, the inclusion of this variable allows us to assess whether institutional or coordinated sponsorship has an effect separable from a firm's previous poor performance. To measure the influence of takeover-related proposals and the relation between takeover-related proposals and the identity of the sponsor, we include two variables: a dummy variable (Takeover-related) that equals one if the shareholder proposal is related to takeovers, or zero otherwise, and an interaction term that is (Takeover-sponsor interaction). These variables provide some control over whether issue type is a more important influence than sponsor identity. The variable (Times submitted) is included to control for the number of times a proposal has been submitted to vote. Finally, we include two time dummies to measure the influence of changes in the shareholder activism process itself across the 1990–1991 and 1992–1994 time periods as compared to the 1987–1989 period. Specifically, Y9091 is a dummy variable equal to one if the year of the proposal submission is 1990 or 1991, and Y9294 is a dummy variable equal to one if the year is 1992, 1993, or 1994. In the first model presented in Table 9, we estimate the regression for all proposals for which we have data on each of the

Table 9
Voting outcome and proposal sponsor

Estimated coefficients for a regression relating the voting outcome to the type of proposal sponsor over the 1987–1994 time period. We use a single dummy variable to distinguish those proposals sponsored by public pension funds or coordinated groups from those sponsored by other investors. We include the percentage of institutional ownership to control for institutional holdings, the 5-year performance relative to the Standard and Poor's 500 to control for prior performance, the number of times the proposal has been submitted, a dummy variable to control for takeover-related proposals, a takeover-related∗sponsor interaction term and two dummy variables to distinguish whether the proposal was submitted in 1990–1991 or 1992–1994. Model 1 utilizes all observations for which there was sufficient data and Model 2 is restricted to those proposals that were submitted for the first time. *P*-values are provided in parentheses.

Variable	Model 1	Model 2
Intercept	8.00	10.82
	(0.0001)	(0.0001)
Sponsored by institution or coordinated group	15.13	13.65
	(0.0001)	(0.0001)
Percentage institutional ownership	0.062	0.028
	(0.0001)	(0.2351)
Takeover-related	12.67	13.87
	(0.0001)	(0.0001)
Takeover-related∗sponsor	− 3.95	− 4.27
	(0.001)	(0.0226)
Return over past 5 years relative to S&P 500	− 0.95	− 0.94
	(0.0001)	(0.0001)
Times Submitted	1.03	
	(0.0001)	
Y9091	3.26	3.73
	(0.0001)	(0.0005)
Y9294	3.09	3.72
	(0.0001)	(0.0002)
Number of observations	1553	787
Adj. R^2	0.466	0.426
F	170.5	84.6

independent variables, for a total of 1553 observations.[9] In the second model, we estimate the regression only for those proposals that are submitted for the first time, for a total of 787 observations.

The results of the estimation of these regression models over the 1987–1994 sample period suggest that the identity of the sponsor is associated with the voting outcome, even after controlling for past performance, level of institutional ownership, number of times the proposal has been submitted, and whether the proposal is takeover related.[10] The finding that institutional or coordinated sponsorship has a significantly positive influence on the voting outcome is consistent with the active voting of proxies by many institutions. It is also consistent with the hypothesis that these investors, including public pension funds, tend to target companies where other institutional shareholders are likely to support their proposals.[11] Similar to Gordon and Pound (1993), we find that the measure of institutional ownership is significantly associated with the outcome of the vote on shareholder-sponsored issues. However, the magnitude of the coefficient indicates that this influence is relatively small. Another strong positive factor for the number of votes in favor of a proposal is whether or not the proposal is takeover-related. Thus, both sponsor identity and issue proposed are important determinants of the voting outcome. The results also indicate that poor previous stock market performance is significantly related to shareholder voting. The poorer the performance over the previous five years, the higher the number of votes in favor of the shareholder proposal. This result, also consistent with Gordon and Pound's results on voting outcomes for one year, suggests that shareholders have more interest in proxy proposals when a firm has been performing poorly. Further, this result holds whether we employ a long-term or shorter-term performance measure, indicating that any poor performance increases shareholder dissatisfaction. Consistent with the results in Table 7, there is also a positive increase in the votes in favor of a proposal when it is submitted for a subsequent time.

The significance of the coefficients on each of the time dummy variables (for the time periods 1990–1991 and 1992–1994) indicate that there was a general increase in favorable votes in the 1990s as compared to the 1980s. The magnitude of the coefficients imply that after 1989, when institutions began to be more focused in their targeting approach and the USA started operations, the

[9] Inferences are robust to the use of a logistic regression model.

[10] In an alternate specification of the model not included here, we separate the public pension fund proposals from the coordinated proposals and find that each of the coefficients is positive and significant beyond the one-percent level.

[11] In fact, Carleton et al. (1998) report that one criterion used by TIAA-CREF in targeting companies for shareholder activism is that a large proportion of a company's shares be held by institutions.

percentage of votes in favor of proposals became substantially larger. These results are consistent with the voting increases shown previously in Table 5, but they also show that the increases are significant even after taking into account sponsorship, institutional ownership, previous performance and issue type. The similarity in the magnitude of the two time period dummies suggests, however, that the increase does not differ when one considers the difference in voting before and after the SEC change in communication rules.

Model 2 of Table 9 restricts the observations to those proposals that are submitted for the first time. In general, whether a proposal is submitted for the first time or for subsequent times, the coefficient for sponsor identity is similar. The only variable that changes in significance is the percentage of institutional holdings which is not a significant factor in the number of votes cast for first time proposals.

4.5. Voting outcome and shareholder negotiation

The finding that institutional and coordinated sponsorship of shareholder proposals is associated with a significant increase in the number of votes cast for that proposal implies that the sponsors can employ this level of support in their negotiations with the firms. Shareholder proposals are advisory only, that is, even if they receive a majority of the vote, management is not obliged to take action. The use of these proposals in the direct negotiation process may be reflected in the increased number of negotiated removals of such proposals from shareholder ballots, perhaps indicating the influence that activist investors have. For example, the Investor Responsibility Research Center reports that as of May 1993, 51 companies had settled with activist shareholders, leading to the removal of proposals from shareholder ballots. In addition, Bizjak and Marquette (1998) find that whether a poison pill is restructured depends on the percentage of votes cast in favor of the shareholder resolution. They also find that the probability that a pill will be rescinded increases with a shareholder proposal. Finally, further evidence is provided by Table 10 which reports for each year the number of corporate governance proposals that were submitted to companies and then withdrawn. Also reported is the percentage of the withdrawn proposals that were either institutional or coordinated. Over the entire period the proposals that are withdrawn prior to the annual meeting are predominantly institutional or coordinated. In addition, there is some increase in the number of proposals withdrawn after 1989, which may reflect the increased pressure of institutional activists and their allies.

In summary, our voting analysis indicates that the number of votes cast in favor of a corporate governance proposal are dependent on the sponsor identity, the issue, the firm's previous performance, the institutional ownership, and the time period. The results may be biased downward somewhat by the withdrawal of proposals prior to the annual meeting. These withdrawals, particularly by

Table 10
Withdrawals of shareholder proposals over the 1987–1994 time period

This table reports the number of corporate governance proposals that were submitted to companies and then withdrawn over the 1987–1994 sample period. Also reported is the percentage of the withdrawn proposals that were sponsored by institutions or coordinated groups.

Year	Number withdrawn	% institutional or coordinated
1987	n.a	n.a
1988	n.a	n.a
1989	21	66.67
1990	14	85.71
1991	48	89.58
1992	37	75.68
1993	86	58.14
1994	38	81.58
Total	244	Avg. 72.95%

institutional or coordinated investors, also suggest that the proposals may be useful in direct negotiations with the firms.

5. Stock market performance

In this section we employ an alternate measure of the success of shareholder activism, that being the short-term stock market reaction to the revelation of a corporate governance proposal in the proxy statement. In conducting this investigation, one concern is the appropriate date upon which the market receives the information that shareholders are seeking to have corporate governance measures subjected to shareholder vote, i.e., when information on proxy proposals becomes available. Previous studies (Bhagat, 1983; Bhagat and Brickley, 1984) have concluded that information from the proxy statement is impounded in share prices when the proxies are mailed. In addition, Brickley (1986) notes that both annual meeting dates and proxy statement mailings are reasonably predictable and are likely to contain important information. As such, expected returns and risk may increase around proxy statement disclosures and annual meeting dates. The results of Brickley's study indicate that although there is significantly positive abnormal market reaction around a random sample of annual meeting dates, there is *no* systematic market reaction around a general population of proxy mailing dates. Thus, the evidence supports the hypothesis that the expected abnormal return around the release of proxy statements is zero, absent any wealth effects of the event being studied.

These considerations provide us the impetus for using the proxy mailing date as the appropriate event date and for focusing on the return behavior surrounding the proxy mailing date. As such, we obtain the mailing date for each proposal by searching the relevant proxy statement. We then employ the market model event study methodology to investigate return behavior surrounding the release of the proxy material. We estimate the market model over the 150-day period preceding ten days before the proxy mailing date, and then we investigate return behavior over the day -1 to day $+7$ window immediately surrounding the event date. We chose this time period because the recording of proxy mailing dates is imprecise, and it also appears that in some cases investors may not have received the proxy for a number of days after the proxy mailing date. The results do not differ qualitatively if we employ a shorter window of $(-1, +1)$.

We should note two reasons why we would not expect the announcement period return to be large. First, as already discussed, it is difficult to capture the full wealth effect because of information leakage prior to the proxy mailing date. This is particularly true given the propensity of some investors to announce that they are going to target certain firms. Second, shareholders have several alternative mechanisms for influencing corporate policy. As Shleifer and Vishny (1986) point out, a takeover would be used to capture a larger potential wealth gain. Thus, we would expect the targeting or negotiation approach to be used to make less valuable improvements in corporate policy.

Our short-term market reaction analysis is presented in two separate sections. In the first, we examine investor response to all of the corporate governance proposals over the period 1987–1994.[12] We then use regression analysis to focus on proposals sponsored during two separate time periods: 1987–1991 and 1992–1994. The latter of these time periods is particularly important, as it focuses on the period after the SEC's relaxation of shareholder communications rules regarding proxy submissions.

5.1. Stock market reaction to all shareholder proposals

In Table 11, we report the market reaction to all shareholder proposals divided by the type of proposal sponsor over the entire 1987–1994 sample period. The significance levels of the stock price reactions indicate that, in general, shareholder proposals are not associated with a significant investor reaction, irrespective of sponsor identity. For the set of 'All proposals' sponsored by institutions or coordinated groups, we find a negative but statistically insignificant reaction over the $(-1, +7)$ window surrounding the proxy

[12] Due to missing information on proxy mailing dates or returns the stock market analysis covers a smaller set of proposals.

Table 11
Stock market reaction to shareholder proposals divided by sponsor type

This table presents cumulative abnormal returns (and the associated z-statistics and binomial statistics) for the (− 1, + 7) window surrounding the mailing of proxy statements with corporate governance proposals over the entire period of the study (1987–1994). The proposals are divided by sponsor type.

Proposal type	%CAR [− 1, 7]	*Z*-stat	*n*	% positive
Proposals sponsored by institutions or coordinated groups				
All proposals	− 0.4509	− 1.3374	383	45.43
Board issues	− 0.5974	− 0.8364	44	43.18
Confidential voting	− 0.0691	− 0.0672	159	50.94
Repeal of poison pill	− 1.0069	− 2.1221	157	39.49
Other issues	− 0.3461	− 0.4526	107	42.06
Proposals sponsored by individuals				
All proposals	0.2561	2.3140	946	50.74%
Board issues	0.1749	1.1236	432	49.31%
Cumulative voting	0.4458	1.8457	263	53.23%
Confidential voting	0.2724	0.2527	29	48.28%
Repeal of poison pill	1.0360	1.4332	46	58.70%
Other issues	0.1417	1.7801	377	53.05%

mailing date.[13] For the set of 'All proposals' sponsored by individuals, we observe a significant positive abnormal return.

Given the wide diversity in types of proposals, we also examine the market reaction to the particular issue being proposed. We find that market reaction differs somewhat across issues, with significant investor reaction only in the case of the institutional or coordinated proposals related to poison pills and individual proposals seeking the adoption of cumulative voting.

With regard to the institutional or coordinated proposals related to poison pills these proposals are, for the most part, an effort to repeal the poison pills adopted previously. There is substantial empirical evidence that the market received the adoption of such antitakeover devices negatively. Ryngaert (1988), Malatesta and Walkling (1988) and Comment and Schwert (1994) all find significantly negative abnormal returns surrounding the adoption of shareholder rights plans (poison pills). Similarly, Bhagat and Jefferis (1991), Jarrell and Poulsen (1987), and Agrawal and Mandelker (1990) find a negative market reaction to the adoption of certain types of antitakeover amendments. Our results provide a contrast to these studies as we focus on shareholder proposals

[13] Karpoff et al. (1996) also study this issue over the earlier 1986–1990 time period. In general they find a lack of statistical significance, irrespective of the size of the event window.

that seek the *repeal* of antitakeover amendments or otherwise advocate changes related to the corporate governance structure of the firm. Despite the negative abnormal return found at the time of the adoption of poison pills and antitakeover amendments, the announcements of proposals to remove these amendments are also met with a significant negative investor reaction. As discussed in the previous section, shareholder-submitted proposals rarely obtain sufficient votes to pass, and even if they did, they are only advisory in nature. As such, there is a low likelihood that such amendments will be passed. It is commonly known that the public pension funds first negotiate with a company, then propose a shareholder resolution if their initial efforts to change the corporate governance does not work (e.g., Hanson, 1993). It could be that the appearance of the proposal in the proxy statement is perceived as a signal of management's unwillingness to respond to shareholder concerns. Further, in support of this hypothesis are the findings of Strickland et al. (1996) that the USA reached negotiated agreements covering 53 proposals *before* those proposals were included in the proxy mailings and that the announcement of these negotiated agreements was met with a positive abnormal return.

The lack of significant investor reaction to shareholder proposals over the entire 1987–1994 time period is, perhaps, not surprising given previous evidence (see, Karpoff et al., 1996). Since the process of shareholder activism has evolved over the period studied, it is important to examine whether there have been changes in the stock market reaction and what factors can influence that reaction.

5.2. Influence of sponsor identity, issue type, and time period on stock market reaction

In this section, we test whether the short-term market reaction is influenced by sponsor identity or issues independent of other factors. We also examine whether the reaction has changed over time, particularly given the change in the SEC rules with respect to investor communications. Specifically, we estimate the parameters of the following model:

$$\begin{aligned}\mathrm{CAR}(-1,\ +7) = \alpha &+ \beta_1(\text{Sponsor}) + \beta_2(\%\ \text{institutional ownership})\\ &+ \beta_3(\%\ \text{votes}) + \beta_4(\text{Relative return}\\ &+ \beta_5(\text{Times submitted}) + \beta_6(\text{Takeover-related})\\ &+ \beta_7(\text{Takeover-sponsor interaction}) + \beta_8(\text{Y9091})\\ &+ \beta_9(\text{Y9294}) + \varepsilon, \qquad (2)\end{aligned}$$

where Sponsor is a dummy variable equal to one if the proposal is sponsored by an institutional or coordinated investor and equal to zero otherwise. The (% institutional ownership) controls for the level of institutional ownership, while

(% votes) controls for the voting outcome. We also incorporate the firm's 5-year stock market performance relative to the Standard and Poor's 500 Index as a control variable. To measure the influence of takeover-related proposals and the relation between takeover-related proposals and coordinated sponsorship, we include two variables: a dummy variable (Takeover-related) that equals one if the shareholder proposal is related to takeovers, and equal to zero otherwise, and an interaction term that is (Takeover-sponsor interaction). The variable (Times submitted) is included to control for the number of times a proposal has been submitted to vote. Y9091 is a dummy that equals one if the year of the proposal submission is 1990 or 1991, and Y9294 is a dummy that equals one if the year is 1992, 1993 or 1994. As in the voting regressions, this regression is estimated for two different data sets. First, we estimate the regression over all proposals for which we have data on each of the independent variables. Second, we estimate the regression on only those proposals that are submitted for the first time.

Model 1 of Table 12 shows that in general, sponsor identity has a significantly negative effect on the market reaction to the announcement that a shareholder proposal has been included in the proxy statement. The implication is that if an institution or a coordinated group sponsors a shareholder proposal, then, on average, investors perceive that to be negative information. The negative reaction may result from a belief that the appearance of the proposal in the proxy statement is a signal of management's unwillingness to negotiate with such investors. The percentage of institutional investors holding shares in the stock has a positive effect on the stock market reaction to the proposal. As in the voting outcome, a proxy proposal for a firm that has previously exhibited poor performance is more likely to result in investor reaction to that proposal. The other factors that were found to affect voting outcome do not have significant effects on the stock market reaction. In particular, despite changes in SEC proxy rules and changes in the character of the institutional investor activism, there is no significant difference in investor reaction across the three time periods.

The second model in Table 12 provides the results of Eq. (2) when only first time proposals are included in the analysis. Although these proposals may be more of a surprise than those that are repeat proposals, the results are similar to those of Model 1, with substantially less significance. In particular, for first time proposals the market reaction is not influenced by whether the proposal is sponsored by an institution or coordinated group.

6. Conclusions

In this paper we have examined the effectiveness of shareholder activism by institutional and individual investors. The data on shareholder activism consists of 2042 shareholder proposals submitted at 452 companies from 1987 to 1994.

Table 12
Cumulative abnormal returns and proposal sponsor

This table contains the estimated coefficients for a regression relating the cumulative abnormal return to the type of proposal sponsor over the 1987–1994 time period. The cumulative abnormal return is calculated over the (− 1, + 7) window surrounding the proxy mailing date. We use a single dummy variable to distinguish those proposals sponsored by public pension funds or coordinated groups from those sponsored by other investors. We include the percentage of institutional ownership to control for institutional holdings, the voting outcome, the 5-year performance relative to the Standard and Poor's 500 to control for prior performance, the number of times the proposal has been submitted, a dummy variable to control for takeover-related proposals, an interaction term between the sponsor and takeover dummies, and two dummy variables to distinguish whether the proposal was submitted in 1990–1991, (Y9091), or 1992–1994, (Y9294). Model 1 utilizes all observations for which there was sufficient data and Model 2 is restricted to those proposals that were submitted for the first time. (P-values are provided in parentheses).

	Model 1	Model 2
Intercept	− 0.264	− 0.0168
	(0.556)	(0.782)
Sponsored by institution or coordinated group	− 0.879	− 0.717
	(0.029)	(0.179)
Percentage institutional holdings	0.013	0.012
	(0.047)	(0.186)
Votes in favor	0.011	0.009
	(0.327)	(0.513)
Return over past 5 years relative to S&P 500	− 0.095	− 0.153
	(0.096)	(0.039)
Number of times submitted	− 0.034	
	(0.703)	
Takeover-related	− 0.134	− 0.445
	(0.696)	(0.418)
Takeover-sponsor interaction	− 0.875	− 0.436
	(0.109)	(0.578)
Y9091	− 0.169	− 0.036
	(0.577)	(0.928)
Y9294	− 0.119	− 0.322
	(0.734)	(0.478)
N	1553	787
Adj. R^2	0.012	0.008
F	3.14	1.75

All of these proxy proposals were related to the governance of the corporation. We employ two measures of the effectiveness of this shareholder activism: the voting outcomes on the proxy proposals and the stock market reaction to the proposals.

Our evidence suggests that shareholder voting and stock market reaction depend on the issues addressed by the proposals as well as the identity of the proposal sponsor. Proposals sponsored by the so-called gadflys (active individual investors) garner fewer votes and are associated with a slight positive impact on stock prices. In contrast, proposals sponsored by institutional investors (i.e., public pension funds) or coordinated groups of investors receive significantly more votes and appear to have some small but measurable negative impact on stock prices.

In general, we find that noncoordinated activism has been relatively ineffective when measured by voting outcomes. We find slightly more success in the activism of institutional investors and coordinated groups. The voting outcomes indicate that, while the percentage of votes cast in favor of the proposals averaged less than a majority, the percentage nonetheless increased over the sample period. Moreover, with the average level of voting support for such votes proposals approaching 35%, these activists have a stronger basis when negotiating with corporate management.

It would also appear that shareholders make distinctions on the basis of proposals and sponsors in the voting process. Proposals often sponsored by the so-called 'gadfly' investors such as executive compensation, director ownership, and the limitation of director terms receive low voting support, and thus are not perceived by other shareholders as being effective enough in pressuring corporate management to pursue reform. The similarity of issues and voting results across institutional investors and coordinated groups suggests that they act as substitutes in applying pressure to managers.

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