

A Comparative Analysis of Shareholder Activism in the US and UK: Evidence from Shareholder Proposals

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Abstract

New developments in the corporate governance environment, including debacles such as Enron and BCCI and regulatory initiatives such as the US Sarbanes-Oxley Act and the UK Combined Code, have fueled a new wave of global shareholder activism, particularly in the form of shareholder proposals. Unfortunately, the US evidence on the efficacy of shareholder proposals is dated, whereas international evidence on this issue is almost non-existent. For the period 2000-2006, we conduct a comparative analysis of US and UK shareholder proposals, using 3,812 shareholder proposals presented at 764 US firms and 508 shareholder proposals filed with 85 UK firms. We find systematic differences in proposal agendas, proposal sponsors, and voting outcomes between the US and UK samples, which are attributable to the differences in the proxy rules of the two countries. In contrast to prior empirical evidence, we find shareholder proposals have a positive impact on firm performance and significant affect on corporate policies, board structure, and CEO turnover. Our findings have important policy implications for the current debate on proxy rule reforms in the US and European Union.

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

I. Introduction

The international corporate governance landscape has changed dramatically in recent years, as a result of regulatory initiatives and investor activism. The Sarbanes-Oxley Act of 2002 represents the most significant change to US securities laws in seventy years. UK regulators introduced a series of best practice recommendations (e.g. the Cadbury Report in 1992 and the Hampel Report in 1998) and the Companies Act in 2006 to address issues that include the role of institutional investors and non-executive directors. Many other countries have adopted similar governance codes.¹ Although they may differ in some aspects, all these best practice recommendations, in one way or other, aim to promote corporate accountability and empower shareholders. In this changing governance climate, we are witnessing a growing movement of shareholder activism, particularly in the form of shareholder proposals.

Not only have an increasing number of shareholder proposals been filed in the US, continental Europe, and other countries, but just as important, they are receiving stronger support. For example, since Investor Responsibility Research Center (IRRC) started tracking this activity in 1986, we calculate that in 2006 US shareholder proposals reach the highest number (645 shareholder proposals presented at the annual meetings) and affirmative votes (33%). Institutional Shareholder Services (ISS) also records 299 shareholder proposals for continental Europe through June 30, 2006, representing a 25% increase over the same period in 2005.²

New evidence indicates that firm's attitude towards shareholder proposals has changed in the post-Enron environment. Firms have traditionally viewed shareholder proposals as a

¹ Please refer to the ECGI website for a detailed list of best practices recommendations in different countries (http://www.ecgi.org/codes/all_codes.php).

² Risk & Governance Blog, 2006/7/19, *Investor Engagement on the Rise in Europe*

distraction and adhered to a non-responsive policy. Corporate scandals like Enron and WorldCom have raised investors' awareness about corporate governance and prompted regulatory initiatives such as the 2002 Sarbanes-Oxley Act and the 2004 SEC proxy voting disclosure requirements. These new governance developments have tilted the power scale from managers towards shareholders. Studies find that, in this new climate, firms have become more inclined to act upon shareholder proposals (Cai, Garner, and Walkings, 2006; Thomas and Cotter, 2007).

Despite the increasing importance of shareholder proposals, the existing literature suggests that shareholder proposals have a minimal impact on firms, either in terms of improving firm performance or changing corporate policies (e.g. Karpoff, Malatesta and Walkling, 1996; Smith, 1996; Wahal, 1996; Strickland, Wiles and Zenner, 1996)³. A deeper look into this literature reveals that studies on the efficacy of shareholder proposals are dated. As Appendix I indicates, the sample periods of most of these studies end by 1994. Further, they typically focus on the US.⁴

We argue that new regulatory initiatives in the corporate governance landscape suggest that the role of shareholder proposals might have changed in recent years and, hence, requires a revisit. In this paper, we re-examine the efficacy of shareholder proposals by conducting a comparative analysis of US and UK shareholder proposals. We build comprehensive shareholder proposal samples for the US and UK from 2000 to 2006, and compare proposal characteristics in terms of trends, proposal types, proposal sponsors, and vote outcomes between the two samples. We also compare their impact on firm long-term performance, corporate policies, board structure, and CEO turnover.

³ Also see Gillan and Starks (2007), Karpoff (2001), and Black (1998) for surveys on the impact of shareholder activism on firm performance and corporate policies.

⁴ A notable exception is Thomas and Cotter (2007). They study stock market reaction of shareholder proposals for the 2002-2004 proxy seasons and find insignificant announcement returns. Measuring effectiveness of shareholder proposals based on event study methodology is capricious (see Gillan and Starks (2007) for detailed discussion on this issue). In comparison, we focus on the long-term impact of shareholder proposals on firm performance and corporate policies.

Therefore, our paper makes three major contributions to the literature. First, we update the US evidence on the impact of shareholder proposals with a sample of 3,812 shareholder proposals presented at 764 US firms from 2000 to 2006. We find that, contrary to the existing evidence, shareholder proposals have a positive impact on firm long-term performance and significantly affect corporate policies, board structure, and CEO turnover. Secondly, to the best of our knowledge, our study is the first in-depth analysis on UK shareholder proposals. We manually collect detailed proposal characteristics for 508 shareholder proposals filed with 85 UK firms from 2000 to 2006. Important initial evidence is provided on UK shareholder proposal characteristics and their effects on firms.

Thirdly, our findings have important policy implications. Lawmakers around the world have initiated policy debates or rule changes in response of growing shareholder activism, some aiming to facilitate the usage of shareholder proposals, while other to curb it. For example, UK's Companies Act (2006) shifts the circulation costs of shareholder proposals from shareholders to firms to facilitate greater usage of shareholder proposals. In contrast, Japan's Supreme Court upheld the use of poison pill, "dealing a blow to the nascent shareholder activism there (The Economist, 10/13/2007)." Our findings on the impact of shareholder proposals on firm performance and corporate behaviors are valuable for these policy debates.

More importantly, we believe that our results, based on the comparative analysis approach, are particularly relevant to the current debate on proxy reforms in the US. The US and UK corporate governance framework shares great similarities (e.g. legal origin, a market-oriented financial system and diffused ownership of large, public corporations). However, the two countries have quite different proxy rules. Given this unique combination, we believe our comparative approach provides a rare opportunity to use UK as a natural experiment for some of the on-going debates on US proxy reforms. For example, one of the most contentious issues facing US law makers is shareholder access to corporate ballots. Under the current proxy rules, US shareholders cannot nominate or elect directors. By contrast, UK shareholders can elect or

remove directors if they win 50% of the favorable votes. In 2003, the SEC initiated the reviewing process of proxy rules regarding nominating and electing directors, and is expected to issue a final ruling on this issue before the 2008 proxy season.

The main findings of our paper are that US and UK shareholder proposals display dramatic and systematic differences in terms of proposal types, proposal sponsors, and voting outcomes. Further, these results are attributable to differences in proxy rules in the two countries. For example, UK proxy rules enable shareholders to call special meetings and to elect or remove directors. Further, once passed, UK shareholder proposals are binding. By contrast, US shareholders generally cannot call special meetings, they do not have access to corporate ballot, and their proposals are only precatory. As a result, UK shareholders requisition significantly more proposals that aim to elect or remove specific directors than US shareholders, probably because UK proxy rules have made board changes a more effective way to initiate corporate changes. UK proxy rules also institute checks to balance boardroom stability and shareholder power, including ownership requirements on proposal sponsors and refusal rights of directors to exclude proposals with low probability of being passed. As a result, UK shareholder proposals receive significantly more favorable votes than US proposals. In addition, only a small fraction of UK proposals are social or environmental related.

Consistent with the prior literature, we find both US and UK shareholders target poorly performing firms to submit proposals. In contrast to the existing literature on the impact of US shareholder proposals, we find that, after receiving a proposal, US firms exhibit improvements in performance, especially in terms of stock prices. US sample firms on average under-perform their industry-and-MVE-matched peers by 5% in the year before receiving a shareholder proposal. This gap in performance disappears two years after the proposal event. For firms with complete data surrounding the proposal event, this improvement translates to an economic and statistically significant increase of 14 percentage points during the four year event window. This result appears to be consistent with the stated objective of shareholder activists that “*corporate*

governance is about making money” (Karpoff, 2001). After receiving a shareholder proposal, firms also exhibit lower leverage, higher payout, and greater CEO pay-performance sensitivity. Further, we find significant changes in board structure and elevated CEO turnover rate after a proposal event. In summary, our results suggest that US shareholder proposals have a larger impact on firms in today’s corporate governance conscious environment.

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

2. Institutional background of corporate governance and shareholder proposals in the US and UK

In this section, we review the legal and corporate governance background as they relate to shareholder proposals in the US and UK. This discussion provides us with a better understanding of the similarities and differences in proxy practices in the US and UK, and subsequently a deeper understanding of our findings in the paper.

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

The US and UK corporate governance systems share a number of similarities. They both share a “common law” legal system, which is characterized by strong protection for minority shareholders compared to “civil law” legal systems (LaPorta, Lopez-de Silanes, Shleifer and Vishny, 1997). Both countries also have a large market capitalization relative to GDP, dispersed ownership, liquid capital markets, and active takeover markets. Another important similarity is the large equity stake traditionally held by institutional investors. In both countries, institutional

investors own more than 50% of publicly listed shares.⁵ Further, despite their large equity stake, both US and UK institutional investors have traditionally been viewed as passive (Georgen and Renneboog, 2001; Franks, Mayer, and Rossi, 2001). However, recent evidence suggests that institutional investors are taking a more active role in monitoring managers and improving firm value. For example, large US pension funds such as CalPERS and TIAA-CREF started their shareholder activism program in the late 1980s. The Hermes Focus Fund was established in 1998 as the first experiment of shareholder activism in the UK. (Appendix II summarizes the timeline of corporate governance developments in the UK.)

Stark differences also exist between the US and UK governance systems. One difference that may have a particularly important implication for proxy practices in both countries is associated with the responsibilities of the board of directors. In the UK, directors do not have fiduciary duties to their shareholders, whereas in the US directors can be sued for failing to fulfill their fiduciary responsibilities. Franks, Mayer, and Renneboog (2001) argue that the ineffective implementation of fiduciary responsibilities results in non-executive directors regarding their role as being advisory rather than disciplinary.⁶

2.2. Proxy rules on the US and UK

US and UK have quite different regulations regarding submitting a shareholder proposal or requisitioning a shareholder meeting, which are summarize in Appendix III. In the US, state laws govern shareholder rights, and consequently what shareholders are allowed to vote on at the annual shareholder meetings. However, Congress places responsibility with the SEC, pursuant to the Securities Exchange Act of 1934, with regulating the crucial communication and disclosure

⁵ For statistics on institutional ownership in the UK, refer to “A Report on Ownership of Shares as at 31st December 2004” by UK Office of National Statistics (<http://www.statistics.gov.uk/pdffdir/share0605.pdf>). For statistics on institutional ownership in the US, refer to “The 2005 Institutional Investment Report: US and International Trends” by the US Conference Board.

⁶ A movement towards greater director responsibility has recently started in the UK. For example, the Companies Law Reform Bill (2005) codifies directors' duties, which include promoting the success of the company, exercising independent judgment, to exercising reasonable care, skill and diligence, and avoiding conflicts of interest.

requirements of proxy voting. The SEC Rule 14A-8 (the Shareholder Proposal Rule) requires that firms include shareholder proposals of no more than 500 words in the annual proxy statements at the corporation's expense, if the shareholder or the shareholder group owns at least 1% (or \$1,000 in market value) of the voting shares for at least a year. In the UK, the Companies Act 1985 governs proxy rules. Specifically, Section 376 enables shareholders to requisition a company and to put a resolution of no more than 1,000 words to annual shareholder meetings, although at the shareholder's expense. To qualify, the sponsor needs to own at least 5% of the firm's voting rights, or be a group of at least 100 shareholders with no less than GBP100 per holder.⁷

US shareholders cannot call special meetings, unless the corporate charter or bylaws allow otherwise. By contrast, in the UK under Section 368 of the Companies Act, shareholders with 10% of the voting rights may force a UK firm to hold an Extraordinary General Meeting (EGM) before the next Annual General Meeting (AGM). Further, the corporate Articles cannot deprive shareholders of this right (Becht, Franks, Mayer, and Rossi, 2006).

US shareholders cannot nominate directors, and corporate directors are generally elected through plurality voting (Cai, Garner, and Walking, 2006). If they want to dominate the board with their nominees, US shareholders have to conduct a contested solicitation, hence bearing the circulation costs themselves. This incidence is rare and has a low success rate. By comparison, UK shareholders can replace the board with their own nominees if they win more than 50% of the eligible votes, and majority voting applies. Most importantly, the shareholder proposals are merely precatory in the US, and firms are not obligated to adopt them, even if they pass with the necessary votes. By contrast, UK shareholder proposals, once passed, are binding.

Therefore, although the proxy rules are less onerous on sponsors in the US than in the UK in terms of ownership requirement and circulation costs, they confer UK shareholders greater power because of their ability to call special meetings, the relative ease for shareholders to

⁷ Shareholders' requisitioning rights are subject to certain exclusions in both countries. See Dhir (2000) for a summary of such exclusions in the US.

remove directors, and the binding power of shareholder proposals. In this light, Mark Anson, chief executive of Hermes, remarks: “*The US prides itself on its great democracy but democratic rights do not exist in corporate America*” (Financial Times, 2007/1/22, *Boost shareholders' rights, warn pension funds*).

Appendix III reveals that other significant differences. UK shareholder meetings historically have low voter turnout. Mallin (2001) cites a study by the Institutional Shareholder Committee, which finds a voting levels of 20% at UK companies in 1990. However, this pattern has changed. The Hampel Report (1998) explicitly notes that institutional shareholders have a responsibility to vote. Recent evidence indicates that the UK voting level has increased to 50% (Ozkan, 2006; Financial Times, 2005/11/15, *Shareholders making greater use of their voting rights, report shows*). By comparison, in the US where voting is compulsory, voter turnout can easily reach 70-80% (Bethel and Gillan, 2002; The Australian, 2002/12/13, *Slack institutions elect to vote*). Another interesting difference is that in the US votes are counted via proxy. In the UK, votes can be counted either via proxy or by “show-of-hand”, which makes the management ownership more important.⁸

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

3. Sample selection and research design

3.1. Sample construction process

One primary objective of this paper is to provide a comprehensive and detailed analysis of shareholder proposals. As such analysis requires data from various sources and much of it is

⁸ For example, a shareholder proposal submitted to one of our UK sample firms (Aston Villa) was passed by a show of hands at the AGM, but was overturned by a proxy vote because the Chairman owns 33.6% of the firm.

manually collected, some missing data points may result. Therefore, we adopt a two-sample approach. We construct an initial sample that has the necessary proposal characteristics for analyzing and comparing the development of shareholder proposals in the US and UK from 2000 to 2006. We complete a final sample, after requiring the firms in the initial sample have additional financial, ownership, and governance data, for analyzing the impact of shareholder proposals on firm performance and corporate policies. We detail the sample construction process for the US and UK initial and final samples in the following sub-sections.

3.1.1. Sample construction process for the US sample

The initial US sample is drawn from the universe of shareholder proposals in the Investor Responsibility Research Center (IRRC) database lists 6,762 shareholder proposals that target 1,077 US firms from 2000 to 2006.⁹ We restrict the initial US sample to shareholder proposals that have voting results, which yields 3,812 shareholder proposals at 764 US firms from 2000 to 2006. A shareholder proposal may not have voting results for various reasons. For example, the firm to which the proposal is submitted ceases to exist; the annual meeting is cancelled; or the proposal is withdrawn, not presented at the annual meeting, or excluded from the proxy statement.

In order to conduct further multivariate analysis, we restrict the final US sample to firms that have the necessary board, CRSP, and Compustat data, and have a matching firm that meets the same data criteria. To qualify, the matching firm cannot receive a shareholder proposal in the matching year (the year that the sample firm receives a shareholder proposal), and has the same Fama and French industry classification and a market value of equity (MVE) within 25% of the MVE of the sample firm. If more than one matching firm meets those criteria, we choose the one with the closest MVE. If a firm receives a shareholder proposal in multiple years, we search for a

⁹ IRRC was founded in 1972 as a non-for-profit organization to provide research on social and corporate responsibility issues. It started tracking shareholder proposals in 1986. To the best of our knowledge, IRRC provides the longest and most comprehensive coverage of shareholder proposals in the US Institutional Shareholder Services (ISS) bought IRRC in 2005. ISS is the world's largest provider of proxy voting and corporate governance services.

matching firm separately for each year. This process yields a final sample of 1,828 shareholder proposals, or 529 unique US firms, from 2000 to 2006. Panel A of Table 1 details this sample selection process.

As Panel A shows, we eliminate one third of US shareholder proposals due to a lack of matching firms. It is difficult to find a match for some sample firms because they are frequently the largest competitors in their industries. For example, General Electric has a MVE of US \$367 billion in 2005. The matching firm with the closest MVE in the industry is International Game Technology with a MVE of \$10 billion. Investors tend to target large and visible firms, because this strategy generates greater publicity and tends to yield greater return for a given level of activism effort. From Table 1 we calculate that the firms, for which we are unable to find a match, receive an average 9.8 proposals during our sample period. In comparison, the firms in the final sample receive an average 3.5 proposals for the same period. (We discuss how we design our research to address this “missing-matching” firm problem in Section 3.2.).

We obtain proposal description, voting results, and sponsor identities primarily from IRRC. (We cross-check the IRRC voting results with 10-Q and proxy statements and are able to collect voting results for 277 proposals in the IRRC database that do not contain this information.) We obtain stock prices from CRSP, financial statement data from COMPUSTAT, CEO compensation data from EXECUCOMP, board data from IRRC, and ownership data from Disclosure. We also manually collect 1,101 firm years of board data and 496 firm years of ownership data to supplement missing data in IRRC and Disclosure.

3.1.2. Sample construction process for the UK sample

We commence the UK sample construction process with the universe of shareholder proposals in the Institutional Shareholder Services (ISS) database. ISS lists 508 shareholder proposals that target 85 UK firms from 2000 to 2006. This is our initial UK sample. We restrict the final UK sample to firms that have complete financial data one year prior, the year of, and one year after the shareholder proposal year. We exclude unit investment trust and investment holding

companies (SIC code = 6726 and SIC code = 6799 respectively), because the business nature of these companies are fundamentally different from the rest of the sample firms. For example, investment companies are a collection of money, with no fixed assets or employees. Further, investment companies in the US are governed under different business laws (the Investment Company Act of 1940) and have different governance structure. Therefore, the final UK sample consists of 250 shareholder proposals or 42 unique firms from 2000 to 2006. Panel B of Table 1 details the sample selection process.

We manually collect the voting results and sponsor identities from Factiva. During this process, we discover that 128 of the 508 shareholder proposals have been withdrawn. We decide to keep these observations, because we want to provide as comprehensive and detailed an analysis as possible on UK shareholder proposals. Further, as we note in Section 3.1.1, a proposal may be withdrawn for various reasons, which has different implications for measuring its effects. For example, a sponsor may successfully reach an agreement with the firm before the shareholder meeting, hence rendering the requisitioning event unnecessary. This proposal should have a different impact on a firm compared to a proposal that is withdrawn because the sponsor fails to meet procedural requirements for submitting a proposal. To accurately assess the impact of shareholder proposals, it is important to distinguish among different withdrawal events, which is a highly labor-intensive process. Therefore, we only did this for the UK sample, because of its smaller sample size and our objective to provide a comprehensive analysis on UK shareholder proposals.¹⁰

We manually collect board data from company annual reports. We were unable to find annual reports for 25 of the initial 99 firm years. To optimize sample size, we do not require the firms in the final UK sample to have board data as we did for the US sample. For the same reason, we do not require UK final-sample firms to have an eligible match, although we do

¹⁰ Please refer to Campbell, Gillan and Niden (1999) for a study on withdrawn shareholder proposals in the US.

construct a matching sample and conduct comparative analysis between UK sample firms and their matching firms whenever we can. To find a matching firm, we identify all the potential matches that have the same 4-digit SIC codes as the sample firms via Thomson and then choose the one with the closest value of total market capitalization. We are able to find 42 (34) matches for the 54 firm years (42 unique firms) in the final UK sample. We manually collect financial data from Thomson, Factiva, Hoovers, and Lexis-Nexis, and manually collect ownership data from Thomson and Mergent databases.

3.2. Research design

Our research design may be best characterized as a two dimensional approach – a peer analysis and a self analysis. As Gillan and Starks (2007) argue, a problem that plagues all empirical studies on the effects of shareholder proposals is to find an appropriate benchmark that can be used to assess accurately the impact of shareholder proposals on firm performance and corporate policies. To ensure that our sample firms have an appropriate benchmark, we carefully construct a control sample, imposing strict industry and size matching requirements. Specifically, we require the matching firm to have a MVE no greater than 25% more or less of the MVE of the sample firm. This requirement is motivated by the stylized fact that firm size is an important determinant behind a firm receiving a shareholder proposal and a critical factor explaining changes in corporate policies and governance structure (e.g. Karpoff et al., 1996; Smith, 1996; Gillan and Starks, 2005; Linck et al., 2007). This matching approach also helps us isolate the proposal effect from other contemporaneous effects that potentially impact firm performance and corporate behaviors. For example, the Sarbanes-Oxley Act of 2002 in the US and the Higgs Report of 2003 in the UK both have the effect of increasing board independence.¹¹ Therefore,

¹¹ SOX and the subsequent exchange rules promulgated under SOX generally require public firms to have a majority independent boards and entirely independent audit, compensation, and nominating and governance committees. Linck et al. (2007) find that board independence of US firms significantly increases post SOX. The Higgs Report recommends majority independent boards and independent Chairman. Khurshed, Lin, and Wang (2007) find that UK firms have improved their board independence after the Higgs Report.

studying the impact of shareholder proposals on board structure relative to that of a control sample helps us separate out the proposal effect from this regulatory effect.

The downside of the above-mentioned peer approach is that we lose a significant number of our sample firms due to lack of a matching firm. Additionally, the results of the peer analysis are sensitive to firms entering or exiting the sample. Therefore we also conduct a “self analysis,” comparing the changes in performance and corporate policies for only the firms in the US final sample that exist from one year before to two years after the shareholder proposal event, or from one year before to one year after for the UK sample.

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

In this section, we examine whether shareholder proposals in the US and UK exhibit systematic differences in terms of submission frequency, proposal types, proposal sponsors, and voting outcomes. We use the initial sample described in Table 1 for this analysis.

4.1. Number of shareholder proposals and shareholder meetings in the US and UK

Table 2 reports the frequency distribution of shareholder proposals and shareholder meetings for the US and UK initial samples. As the U.K sample includes withdrawn proposals, we report separately in Panel C of Table 2 for the U.K shareholder proposals that come to vote. We want to highlight several results. First, the majority of UK shareholder proposals relate to a proxy contest (303/508=60%), whereas none exists for the US sample. We classify a proposal as proxy-contest related, if a shareholder submits multiple proposals to one shareholder meeting, which, if passed, have the effect of replacing the entire board. As discussed in Section 2.2, it is considerably easier for UK shareholders than for US shareholders to nominate and elect directors. Therefore, it is not surprising that the former group chooses a proxy contest as a mechanism to trigger corporate changes.

Second, the majority of the UK shareholder proposals are presented at special shareholder meetings. We are able to determine whether a shareholder meeting is an AGM or EGM for 100 out of the 107 proposal events, and determine that 72 meetings are EGMs. Notably,

the number of shareholder meetings (107) exceeds the number of firm years (99) for the UK sample, because a shareholder group can requisition multiple EGM in one year. In contrast, we find no special meetings for the corresponding US sample. This difference reflects the different proxy rules regarding shareholders' ability to call special meetings in the two countries.¹²

Third, given the nature of proxy contest, namely replacing the board and taking control of the company, it is not surprising that significantly more proxy-contest related proposals are presented at the EGM and that the average proposals per meeting is significantly higher for the proxy-contest related proposals. Lastly, both US and UK samples reflect a generally increasing trend in the number of ordinary shareholder proposals submitted from 2000 to 2006.

4.2. Proposals types

We classify US and UK shareholder proposals into six broad categories: board-related proposals, compensation-related proposals, governance-related proposals, proposals regarding social and economic issues (social proposals), proposals regarding environmental and health issues (environmental proposals), and business-related proposals.¹³ Table 3 reports the trends for shareholder proposals by proposals types for the US (Panel A) and UK (Panel B) initial samples. Panel A reveals that, for the US initial sample, board proposals appear most frequently (30%), followed by compensation (20%), social (18%), and governance (15%) proposals. Additionally, board proposals are the main driver behind the increase in the number shareholder proposals that we find in Section 4.1. Board proposals constitute 41% of the total proposals in 2006, compared

¹² The fact that we do not find any proxy-contest related proposals or proposals submitted to special meetings may result from the construction of the IRRC database. IRRC tracks ordinary shareholder proposals, hence by default its database may not include proxy-contest related proposals or proposals submitted to special meetings. Nonetheless, we are confident to conclude that proxy-contest related proposals and special meetings are rare based on anecdotal evidence or existing studies. For example, Bebchuk (2005) find only 101 proxy contests from 1996 to 2004.

¹³ Examples of governance proposals are submitting shareholder rights plan (poison pill) to shareholder vote, restoring right to call a special meeting, prohibiting auditors from providing non-audit services, etc. Examples of compensation proposals are expensing stock options, submitting executive severance pay to shareholder vote, adopting performance-based compensation, etc. Examples of social proposals are reporting on political contributions, preparing sustainability report, implementing ILO standards, etc. Examples of environmental proposals are reporting on genetically engineered products, reporting on greenhouse gas emissions, making AIDS drugs affordable in poor countries, etc. We give examples of board and business proposals later in the main text.

with 32% of total proposals in 2000. In contrast, compensation and governance proposals exhibit a declining trend since their peak in 2003. Social and environmental proposals exhibit no apparent trends.

A comparison between Panel A and B indicates several differences. First, board proposals constitute 84% of all UK shareholder proposals from 2000 to 2006, compared to 30% for the US sample. Further, as Panel C illustrates, US and UK board proposals have dramatically different agendas. In the UK, 98% of the board proposals target electing or removing specific director(s), i.e. the sponsor names specific director he/she intends to elect or remove. Even when a board proposal is not about electing or removing specific directors, it is frequently about the general scheme of director election or removal. In contrast, none of the US board proposals carry such an objective. The most popular board proposals in the US are declassifying the board (31% of all board proposals), separating the CEO and Chairman positions (15%), adopting majority vote to elect directors (14%), or adopting cumulative voting (13%).

This difference provides empirical support for the differences in proxy rules and corporate governance systems in the US and UK that we discuss in Section 2. In the US, shareholders do not have the right to nominate or elect directors. Therefore, they do not have the recourse of electing their agents to the board, who can then push for the necessary changes on their behalf. Further, in the US, shareholder proposals are only precatory, and managers have traditionally ignored shareholder proposals even if they pass with the necessary vote. We conclude that as a result of these legal limitations, US shareholders resort to an indirect route, using shareholder proposals to effect changes in board structure, or more broadly firm governance, assuming that better corporate governance leads to better firm performance. By contrast, UK shareholders can nominate or remove directors through shareholder proposals. More importantly, once passed, shareholder proposals are binding in the UK. Therefore, we observe fewer UK shareholder proposals targeting board structure, because UK shareholders have

a more direct and arguably more effective means, namely electing their own directors, to initiate changes.

Secondly, business proposals are presented with significantly higher frequency in the UK than in the US. Business proposals are targeted at changing firms' operations or strategies. Some examples include urging the board to consider selling off company assets or the company itself, increasing dividends, initiating stock buyback programs etc. Among the six proposal classifications, business proposal has the second highest submission rate in the UK (10.2%), but the lowest submission rate in the US (3.6%). The difference in the submission frequencies of business proposals in the US and UK probably results again from the differences in proxy rules. Because of the precatory nature of shareholder proposals, US shareholders may choose to exercise the "Wall-Street Walk" rule, i.e. selling shares (instead of submitting proposals) when they lose faith in the management. By contrast, UK shareholders have greater incentive to submit business proposals, because, once passed, firms are forced to take the corresponding business actions.

The differences in submission frequencies of other proposal types also reflect the institutional differences between the two countries. For example, a large number of US governance proposals are about repealing various antitakeover provisions. UK firms rarely have such defense mechanisms due to the opposition from institutional shareholders (Black and Coffee, 1994). As UK shareholders can vote on executive pay (although advisory in nature), we also see few UK compensation proposals. Lastly, the circulation costs may have deterred the submission of social and environmental proposals.

4.3. Proposals sponsors

We are able to determine sponsor identities for 3,747 out of the 3,812 shareholder proposals in the US initial sample. We classify US sponsors into seven categories: institutional investors, pension funds, unions, social groups, individual activists, individual occasionals, and other sponsors. Social groups include organizations such as human-rights groups, environmental

groups, and religious groups. Individual activists are those shareholders such as the Gilbert brothers and Evelyn Y. Davis who submit multiple shareholder proposals to multiple firms in a given year. For example, Evelyn Y. Davis sponsored 450 shareholder proposals in our US sample.¹⁴

We are able to determine sponsor identities for 486 out of the 508 shareholder proposals in the UK initial sample. We classify UK sponsors into five categories: institutional investors, private investors, former executives, associated companies, and other sponsors. Former executives include founders, officers, and directors. Associated companies are companies that have a business interest in the sample firms, such as a supplier or a competitor. The group ‘other’ includes sponsors like unions, human-rights groups, and environmental groups.

Figure 1 reports the results. Several differences are apparent. First, the sponsors of US and UK shareholder proposals are quite different. Other than the one common feature that institutional investors sponsor most proposals in both countries, all the other major sponsor groups are different. In particular, the shareholder group of former executives sponsors the second highest number of proposals for the UK sample, whereas this class of sponsors is minimal in the US sample. Frequently, these UK shareholders are founders or former CEOs of the company (94% of the time). They tended to be either retired or ousted previously. Since they own a significant portion of the firm (mean share ownership is 20.4%), they are able to wage a proxy contest in order to try and regain control of the company. Consistent with the idea that they use their ownership to re-enter into the boardroom, this sponsor group is more likely to submit proxy-contest related proposals (67% compared to 57% for the other sponsor groups). Additionally, their proxy-contest related proposals have a higher success rate (69% versus 57%), while their ordinary proposals have a lower success rate than other sponsors (18% versus 37%).

¹⁴ We classify any shareholder who sponsors greater than 30 shareholder proposals as individual activist, otherwise as individual occasional. Thirty percent is the cutoff that we choose based on the frequency distribution of the number of shareholder proposals sponsored by individual shareholders in the sample. Based on this cutoff, we have 22 individual activists for the US sample from 2000 to 2006. The average proposals sponsored by these individual activists are 92, compared to 1.68 by individual occasionals.

Because of the higher ownership requirement and higher circulation costs in the UK, we do not see the sponsor groups of individual activists or individual occasionals for the UK sample. Most likely for similar reasons, we do not see many proposals sponsored by social groups for the UK sample. Indeed, of the 486 UK shareholder proposals, only six are sponsored by an environmental group and one by a human-rights group. Further, all seven proposals are presented at AGM, not at EGM where the ownership requirement is higher.

Second, the frequency distribution of the U.K. sponsors does not reveal any trends. By contrast, for the US sample, institutional investors, especially unions, increasingly sponsor a larger portion of shareholder proposals. Only two UK shareholder proposals are sponsored by a union -- the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), consistent with the anecdotal evidence that shareholder activism is going global.

4.4. Voting outcome and voter turnout

The centerpiece of any proxy reform debate is the outcome of a shareholder engagement. To shed lights on these issues, we analyze voting outcome and voter turnout for the US and UK initial samples. Panel A of Table 4 reports voting outcome for the US initial samples. We compute two measures of the outcome of a shareholder proposal: the percent of affirmative votes that a firm receive on a shareholder proposal and the percent of shareholder proposals that receive the necessary vote to pass. Due to sample construction, all proposals in the initial US sample have the percent of affirmative votes. We are able to find whether a shareholder proposal passes or not for 3,655 of the 3,812 shareholder proposals.¹⁵ We do not collect data to calculate voter turnout for the US sample, because we have well established evidence on this fact. Bethel and Gillan (2002) report voter turnout between 70% and 80% for the US firms.

¹⁵ IRRC reports the percent of affirmative votes a shareholder proposal receive. To be included in the US initial sample, a shareholder proposal needs to have this voting result. IRRC does not provide information on whether a proposal passes or not. Receiving affirmative votes of more than 50% does not necessarily mean a proposal is successful. Depending on individual firms' charter or bylaw requirements, certain proposals need supermajority to pass. To mitigate data collection costs, we treat proposals with less than 50% affirmative votes as 'Fail,' proposals with more than 80% affirmative votes as 'Pass,' and manually check the voting outcome of the remaining proposals using 10-Q and annual reports.

Panel B and C report voting outcome and voter turnout for the UK initial sample. As the UK sample includes withdrawn proposals, we report separately for proposals that come to a vote (Panel B) and for proposals that are withdrawn before the meeting convenes (Panel C). Further, for more accurate assessment, we partition voting outcome and voter turnout by ordinary proposals and proxy-contest related proposals. We manually collect voting outcome and voter turnout information from Factiva. To ascertain the outcome of a withdrawn proposal, we carefully search articles in Factiva and deem the withdrawn proposal as successful if the firm adopts the action that the sponsor requests.

We want to highlight several results. First, a smaller fraction of the US proposals receives the necessary vote to pass than of the UK proposals. This result probably reflects again the institutional differences between the two countries. UK case laws have the precedence that directors can exclude a shareholder proposal if they believe the proposal to be incapable of being validly passed (Clifford Chance LLP, 2007). Further, in the US, a shareholder proposal that receives the passing votes may not be adopted by the firm. In contrast, we verify that all UK proposals that are passed are also adopted by firms. Second, UK proxy-contest related proposals have a higher success rate than that of their US counterparts. For example, Dodd and Warner (1983) report a 25% success rate for their U.S sample firms. This difference probably results from the higher ownership requirement that UK sponsors need to meet in order to submit such proposals.

4.5. Summary

In Section 4, we find that shareholder proposals in the US and UK exhibit systematic differences in terms of submission frequency, proposal types, proposal sponsors, and voting outcomes. Further, the institutional differences that we discuss in Section 2 can explain many of these differences.

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

In this section, we study characteristics of firms that receive shareholder proposals in the US and UK. We are interested in two research questions: First, whether firms receiving shareholder proposals in both countries possess similar characteristics. Existing literature based on the US evidence suggests that investors target firms with poor performance and low insider but high institutional ownership. Second, we study the factors that drive shareholders to submit a proposal. This analysis lays the foundation for our later analysis of the impact of shareholder proposals, as it sheds light on investors' motive to submit a proposal and helps us gauge whether they are able to achieve their objectives. We use the final samples for this study.

5.1. Univariate results

Table 5 reports summary statistics and univariate test results for the US firms and their matching firms. Although we match on the basis of MVE, the US sample firms are still larger both in terms of MVE and total book assets than their matching peers. (However, we do not find any statistical significance in size difference in later multivariate analysis.) The sample firms are also older; the mean age of the sample firms is 32 years, compared to 26 years for the matching firms. (We measure firm age as the number of years a firm has stock price data available in CRSP.) The sample firms have smaller MTB ratios and slower net sales growth, suggesting that they have lower market valuation and relatively poor growth prospects. The sample firms are inferior to the matching firms in terms of accounting performance, but seem to be at par with its peers in terms of stock performance. Additionally, the sample firms seem to be financially constrained. They have higher leverage ratios, lower payout ratios, and less free cash flow than the matching firms. Consistent with the finding that sample firms are larger than the matching firms, the sample firms have larger and more independent boards and are more likely to have CEO chair the board than the matching firms. In their study of the determinants of board structure, Linck, Netter and Yang (2006) find a similar relation between firm size and these particular board attributes.

In terms of ownership structure, the sample firms have lower CEO ownership, which is consistent with the literature (e.g. Karpoff et al., 1996; Gillan and Starks, 2000) and with the observation that shareholder proposals submitted to firms with lower insider ownership are more likely to pass. We find no significant difference in the level of institutional ownership between the sample and the matching firms. This contradicts the existing evidence. Strickland et al. (1996), Smith (1996), and Karpoff et al. (1996) find that shareholders target firms with high institutional ownership to submit shareholder proposals. This discrepancy may be attributable to several factors. First, we impose much stricter matching criteria than the above-mentioned studies.¹⁶ Secondly, investors may have changed their targeting strategies over times. Univariate results¹⁷ shows that the mean (median) institutional ownership for the sample firms is 58.0% (61%) compared to 53.4% (55.5%) for the matching firms in 2000; and the difference is significant at 1% level. However, this difference disappears after 2002.

Table 6 reports descriptive and test statistics for the UK sample firms. As not every sample firm has a match, we report, in separate panels, summary statistics for the full UK final sample (Panel A) and the univariate test statistics for the firms that have a match (Panel B). As Panel A indicates, the UK sample firms have mean total assets value of £8.6 billion and a median value of £61 million, suggesting the presence of extreme outliers. We trace BP Plc to be the outlier. In 2004, BP Plc has total assets of £99.6 billion, which is seven times larger than the second largest company in the sample. Both median stock returns and median accounting returns (ROA) are negative, suggesting that UK sample firms are poor performers like their US counterparts.

¹⁶ Strickland et al. (1996) use a randomly selected control sample that consists of firms listed on both the NYSE/AMEX CRSP tapes and Compustat. Smith (1996) studies the likelihood that a firm will be targeted by CalPERS. They use as their match firms those that CalPERS identifies as potential targets but did not submit a proposal to. The matching design of Karpoff et al. (1996) is most similar to ours. They construct a control sample based on 2-digit SIC codes and closest MVE match. However, they do not require matching firms' MVE fall within 25% of the sample firms'. Hence, in both their univariate and multivariate tests, firm size (Log of MVE) is found to be significant.

¹⁷ Results are available from authors

Consistent with the existing literature, we find that the UK sample firms have very different board structures compared with their US counterparts. The average UK boards consist of 56% non-executive directors, compared to 68% for the average US boards. Additionally, only 18% of the UK firms have the CEO as the Chairman of the Board, compared to 76% for the US firms¹⁸. US firms have long been under the pressure for having more independent boards. For example, as early as 1978, the NYSE mandated its US listing firms to have at least two outside directors on the board. NASDAQ instituted similar requirements in 1989. The Sarbanes-Oxley Act of 2002 further mandates US public firms to have majority independent boards. For comparison, the Cadbury Report of 1992 calls upon UK firms to have at least three non-executive directors on the board and to separate CEO and Chairman positions. For a random sample of 460 UK listed firms, Dahya, McConnell, and Travlos (2002) find that the mean percent of non-executive directors on the board increases from 35% prior to the Cadbury Report compared to 46% thereafter, while the fraction of firms with combined CEO and Chairman titles decreases from 37% pre to 15% post Cadbury Report.

Panel B of Table 6 reports univariate test results for the UK sample and their matching firms. The findings are generally consistent with the US evidence. For example, the UK sample firms appear to be worse performers, have lower sales growth rate, are more levered, and pay less dividends than their matching firms. But we fail to detect any statistical significance for sales growth and dividend payout. The weak statistical significance probably results from the smaller sample size.

5.2. Determinants of a firm receiving a shareholder proposal

In this section, we use logistic models to study the determinants of a firm receiving a shareholder proposal in a multivariate setting. The dependent variable takes the value of one for the sample firms and zero for the matching firms. For the US sample, regression estimations use

¹⁸ In the UK, the Chairman is responsible for running the board and the CEO is responsible for the running of the business.

Huber-White robust standard errors and control for industry and year fixed effects. We run two regressions. The first one includes firm size, performance, board, and ownership variables as independent variables. We add debt and payout ratios to the second regression. Due to the small sample size, we do not control for industry or year effects, or compute robust *t*-statistics for the UK sample.¹⁹ Table 7 reports the results.

Panel A reports the estimation results for the US sample. Existing US evidence is that performance is the most important factor explaining whether a firm receives a shareholder proposal. Consistent with this evidence and our earlier univariate results, Model 1 of Panel A shows that MTB is negatively and significantly related to the likelihood of a US firm being targeted. MTB is a popular proxy for market valuation and growth opportunities. Albeit with the correct signs, the measures of accounting performance (ROA) and the market performance (stock return) are not significant. We postulate that MTB may have captured the economic forces that underlie ROA and stock returns, causing them to lose explanatory power. Correlation tests show that MTB is significantly correlated with ROA, stock return, and sales growth at 1% level (correlation coefficients being 0.31, 0.08, and 0.40 respectively). Dropping MTB from the regression will bring the *t*-statistics of ROA to -2.76 (*p*-value=0.006), while stock return remains insignificant. Replacing MTB with sales growth will give sales growth and ROA negative and significant coefficients (*p*-value=0.017 and 0.000 respectively), with stock return being insignificant.

All three board variables, the percentage of outsiders on the board, board size, and whether CEO is the Chairman, enter the regression with positive and significant signs. The percentage of outsiders on the board, in particular, shows a large marginal effect. Several factors potentially explain the significant effect of the board variables. First, assuming independent directors are better monitors, investors may target firms with more independent boards,

¹⁹ If we use robust standard errors and include industry and year fixed effects, none of the variables are significant.

anticipating that independent boards are more likely to adopt passed proposals. Secondly, some investors may target firms with certain board characteristics. For example, our earlier descriptive results show that 169 out of the 3,818 total proposals (4%) aim to separate CEO and Chairman of the Board positions. As we match based on firm size, it is not surprising that logarithm of MVE is not significant. Consistent with the univariate results, the coefficient estimate of institutional ownerships is insignificant. The coefficient estimate of insider ownerships is also insignificant, inconsistent with our earlier univariate results but consistent with the findings of Karpoff et al. (1996). Model 2 of Panel A adds debt and payout ratios. Consistent with our univariate results, the debt ratio is significantly and positively related to the probability of a firm receiving a shareholder proposal, while the payout ratio is insignificant. Additionally, the debt ratio has the largest marginal effects.

Panel B reports estimation results for the UK sample. There is some evidence that firm performance and board structure influence the probability that a firm receives a shareholder proposal, with the same signs as we find for the US sample. However, probably due to the small sample size, the estimation results are not stable.

6. The impact of shareholder proposals in the US and U.K.

In this section, we assess the efficacy of shareholder proposals by studying their impact on firm performance, corporate policies, board structure, and CEO turnover. In our investigation we do not examine short-term market reactions of shareholder proposals because various confounding effects make the results from using this event-study approach difficult to interpret. (See Del Guercio and Hawkins (1999) and Gillan and Starks (2007) for a more in-depth discussion on this topic.)

6.1. The impact of shareholder proposals in the US

Earlier literature, largely in a US context, finds minimal impact of shareholder proposals on firm performance and behaviors. We intend to provide new evidence on the effects of shareholder proposals in the post-Enron governance environment.

6.1.1. The impact of shareholder proposals on firm performance

We examine the changes of two stock performance measures (stock return and EPS) and two operating performance measures (return on assets and operating margin) to ascertain whether shareholder proposals have any effect on firm performance. We truncate stock return, EPS, and operating margin at the 1% level to mitigate outlier problems. We do not do so for ROA because this variable exhibits fairly normal distribution behavior.

Panel A of Table 8 reports the results of univariate comparison between the US sample and the matching firms. Consistent with the existing evidence and our earlier findings, sample firms significantly under-perform their peers in all four performance measures the year before receiving a shareholder proposal. However, contrary to the findings in the existing literature, our sample firms exhibit signs of improvement the year after the proposal event, especially in terms of stock returns. Specifically, the difference in stock returns between the sample and the matching firms was -5% in the year prior to the shareholder proposal. This gap shrinks to -1% during the proposal year and turns positive in the ensuing two years. Although the sample firms have higher stock returns than their industry peers only in one of the post-proposal years, and with only marginal significance, we argue that the fact that the sample firms close a gap of as large as 5% within one year of receiving a shareholder proposal and achieve comparable or potentially better performance than their peers thereafter is suggestive of the positive impact of shareholder proposal on firm performance. The results from the “self analysis,” reported in Panel B of Table 8, provide corroborating evidence. For the sample firms that have stock return data from one year before to two years after the proposal year, their stock returns increase by more than 14 percentage points within two years of receiving a shareholder proposal. This increase is statistically and economically significant.

The EPS measure tells a similar story. EPS of both the sample and the matching firms increase during the four-year window. Although the sample firms continue to have lower EPS than their peers after receiving a shareholder proposal, the difference is becoming smaller.

Additionally, the self analysis (results reported in Panel B of Table 8) shows significant improvement in this performance metric. For the sample firms that have the complete four years of performance data, their average EPS decreases from \$1.38 to \$1.32 per share in the proposal year, but steadily increase two years afterwards, reaching \$1.57 per share. The increases are statistically significant when compared to the level in the proposal year or the year before.

In terms of the accounting performance, the peer analysis (Panel A of Table 8) shows that both the sample and the matching firms perform worse after the proposal year, which is consistent with the findings in Karpoff et al. (1996). However, although the sample firms continue to underperform their peers after receiving a proposal, the gap seems to have narrowed. The self analysis (Panel B of Table 8) paints a similar picture. For the sample firms that have continuous data for the four years surrounding receiving a shareholder proposal, ROA and operating margin are lower in the post proposal years. However, there are signs of improvements. For example, the operating margin in the second year after receiving a proposal is higher in mean and median than in the year before. But we do not detect statistical significance in the improvements in ROA or in operating margin.

6.1.2. Changes in growth opportunities before and after receiving a shareholder proposal

Section 6.1.1 suggests that the sample firms improve performance after receiving a shareholder proposal. In this section, we investigate whether such changes are associated with change in firms' investment opportunities. This analysis helps us understand the source of performance improvement. We use three measures to proxy for firms' investment opportunities – MTB, growth in net sales, and the ratio of capital expenditure over total book assets. We truncate MTB and sales growth at 1%, because they exhibit extreme outliers. Additionally, one observation (out of 7,114) for the capital expenditure ratio is negative, and is consequently set to missing. Table 9 reports the results.

Panel A of Table 9 indicates that both the sample and the matching firms face deteriorating growth prospects, as measured in MTB and capital expenditure. Additionally, the

sample firms consistently have lower MTB and capital expenditure ratios than their peers during the four-year event window. The self analysis also shows steady decline in these two ratios. The exception is sales growth. As the peer analysis indicates, while their matching firms experience slowing net sales growth, the sample firms manage to increase net sales by the second year after receiving a proposal. The self analysis (Panel B of Table 9) shows a stronger sales growth trend for those firms that have continuous data coverage during the four-year event window. Their sales growth steadily increases from 5.12% in the proposal year to 6.19% two years later and the increase is statistically significant.

In summary, the increase in stock performance that we find earlier for the sample firms does not seem to be attributable to improved growth prospects or increased capital expenditure. However, the significant improvement in sales growth suggests that the sample firms potentially adopt strategic changes, e.g. pursuing a more aggressive marketing strategy, which may help drive stock returns higher.

6.1.3. The impact of shareholder proposals on corporate policies

In this section, we assess the impact of shareholder proposal on corporate financing, payout, and compensation policies. We use the debt ratio, the payout ratio, CEO total pay, and CEO pay-for-performance sensitivity as our empirical proxies. The debt ratio is the total debt over total assets. The payout ratio is the sum of common and preferred dividends plus share repurchases over earnings before interest and taxes. CEO total pay is the sum of CEO salary, bonus, option and stock awards, long-term incentive pay, and other annual payments. CEO pay-for-performance sensitivity is the change in the value of CEO's option portfolio with respect to \$1,000 change in firm value.²⁰ Table 10 reports the results.

²⁰ We follow the one-year approximation method of Core and Guay (2002) to compute the value of CEO option portfolio, which consists of newly granted options and previously granted options. In computing option value, we use the Black-Scholes (1973) method, assuming options are granted at the money with a seven-year maturity and the grant price is the closing stock price from the previous fiscal year. We follow Yermack (1995) in computing CEO pay-for-performance sensitivity. We obtain the value of CEO salary, bonus, stock awards, long-term incentive pay, and other annual payments directly from EXECUCOMP. We

Both the peer and the self analysis indicate that the sample firms have steadily reduced their leverage after receiving a shareholder proposal. For example, as reported in Panel B of Table 10, the mean debt ratio for the sample firms with complete four-year data coverage decreases from 22.3% in the year before receiving a proposal to 21.2% two years after receiving a proposal. The reduction is statistically significant. However, as Panel A of Table 10 shows, despite of the reduction, the sample firms are still more levered than their peers.

While reducing the debt level, the sample firms also increase the payout ratio. Again both the peer and the self analysis show increases in payout. The self analysis (Panel B of Table 10) shows that the payout ratio decreases by 1.8 percentage point in the proposal year but increases two years in a row by a total of 4.5 percentage points. Further, the increases in both years are statistically significant. However, the peer analysis (Panel A of Table 10) show that the matching firms also increase their payout during the same period. As a result, the gap in the payout ratio between the sample and the matching firms increases rather than decreases after the proposal year.

In terms of the compensation policies, the peer analysis (Panel A) shows that, although the CEOs in the sample firms continue to earn less than those in the matching firms, the pay differential is shrinking. For example, the median CEO pay for the sample firms is \$6.8 million less than that for the matching firms in the proposal year. This difference reduces to \$1.5 million two years later. We find earlier (Section 6.1.1) that the sample firms improve performance after receiving a proposal. Take together, these findings consistently tell the story that the sample firms increase CEO pay to award CEOs for improving firm performance. The self analysis (Panel B) offers corroborating results. The CEOs of the sample firms that have continuous compensation data coverage experience consistent pay increases after the proposal year. Their median pay increases from \$13.8 million before the proposal event to \$16.6 million two years after.

obtain variables required for option calculation from CRSP (stock price), EXECUCOMP (stock return volatility and dividend yields), and WRDS (the risk-free rate).

6.1.4. The impact of shareholder proposals on board structure and CEO turnover

In this section, we examine the changes in board structure and CEO changes surrounding a shareholder proposal event. To mitigate the data collection costs, we focus on board structure and CEO positions for the year before, the year of, and the year after a firm receiving a shareholder proposal. In view of the shortened event window, we only conduct the peer analysis, i.e. comparing the board structure of the sample firms to their peers.

Board structure

Figure 2 compares board structure of the sample and the matching firms the year prior to, the year of, and the year after the proposing event for the US final sample. Consistent with our earlier results, the sample firms have large and more independent boards and are more likely to have a combined CEO and Chairman position than the matching firms. The sample and matching firms illustrate the same trend of increasing board independence during the three-year event window; they both increase the fraction of independent directors on the board and are more likely to separate CEO and Chairman positions. However, the sample firms exhibit larger change post the proposal event. Specifically, the mean ratio of independent directors on the board for the sample firms increases from 66.1% one year before the proposal year to 67.7% in the proposal year (2.5% or 1.7 percentage-point increase) and to 70.9% the year after (4.7% or 3.2 percentage-point increase). For comparison, this ratio for the matching firms increase from 62.8% to 64.8% (3.1% or 2.0 percentage-point increase) to 67.4% (4.2% or 2.7 percentage-point increase).

The sample and the matching firms exhibit different trends in board size. The sample firms reduce their board size after receiving a shareholder proposal. Further, the reduction is significantly larger post the proposal event than before. In contrast, the matching firms increase their board size during the three-year event window.

CEO turnover

We find that 155 of the 1,120 US sample firm years exhibit CEO turnover, or 13.8%, compared to 8.4% for the matching firms. (The difference is significant at 1% level based on one-

tailed Chi-square tests.) As sample firms under-perform the matching firms, our finding is consistent with the stylized fact that poor performing firms are more likely to fire their CEOs (Huson, Malatesta, and Parrino, 2004). Assuming that being targeted by investors generates negative publicity, our finding is also consistent with Wu (2004). Wu finds that firms exhibit higher CEO turnover after being publicly named by CalPERS.

Further, the CEO turnover rate for the sample firms increases from 13.8% in the proposal year to 22.1% the year following the shareholder proposal. One-tailed Chi-square test shows that the increase is significant at 1% level. Additionally, this increase is significant at the 1% level after controlling for the trend in matching firms, whose CEO turnover rate also rise from 8.39% to 14.6% for the same period. Therefore, our findings contradict the existing evidence. Smith (1996), Karpoff et al. (1996), and Del Guercio and Hawkins (1999) find no association between CEO turnover and shareholder proposals.

6.2. The impact of shareholder proposals in the UK

In this section, we investigate the impact of shareholder proposals in the UK. Following the same blueprint that we use for the US analysis, we examine the impact of shareholder proposals on firm performance, debt and dividend policies, board structure, and CEO turnover. Table 11 reports the results.

Panel A of Table 11 reports the financial characteristics of the UK sample firms the year before, of, and after receiving a shareholder proposal. Forty-two UK firms (or 54 firm years) have continuous financial data for this three-year event window. As Panel A shows, the mean value of total assets increases after the proposal event. This increase is primarily due to assets expansion of one firm, BP Plc. Excluding this company, the assets base of the sample firms actually declines, as reflected in the trend of the median assets values. Consistent with the US evidence, UK sample firms increase dividend payout and improve stock and accounting performance after receiving a shareholder proposal. For example, the median stock return is -0.65% in the year before receiving a proposal; it increases to 4.24% after the firm receives a proposal. However, the

changes lack statistical significance, probably because of the small sample size. Additionally, the UK data is noisy. The magnitude of the changes in stock return is significantly larger for the UK sample than for the US sample. However, the UK sample has significantly larger standard deviation, 1.056, compared to 0.70 for the US sample. Normalizing the standard deviation with their respective means, we have 14 for the UK sample and 7 for the US sample. Contrary to the U.S findings, UK sample firms exhibit lower sales growth and higher leverage after the proposing event. The changes also lack statistical significance.

Panel B of Table 11 reports board structure of the UK sample firms before and after they receive a shareholder proposal. We collect board information from the annual reports one year before a firm receives a shareholder proposal and one year after. Consistent with the US findings, after receiving a shareholder proposal, the UK firms tend to reduce board sizes, increase the fraction of non-executive directors on the board, and separate CEO and Chairman titles. The changes again lack statistical significance.

We also compare CEO turnover for the 42 UK firms surrounding a proposal event. We gather CEO names from annual reports for the year before, of, and after a firm receiving a shareholder proposal. We are able to find CEO information for 150 out of the 162 firm years. We find that 26.5% firms exhibit CEO turnover in the proposal year, and 27% the year after. Chi-square tests do not detect any statistical significance in the changes.

In summary, albeit lacking statistical power, the UK evidence on the effect of shareholder proposals is generally consistent with the US evidence, especially in terms of its effect on firm performance and board structure.

5. Conclusion

In this paper we present new evidence that the firm's attitude towards shareholder proposals has changed in the post-Enron environment. We examine the efficacy of shareholder proposals by conducting a comprehensive comparative analysis of US and UK shareholder proposals from 2000 to 2006. Even though the US and UK corporate governance framework

share many similarities, there are also differences, primarily the fact that the two countries have quite different proxy rules. This difference is reflected in the first main finding of our paper – namely that US and UK shareholder proposals display dramatic and systematic differences in terms of proposal types, proposal sponsors, and voting outcomes. UK shareholder proposals also tend to receive significantly more favorable votes than US proposals. In addition, only a small fraction of UK proposals are social or environmental related.

Consistent with the prior literature, we find both US and UK shareholders target poorly performing firms to submit proposals. In contrast to the existing literature on the impact of US shareholder proposals, we find that, after receiving a proposal, US firms exhibit improvements in performance, especially in terms of stock prices. After receiving a shareholder proposal, firms also exhibit lower leverage, higher payout, and greater CEO pay-performance sensitivity. Further, we find significant changes in board structure and elevated CEO turnover rate after a proposal event. In summary, our results suggest that US shareholder proposals have a larger impact on firms in today's corporate governance conscious environment.

By investigating these similarities and differences in law and business practices in the US and UK, our results shed light on the effects of shareholder activism on corporations, hence helping us form a better understanding of global shareholder activism. Our findings in turn have potentially valuable implications for the current efforts by the US and UK government and European Union to reform proxy rules.

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Appendix I: Summary of Empirical Studies on Shareholder Proposals

Authors	Year	Journal	Research question	Sample	Sample period
Gordon and Pound	1993	JFE	Determinants of shareholder proposals	266 governance proposals	1990
Strickland, Wiles, and Zenner	1996	JFE	Determinants and effects of shareholder proposals sponsored by the United Shareholders Association	163 governance proposals	1990-1993
Wahal	1996	JFQA	Efficacy of pension fund activism	356 shareholder proposals sponsored by nine major pension funds at 146 firms	1987-1993
Smith	1996	JF	Determinants and effects of shareholder proposals sponsored by CalPERS	51 firms (78 targeting events)	1987-1993
Karpoff, Malatesta, and Walkling	1996	JFE	Effects of shareholder proposals	522 governance proposals at 269 firms	1987-1990
Bizjak and Marquette	1998	JFQA	Determinants and effects of shareholder proposals	191 poison-pill related proposals at 116 firms	1986-1993
Del Guercio and Hawkins	1999	JFE	Pension fund activism	266 proposals by the five largest pension funds	1987-1993
Thomas and Martin	1999	WP	Effects of shareholder proposals on CEO pay	168 executive pay proposals at 145 firms	1993-1997
Prevost and Rao	2000	JB	Pension fund activism	128 governance proposals at 73 firms	1988-1994
Gillan and Starks	2005	JFE	Effects of shareholder proposals	2,042 governance proposals at 452 firms	1987-1994
Thomas and Cotter	2007	JCF	Shareholder support for and board and market reaction to shareholder proposals	1,454 shareholder proposals	2002-2004

** JFE: Journal of Financial Economics
 JFQA: Journal of Financial and Quantitative Analysis
 JF: Journal of Finance
 JB: Journal of Business
 JCF: Journal of Corporate Finance
 WP: Working paper

Appendix II: UK Corporate Governance and Shareholder Activism Timeline

- 1948 Companies Act of 1948 was introduced.
- 1992 Cadbury Report
Recommends a Code of Best Practice which effects the boards of all listed companies registered in the UK.
- 1995 Greenbury Report
Emphasizes accountability and performance of directors.
- 1995 CalPERS announces its intention to focus on, and take a more active corporate governance role in the United Kingdom.
- 1997 Sell receives five shareholder proposals regarding its environmental and human rights policies at AGM, thus becoming the first UK firm to receive such proposals.
- 1998 Hampel Report
Endorses the findings of the Cadbury and Greenbury Reports and emphasizes the important role that institutional investors have to play in their portfolio companies.
- 1998 Combined Code
Synthesize the Cadbury, Greenbury and Hampel reports. It operates on a “comply” or “explain” basis.
- 1998 Hermes Focus Fund is formed to experiment shareholder engagement.
- 1999 Turnbull Report
Provides guidance on the implementation of the internal control requirements of the Combined Code. It stresses that the board should assess the effectiveness of internal controls and report on them in the annual report.
- 2001 Myners Report
Review institutional investment and recommends that institutional investors be more proactive especially in the stance that they take with under-performing companies.
- 2001 U.K Government introduce the Statement of Investment Principles (SIPs), which required institutional investors to disclose the social, environmental and ethical polices of their occupational pension funds.
- 2003 Higgs Report
Reports on the role and effectiveness of non-executive directors. Other recommendations include separating CEO and Chairman roles and stating the number of meetings of the board and its main committees and the attendance records of individual directors in the annual report.
- 2003 Smith Review
Presents a review of audit committees.
- 2003 Revised Combined Code
This report incorporates the substance of the Higgs and Smith reviews. It also clarifies the Chairman’s role and senior independent director role.
- 2006 Companies Act (formerly the Company Law Reform Bill)
Replaces existing companies legislation. It codifies directors’ duties and shareholder rights.

**Appendix III: A Comparison of US and UK Proxy Rules and Practices
for the Period 2000-2006**

	UK	US
Regulations	Section 376 and 368 of the Companies Act 1985 ^a	Securities and Exchange Commission Rule 14A-8
Qualifying sponsor	<ul style="list-style-type: none"> • $\geq 5\%$ of voting capital, or at least 100 shareholders with no less than GBP100 per holder to call AGM • $\geq 10\%$ of voting capital to call EGM 	Continuous ownership of 1% of voting capital (or a minimum US \$2,000 in market value) for at least one year before the annual meeting ^b
Length of the proposal	No more than 1,000 words	No more than 500 words
How many proposals may a shareholder submit for a particular meeting?	> one	Only one
Who bear circulation costs?	Proposal sponsor	Firm
Is resolution binding?	Yes	no
Voting coalition	Easy ^c	Hard to form ^d
Can shareholders call special meetings to submit resolutions?	Yes	No
Are institutions obligated to vote?	No	Yes
Voter turnout	Low ^e	High ^f
Do firm release voting results?	No, the Combined Code only recommends	Mandatory
Electronic vote	No	Yes
Voting system	Proxy voting/show of hands	Proxy voting

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

^b <http://www.sec.gov/rules/proposed/34-39093.htm>

^c Black and Coffee (1994)

^d Black (1990)

^e The voting levels at UK companies is 20% in 1990 (Mallin, 2001). It increased to 50% in 1999 (Ozkan, 2006). An article (2005/11/15) in Financial Times reports that the voting level for FTSE 100 companies in the UK is 61% up from 50% in 2004. We calculate that, for our sample firms, the voter turnout reaches 71% in 2006.

^f Bethel and Gillan (2002) report voter turnout between 70% and 80% for the US firms.

Figure 1: Shareholder proposals, by sponsor types, in the US and UK initial samples from 2000 to 2006

Figure 1 illustrates sponsor composition for the US and UK initial samples from 2000 to 2006. We are able to determine sponsor identities for 3,747 out of the 3,812 shareholder proposals in the initial US sample. We classify US sponsors into seven categories: institutional investors (institution), pension funds (pension), unions, social/human rights/environmental/religious groups (social), individual activists (Indiv. activists), individual occasional (Indiv. occasional), and other. We classify any shareholder who sponsors more than 30 shareholder proposals as individual activist, otherwise as individual occasional. We are able to determine sponsor identities for 486 out of the 509 shareholder proposals in the initial UK sample. We classify UK sponsors into five categories: institutional investors (institution), private investors, former executives or directors (Former execu/dir), associated companies (Ass. Company), and other. Associated companies are companies that have a business interest in the sample firms, such as a supplier or a competitor. The group 'Other' includes other sponsors who do not fall into the previous four categories. We classify 24 proposals as sponsored by others, which include one sponsored by a group of employee workers, one by a human-rights group, two by one union, six by environmental groups, and 14 by coalitions of soccer fans who target two football clubs, Aston Villa Plc and Celtic Plc.

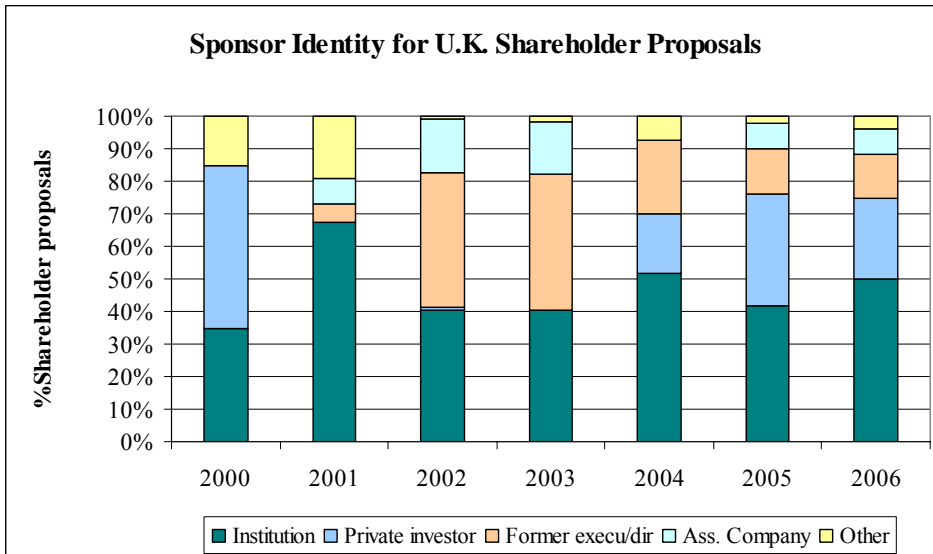
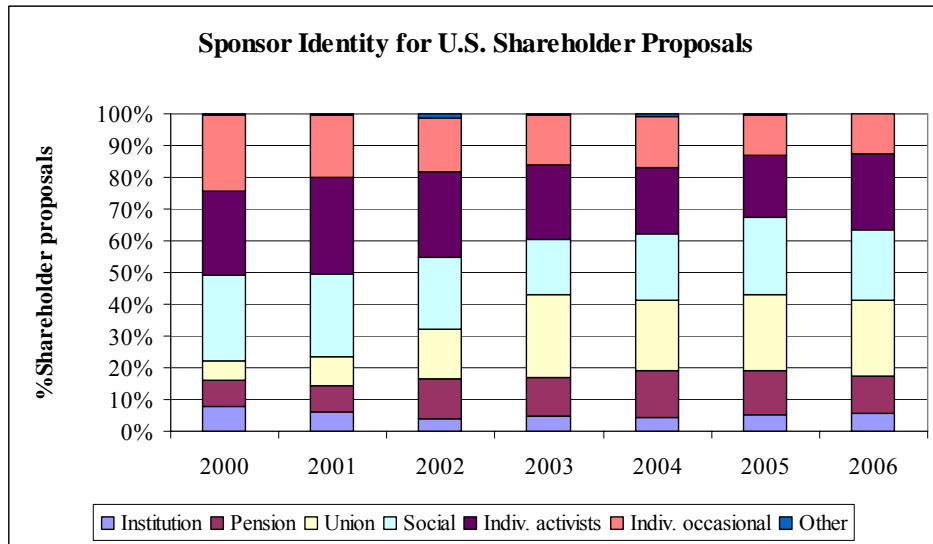


Figure 2: Board structure before and after a firm receiving a shareholder proposal - the US evidence

This figure illustrates board structure surrounding a shareholder proposal event for the 529 US sample and their matching firms for the sample period from 2000 to 2006. We report three board attributes in three panels -- the percentage of independent directors on the board (%outside directors on the board), the number of directors on the board (board size), and the percentage of firms with CEO also being Chairman of the Board. In each panel, we report the mean value of each board attribute in the year before a firm receiving a shareholder proposal (*bef*), of the proposal year (*prpl*), and the year after (*aft*) for both the sample and the matching firms.

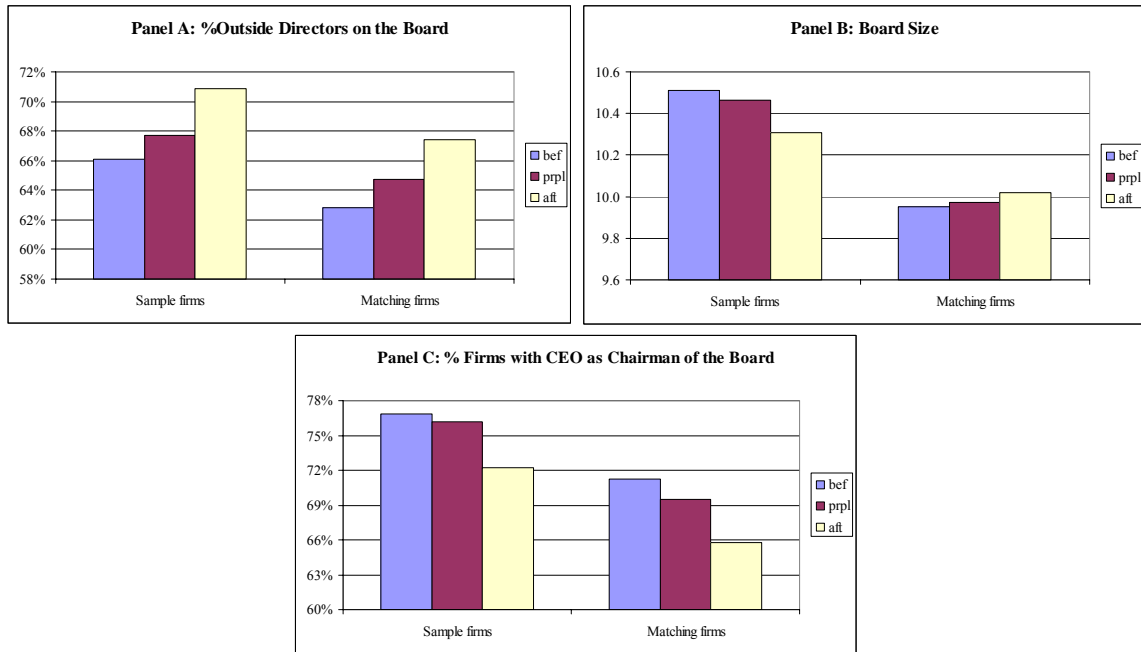


Table 1: Sample selection process

This table summarizes the sample selection process for the US (Panel A) and the UK (Panel B) samples. We obtain US shareholder proposals from IRRC. IRRC lists 6,766 shareholder proposals for 1,077 unique US firms from 2000 to 2006. For the purpose of our study, we focus on proposals that have voting results, which yields 3,812 shareholder proposals at 764 firms (*the initial US sample*). To conduct multivariate analysis, we require the sample firms to have the necessary board, CRSP, and Compustat data, and have a matching firm that meets the same data requirement. To qualify, a matching firm cannot receive a shareholder proposal in the matching year (the year that the sample firm receives a shareholder proposal), comes from the same Fama and French industry, and has a market value of equity (MVE) within 25% of MVE of the sample firm. If more than one matching firm meets those criteria, we choose the one with the closest MVE. This process yields 1,828 shareholder proposals or 529 unique US firms from 2000 to 2006 (*the final US sample*). We obtain UK shareholder proposals from ISS. ISS lists 508 shareholder proposals for 85 unique UK firms from 2000 to 2006 (*the initial UK sample*). To be included in the final sample, the sample firm cannot be an investment company and has financial data one year prior, the year of, and one year after the proposal year. This process yields a final sample of 250 shareholder proposals or 42 unique firms from 2000 to 2006 (*the final UK sample*).

Panel A: Sample selection process for the U.S. sample

	# Shareholder proposals	#Firm years	#Firms
IRRC universe (2000-2006)	6,762	2,985	1,077
# lost obs. due to missing voting outcome	<u>2,950</u>	<u>956</u>	<u>313</u>
Initial sample	3,812	2,029	764
# obs. excluded because sample/match firms do not have 2006 CRSP/COMPUSTAT data	623	312	68
# obs. excluded because no match firms meet the industry and 25% MVE requirement	1,230	514	126
# obs. excluded because the sample firm has no board data	122	78	40
# obs. excluded because the matching firm has no board data	<u>9</u>	<u>5</u>	<u>1</u>
Final sample	1,828	1,120	529

Panel B: Sample selection process for the U.K. sample (old, before we hand collect proposal characteristics from Factiva)

	# Shareholder proposals	#Firm years	#Firms
ISS universe (2000-2006)	509	99	85
Initial sample	509	99	85
# obs. excluded because sample firms do not have sufficient financial data	207	36	34
# obs. excluded because sample firms are investment company (SIC=6726, 6799)	52	9	9
Final sample	250	54	42

Table 2: Frequency distribution of shareholder proposals and shareholder meetings for the US and UK initial samples from 2000 to 2006

Table 2 reports the frequency distribution of sample firms, shareholder meetings, and shareholder proposals for the US and UK initial samples. We first classify the sample according to whether the proposal is an ordinary shareholder proposal or relates to a proxy contest. We classify a proposal as proxy-contest related, if a sponsor submits multiple proposals to one shareholder meeting that, if passed, have the effect of replacing the entire board. Panel A reports the distribution for the US sample. *#Mtg* refers to the number of annual shareholder meetings. *#Special mtg* refers to the number of special meetings. *#Prpl* refers to the number of shareholder proposals. *#Avg. prpl* is the number of shareholder proposals over the total number of shareholder meetings for a given year. Panel B reports the distribution for the UK sample. In the UK, the annual shareholder meeting is referred to as Annual General Meeting (AGM), and the special meeting as Extraordinary General Meetings (EGM). There are 107 UK shareholder meetings from 2000 to 2006, of which we are able to determine the meeting type for 100 meetings (25+41+3+31=100). *#Avg. prpl* is based on the total number of shareholder meetings, i.e. it includes the seven meetings that we are unable to determine meeting type. Panel C reports the distribution for the UK sample that come to a vote. Of the 508 UK shareholder proposals, 393 come to a vote.

Panel A: the U.S. sample

	Ordinary shareholder proposal					Proxy-contest related shareholder proposals				
	#Firm	#Mtg	#Special mtg	#Prpl	Avg. prpl	#Firm	#Mtg	#Special mtg	#Prpl	Avg. prpl per mtg
2000	263	263	0	440	1.7	0	0	0	0	N/A
2001	245	245	0	432	1.8	0	0	0	0	N/A
2002	253	253	0	463	1.8	0	0	0	0	N/A
2003	318	318	0	612	1.9	0	0	0	0	N/A
2004	332	331	1	637	1.9	0	0	0	0	N/A
2005	293	288	5	588	2.0	0	0	0	0	N/A
2006	325	306	19	640	2.0	0	0	0	0	N/A
Sum(Avg.)	2,029	2,004	25	3,812	(1.9)	0	0	0	0	N/A

Panel B: the U.K. sample

	Ordinary shareholder proposal					Proxy-contest related shareholder proposals				
	#Firm	#AGM	#EGM	#Prpl	Avg. prpl	#Firm	#AGM	#EGM	#Prpl	Avg. prpl per mtg
2000	5	3	2	12	2.4	1	0	1	10	10
2001	13	7	5	29	2.2	1	0	1	11	11
2002	12	4	7	31	2.7	8	2	7	74	8
2003	8	3	4	27	3.4	4	0	4	35	9
2004	9	3	7	33	3.0	7	1	7	90	10
2005	6	1	5	23	3.3	10	0	10	78	7
2006	14	4	11	50	3.3	1	0	1	5	5
Sum(Avg.)	67	25	41	205	(2.9)	32	3	31	303	(8.4)

Panel C: U.K. shareholder proposals that come to vote

	Ordinary shareholder proposal					Proxy-contest related shareholder proposals				
	#Firm	#AGM	#EGM	#Prpl	Avg. prpl	#Firm	#AGM	#EGM	#Prpl	Avg. prpl per mtg
2000	4	2	2	11	2.8	1	0	1	10	10
2001	11	7	4	24	2.2	1	0	1	11	11
2002	10	3	7	25	2.5	5	1	5	50	8
2003	5	3	2	13	2.6	3	0	3	22	7
2004	8	3	6	29	3.2	6	1	7	77	10
2005	3	0	4	17	4.3	9	0	9	73	7
2006	10	3	8	27	2.5	1	0	1	4	4
Sum(Avg.)	51	21	33	146	(2.7)	26	2	27	247	(8.2)

Table 3: Shareholder proposals, by proposal types, in the US and UK initial samples from 2000 to 2006

This table reports shareholder proposals by proposal types for the US and UK samples from 2000 to 2006. Panel A reports the classification of 3,812 shareholder proposals at 764 US firms. Panel B reports the classification of 508 shareholder proposals at 85 UK firms. We classify shareholder proposals into six broad categories: board-related proposals (Board), compensation-related proposals (COMP), non-board governance-related proposals (GOV), social and economic proposals (Social), environmental and health proposals (ENV/Health), and business-related (BUS) proposals.

Panel A: US shareholder proposal classification

	Board	COMP	GOV	Social	ENV/Health	BUS	Total
2000	142	45	63	77	58	55	440
2001	131	51	72	93	55	30	432
2002	138	51	107	94	61	12	463
2003	136	200	131	79	57	9	612
2004	159	179	98	124	67	10	637
2005	192	137	69	110	68	12	588
2006	263	109	63	121	72	12	640
Total	1,161	772	603	698	438	140	3,812

Panel B: UK shareholder proposal classification

	Board	COMP	GOV	Social	ENV/Health	BUS	Total
2000	15		1	1	1	4	22
2001	18		2	1	2	17	40
2002	91	1	2		1	10	105
2003	54		4			4	62
2004	97	1	7		1	17	123
2005	100			1			101
2006	52		1	1	1		55
Total	427	2	17	4	6	52	508

Panel C: Breakdown of board proposals for the U.S. and U.K. samples

	2000	2001	2002	2003	2004	2005	2006	Overall
<u>The U.S. sample</u>								
Declassification	61	50	49	49	41	50	62	31%
Separate CEO and Chairman positions	3	5	3	30	40	31	57	15%
Require majority vote to elect directors	0	0	0	0	11	62	94	14%
Adopt cumulative voting	24	19	19	20	23	20	23	13%
Board independence	19	13	29	10	18	6	4	9%
Director nomination/election	12	21	14	9	7	6	6	6%
<i>As percentage of the total 1,161 U.S. board proposals</i>								88%
<u>The U.K. sample</u>								
Remove/elected specific directors	13	16	91	53	94	99	52	98%
No confidence vote in the Chairman					1			0%
Charge non-executive Directors with fiduciary duty					1			0%
Change the time/location of general meetings		1						0%
Require independence of Deputy Chairman and disclosure of independent status of non-executive directors	1							0%
Approve Scheme for Supporter Board Appointment				1	1	1		1%
Authorize Removal of Any Newly Appointed Director	1							0%
Leave Vacancy Arising from Retirement by Rotation Unfilled		1						0%
<i>As percentage of the total 427 U.K. board proposals</i>								100%

Table 4: Voting outcomes and voter turnout for the US and UK initial samples from 2000 to 2006

Panel A reports voting outcome for the US initial sample from 2000 to 2006. *#Prpl* refers to the number of shareholder proposals. *%Affirmative votes* is the mean ratio of the number of affirmative votes over the number of affirmative votes plus the number of against votes. *%Passed proposals* is the number of proposals that pass over the total number of proposals that receive votes. All shareholder proposals in the US sample have voting results. We are able to determine the voting outcomes for 3,655 out of the 3,812 shareholder proposals in the US initial sample. We collect voting results from IRRC, 10-Q, and annual reports. Panel B reports the voting outcomes and voter turnout for the shareholder proposals that come to a vote in the UK initial sample, partitioned by whether a proposal is an ordinary shareholder proposal or relates to a proxy contest. *%Successful proposals* is the number of proposals that are ‘successful’ over the total number of proposals that receive votes. We deem a proposal as successful if it passes with the necessary vote and is later on adopted by the firm. *Voter turnout* is the number of shares voted over total number of shares that are eligible to vote. We are able to find voting outcomes for all 146 ordinary shareholder proposals and 247 proxy-contest related proposals that come to a vote. We are able to calculate voter turnout for 82 of the 146 ordinary proposals, and 109 of the 247 proxy-contest related proposals. Panel C reports, for the UK initial sample, voting outcomes for the shareholder proposals that are withdrawn before the shareholder meeting convenes, partitioned by whether a proposal is an ordinary shareholder proposal or relates to a proxy contest. We determine a withdrawn proposal as successful if the firm adopts the action that the proposal sponsor requisites. We collect voting outcomes, the number of votes cast, and the number of shares eligible to vote for the UK sample from Factiva and annual reports.

Panel A: The US sample

	<i>#Prpl</i>	<i>%Affirmative</i>	<i>%Passed</i>
2000	440	23.4%	13.3%
2001	432	23.1%	13.4%
2002	463	28.1%	17.6%
2003	612	32.0%	25.0%
2004	637	27.1%	19.2%
2005	588	29.5%	18.4%
2006	640	33.1%	20.1%
Total	3,812	28.5%	18.6%

Panel B: The U.K. shareholder proposals that come to a vote

	Ordinary shareholder proposal				Proxy-contest related shareholder proposals			
	<i>#Prpl</i>	<i>%Affirmative votes</i>	<i>%Successful proposals</i>	<i>Voter turnout</i>	<i>#Prpl</i>	<i>%Successful proposals</i>	<i>%Affirmative votes</i>	<i>Voter turnout</i>
2000	11	33%	0%	75%	10	100%	97%	na
2001	24	30%	0%	66%	11	100%	43%	na
2002	25	29%	0%	63%	50	14%	31%	61%
2003	13	21%	8%	35%	22	18%	61%	83%
2004	29	38%	0%	51%	77	66%	58%	46%
2005	17	40%	24%	75%	73	36%	41%	51%
2006	27	44%	52%	71%	4	100%	na	na
Sum(Avg.)	146	35%	13.0%	66%	247	45.7%	51%	54%

Panel C: The U.K. shareholder proposals that are withdrawn

	Ordinary proposal		Proxy-contest related proposals	
	<i>#Prpl</i>	<i>%Successful proposals</i>	<i>#Prpl</i>	<i>%Successful proposals</i>
2000	0	N/A	0	N/A
2001	1	0%	0	N/A
2002	0	N/A	18	44%
2003	13	38%	13	100%
2004	2	100%	13	100%
2005	4	100%	1	0%
2006	21	100%	0	N/A
Sum(Avg.)	41	78.0%	45	46.7%

Table 5: Summary statistics and univariate comparison of US final-sample firms and matching firms

This table reports summary statistics of key firm characteristics and univariate test results for the firms in the final US sample and their matching firms. There are 529 US sample firms or 1,120 firm years for the sample period of 2000 to 2006. To qualify as a match, the firm needs to meet the following criteria: a) it does not receive a shareholder proposal during the proposal year, 2) it comes from the same Fama and French industry as the sample firm, 3) it has the closest market value of equity (MVE) to that of the sample firm and its MVE is within 25% of the sample firm's, 4) it has the necessary board/CRSP/Compustat information. The *Market-to-book ratio* is the ratio of market value to book value of assets. *Sales growth* is the ratio of current year net sales over the previous year's. *ROA* is earnings before interest and taxes over total book assets. *Stock return* is the ending fiscal year price over the beginning fiscal year price minus one. *Debt ratio* is the total debt over total value of book assets. *Payout ratio* is the sum of common and preferred stock dividends plus repurchases over earnings before interest and taxes. *Free cash flow (FCF)* is operating income before depreciation minus total income taxes, change in deferred taxes, interest expense, preferred dividends, and dividends on common stock over total assets, following Lehn and Poulsen (1989). *%outsiders on the board* is the percent of independent directors on the board. *Board size* is the number of directors on the board. We obtain stock price and financial statement data from CRSP and COMPUSTAT, board data from IRRC and proxy statements, and ownership data from SEC Disclosure and proxy statements. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10% respectively.

	n	Sample firms	Matching firms	#pairs	Differences	Test statistics
	sample (match)	Mean (Median)	Mean (Median)		Mean (Median)	Paired <i>t</i> -stat (Wilcoxon <i>z</i> -stat)
<u>Firm size and age</u>						
Market value of equity (\$MM)	1,120 (1,120)	10,870 (4,661)	10,369 (4,557)	1,120	501 (12)	4.70 ^a (0.36)
Total assets (\$MM)	1,120 (1,120)	23,794 (6,238)	19,765 (3,854)	1,120	4,029 (927)	2.30 ^b (6.30) ^a
Firm age	1,118 (1,104)	32 (26)	26 (20)	1,102	7 (4)	8.08 ^a (7.70) ^a
<u>Firm valuation and performance</u>						
Market-to-book ratio	1,120 (1,120)	1.74 (1.32)	2.26 (1.53)	1,120	-0.518 (-0.118)	-8.45 ^a (-7.90) ^a
Sales growth	1,119 (1,119)	7.17% (5.62%)	14.23% (10.10%)	1,118	-0.071 (-0.048)	-5.75 ^a (-7.71) ^a
ROA	1,120 (1,120)	11.79% (11.28%)	13.16% (12.82%)	1,120	-1.37% (-1.24%)	-3.36 ^a (-4.39) ^a
Stock return	1,119 (1,120)	9.76% (5.69%)	10.18% (5.54%)	1,119	-0.48% (-2.72%)	-0.24 (-0.52)
<u>Firm financial constraints</u>						
Debt ratio	1,119 (1,119)	22.78% (21.72%)	19.10% (16.11%)	1,118	3.64% (2.17%)	6.02 ^a (6.22) ^a
Payout ratio	998 (1,005)	23.54% (17.19%)	31.84% (18.17%)	943	-8.60% (-0.00%)	-1.36 (-1.41) ^c
Free cash flow	1,008 (1,105)	6.96% (6.63%)	7.13% (7.62%)	954	-0.21% (-0.68%)	-0.50 (-3.14) ^a
<u>Board and ownership structure</u>						
%Outsiders on the board	1,120 (1,120)	67.74% (71.43%)	64.75% (66.67%)	1,120	2.99% (4.76%)	4.13 ^a (3.83) ^a
Board size	1,120 (1,120)	10.46 (10.00)	9.98 (10.00)	1,120	0.49 (0.00)	5.00 ^a (4.30) ^a
CEO is Chairman of the Board	1,119 (1,115)	76.14% (100.00%)	69.51% (100.00%)	1,114	6.55% (0.00%)	3.59 ^a (3.52) ^a
CEO ownership	1,039 (1,102)	2.93% (2.16%)	4.08% (0.09%)	946	-1.11% (0.00%)	-2.35 ^b (-3.73) ^a
Institutional ownership	1,085 (1,084)	65.90% (68.70%)	65.76% (68.70%)	1,060	0.30% (-0.34%)	0.37 (0.25)

Table 6: Summary statistics and univariate comparison of UK final-sample firms and matching firms

Panel A reports summary statistics for the 54 firm years or 42 unique firms in the final UK sample for the sample period of 2000 to 2006. Panel B reports univariate test statistics for the 42 firm years that we are able to find a matching firm. The matching firms are those that do not receive a shareholder proposal during the proposal year, come from the same 4-digit SIC industry, and have the closest total assets value to the sample firms. *ROA* is earnings before interest and taxes over total book assets. *Stock return* is the ending calendar year price over the beginning calendar year price and subtracting by one. *Sales growth* is the ratio of current year net sales over the previous year's. *Debt ratio* is the total debt over total value of book assets. *EPS* is earnings per share. *Board size* is the number of directors on the board. Institutional ownership is aggregate blockholder ownership collected from annual reports, excluding director and officer ownership and other individual ownership. We hand collect data of all the variables from Thomson, Mergent, Factiva, and Lexis-Nexis. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10% respectively based on one-tailed test.

Panel A: Summary statistics of the U.K. sample firms

	n	Mean	Median	Std Dev.	1 st quartile	3 rd quartile
<u>Firm operating characteristics</u>						
Total Assets (\$MM)	54	8,645	61	25,679	17	1,504
ROA	54	-14.47%	-6.33%	32.38%	-19.75%	6.11%
Stock return	40	3.54%	-1.63%	49.93%	-22.03%	15.70%
Sales growth	53	5.22%	0.75%	42.23%	-7.46%	13.95%
Debt ratio	54	59.24%	54.12%	57.89%	37.93%	63.50%
Dividend per share	49	0.038	0.000	0.064	0.000	0.050
EPS	48	-1.670	-0.031	7.896	-0.281	0.136
<u>Board and ownership structure</u>						
%non-executive directors on the board	52	56.19%	58.57%	15.75%	47.73%	66.67%
Board size	52	7.9	7.0	3.6	5.5	9.5
CEO is Chairman of the Board	50	18.00%	0.00%	38.81%	0.00%	0.00%
CEO ownership	45	2.37%	0.11%	7.05%	0.01%	0.94%
Institutional ownership	47	33.89%	37.28%	19.03%	16.44%	48.13%

Panel B: Univariate comparison of the U.K. sample firms and their matching firms

	n	Sample firms		Matching firms	#pairs	Differences	Test statistics
		sample	Mean			Mean	Mean
	sample	(Median)	(Median)			(Median)	(Wilcoxon <i>z</i> -stat)
<u>Firm operating characteristics</u>							
Total assets (\$MM)	42	1,790	3,357	42	-1,567	-0.74	
	(42)	(59)	(38)		(18)		(-0.30)
ROA	42	-15.60%	2.75%	42	-18.35%	-3.34 ^a	
	(42)	(-6.82%)	(4.66%)		(-6.97%)		(-3.31) ^a
Stock return	32	-1.55%	5.13%	24	-9.37%	-0.73	
	(28)	(-7.43%)	(6.51%)		(-6.94%)		(-1.40) ^c
Sales growth	41	0.14%	8.46%	36	-8.14%	-0.98	
	(36)	(0.02%)	(3.74%)		(-7.69%)		(-1.03)
Debt ratio	42	64.23%	54.56%	42	9.67%	1.00	
	(42)	(54.94%)	(54.14%)		(0.65%)		(0.03)
Dividend per share	38	0.031	0.058	34	-0.015	-1.01	
	(33)	(0.000)	(0.030)		(0.000)		(-2.28) ^a
EPS	37	-1.270	0.081	30	-1.437	-1.08	
	(38)	(-0.016)	(0.011)		(-0.038)		(-2.43) ^a
<u>Board and ownership structure</u>							
%Outsiders on the board	52	56.19%	51.30%	40	5.20%	1.19	
	(50)	(58.57%)	(57.14%)		(2.50%)		(1.21)
Board size	52	7.87	9.04	40	0.55	1.34	
	(50)	(7.00)	(7.00)		(0.00)		(0.59)
CEO is Chairman of the Board	50	18.00%	12.24%	37	5.41%	0.57	
	(49)	(0.00%)	(0.00%)		(0.00%)		(1.10)
CEO ownership	45	3.07%	4.17%	28	-4.53%	-1.19	
	(40)	(0.00%)	(0.09%)		(0.00%)		(-0.48)
D&O ownership	47	7.79%	8.19%	31	-3.90%	-1.09	
	(43)	(2.77%)	(1.01%)		(-1.76%)		(0.63)

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

This table reports the logistics regression results on the probability of a firm receiving a shareholder proposal. Panel A reports the estimation for the US final sample and Panel B reports estimation results for the UK final sample. The dependent variable is a dummy that take the value of one if a sample firm, zero if a matching firm. To qualify as a match for a US sample firm, the firm cannot receive a shareholder proposal in the match year (the year that the sample firm receives a shareholder proposal), comes from the same Fama and French industry, and has a market value of equity within 25% of the sample firm's MVE. If more than one matching firm meets those criteria, we choose the one with the closest MVE. To qualify as a match for a UK sample firm, the firm cannot receive a shareholder proposal during the proposal year, comes from the same 4-digit SIC industry, and has the closest MVE to the sample firm's. All the independent variables are beginning-year values of the year when the proposal is submitted. *Market-to-book ratio* is the ratio of market value to book value of assets. *ROA* is earnings before interest and taxes over total book assets. The models for the US sample include an intercept and industry- and year- fixed effects, and the *p*-values are based on robust standard errors. The models for the UK sample include an intercept. *p*-values are reported in parentheses below coefficient estimates. Columns of *dy/dx* reports marginal effects. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10% respectively.

<i>Panel A: the U.S. sample</i>					<i>Panel B: the U.K. sample</i>				
	(1)		(2)			(1)		(2)	
	Coeff.	<i>dy/dx</i>	Coeff.	<i>dy/dx</i>		Coeff.	<i>dy/dx</i>	Coeff.	<i>dy/dx</i>
Log(MVE)	0.044 (0.264)	0.011	0.036 (0.391)	0.009	Log(Assets)	0.182 ^b (0.054)	0.041	-0.001 (0.997)	0.000
MTB	-0.220 ^a (0.000)	-0.055	-0.226 ^a (0.000)	-0.057	Sales growth			-0.050 (0.964)	-0.009
ROA	-0.875 (0.193)	-0.219	-0.502 (0.505)	-0.126	ROA	-2.011 ^b (0.044)	-0.826	2.529 (0.219)	0.463
Stock return	-0.105 (0.288)	-0.026	-0.103 (0.377)	-0.026					
Debt ratio			1.039 ^a (0.002)	0.260	Debt ratio			1.814 (0.260)	0.332
Payout ratio			-0.002 (0.943)	-0.001	Dividend per share			-7.741 (0.298)	-1.417
%Outsiders	0.605 ^b (0.026)	0.151	0.769 ^a (0.009)	0.192	%Non-executive			7.225 ^b (0.019)	1.322
Board size	0.050 ^a (0.012)	0.012	0.050 ^b (0.029)	0.012	Board size			-0.045 (0.819)	-0.008
CEO is Chairman	0.228 ^b (0.032)	0.057	0.202 ^c (0.077)	0.050	CEO is Chairman			2.653 ^c (0.090)	0.284
CEO ownership	-0.289 (0.574)	-0.072	-0.254 (0.628)	-0.063	CEO ownership			-6.779 (0.331)	-1.241
Institutional ownership	-0.022 (0.922)	-0.006	-0.084 (0.734)	-0.021	Institutional ownership			1.774 (0.521)	0.325
Likelihood ratio	56.77		85.13		Likelihood ratio	8.65		11.81	
Model <i>p</i> -value	0.237		0.003		Model <i>p</i> -value	0.013		0.235	
Pseudo R-squared	0.02		0.04		Pseudo R-squared	0.08		0.18	
# observations	2,156		1,923		# observations	86		55	

Table 8: Firm performance before and after shareholder proposals - the US evidence

This table examines the changes in firm performance surrounding the event of receiving a shareholder proposal for the US sample. We report two measures of stock performance -- stock returns and EPS. EPS is earning per share after excluding extraordinary items. We report two measures of operating performance -- return on assets (ROA) and operating margin. *ROA* is earnings before interest and taxes over total book assets. Operating margin is earnings before interest and taxes over net sales. Panel A reports the results from univariate comparison between the sample and matching firms. To qualify as a match, the firm cannot receive a shareholder proposal in the match year (the year that the sample firm receives a shareholder proposal), comes from the same Fama and French industry, and has a market value of equity within 25% of that of the sample firm. If more than one matching firm meets those criteria, we choose the one with the closest MVE. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10% based on one-tailed Paired *t*-tests or Wilcoxon tests (in parentheses), respectively. Panel B reports the mean and median values of the performance proxies for the sample firms that have data on the reported variables for the four-year event window. Next to the mean and median values are the mean differences (in italic) across years. For example, $(t+1)-(t)$ is the mean difference between the proposal year's value and the previous year's. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10%, respectively, based on one-tailed Wilcoxon test. We truncate stock return, EPS, and operating margin at 1%, because they exhibit extreme outliers.

Panel A: Univariate comparison of firm performance before and after the proposing event for the U.S. sample and matching firms

	#Pairs	Sample	Match	Dif	Test statistics	#Pairs	Sample	Match	Dif	Test statistics
		Mean	Mean	Mean	Paired <i>t</i> -stat		Mean	Mean	Mean	Paired <i>t</i> -stat
		(Median)	(Median)	(Median)	(Wilcoxon <i>z</i> -stat)		(Median)	(Median)	(Median)	(Wilcoxon <i>z</i> -stat)
		One year before the proposal year					The proposal year			
Stock return	1,070	4.70%	9.71%	-5.00%	-3.08 ^a	1,077	7.91%	8.97%	-1.06%	-0.72
		(0.16%)	(5.00%)	(-4.73%)	(-2.55) ^a		(5.98%)	(5.77%)	(-2.72%)	(-0.54)
EPS (\$)	1,077	1.40	1.68	-0.28	(-4.34) ^a	1,076	1.44	1.71	-0.26	(-3.75) ^a
		(1.40)	(1.56)	(-0.25)	(-3.24) ^a		(1.39)	(1.61)	(-0.29)	(-3.60) ^a
ROA	1,106	12.40%	13.44%	-1.03%	-2.85 ^a	1,120	11.79%	13.17%	-1.38%	-3.39 ^a
		(11.64%)	(12.67%)	(-1.01%)	(-3.41) ^a		(11.28%)	(12.83%)	(-1.24%)	(-4.42) ^a
Operating margin	1,066	17.63%	19.37%	-1.74%	-4.42 ^a	1,081	17.41%	19.79%	-2.38%	-6.03 ^a
		(14.80%)	(16.63%)	(-1.42%)	(-3.15) ^a		(14.97%)	(17.09%)	(-1.59%)	(-4.22) ^a
		One year after the proposal year					Two years after the proposal year			
Stock return	883	8.09%	5.70%	2.39%	1.63 ^c	650	7.89%	6.03%	1.86%	1.04
		(5.79%)	(4.43%)	(0.35%)	(1.11)		(4.98%)	(3.30%)	(-0.54%)	(0.80)
EPS (\$)	866	1.38	1.66	-0.28	(-3.23) ^a	623	1.45	1.70	-0.25	-2.43 ^b
		(1.44)	(1.60)	(-0.26)	(-2.85) ^a		(1.54)	(1.66)	(-0.18)	(-1.59) ^c
ROA	898	11.69%	13.02%	-1.32%	(-3.15) ^a	651	11.54%	11.64%	-0.10%	-0.18
		(10.99%)	(12.43%)	(-0.87%)	(-3.48) ^a		(10.72%)	(11.92%)	(-0.26%)	(-2.23) ^a
Operating margin	865	17.15%	19.45%	-2.30%	-5.23 ^a	625	17.02%	19.24%	-2.22%	-4.22 ^a
		(14.48%)	(16.60%)	(-1.19%)	(-3.57) ^a		(14.02%)	(16.40%)	(-1.05%)	(-2.61) ^a

Panel B: Performance changes for the U.S. sample firms that have continuous performance data from one year before to two years after receiving a shareholder proposal

	#obs	One year before	Proposal year		One year after		Two years after	
		(t-1)	Mean (Median)	Mean (Median)	(t)-(t-1)	Mean (Median)	(t+1)-(t) (t+1)-(t-1)	Mean (Median)
Stock return	658	-5.90% (-7.97%)	7.53% (4.57%)	13.43% ^a	8.24% (6.34%)	0.71% 14.14% ^a	8.27% (5.09%)	0.03% 0.74% 14.17% ^a
EPS (\$)	653	1.38 (1.44)	1.32 (1.34)	-0.07	1.33 (1.37)	0.02 -0.05	1.57 (1.56)	0.23 0.25 ^a 0.19 ^b
ROA	694	12.76% (12.09%)	11.86% (11.34%)	-0.89 ^a	11.47% (10.81%)	-0.39% -1.28% ^a	11.64% (10.81%)	0.17% -0.23% -1.12% ^a
Operating margin	688	17.31% (14.63%)	16.74% (14.20%)	-0.57%	16.79% (13.95%)	-0.52% (0.05%)	17.18% (14.01%)	0.39% 0.44% -0.13%

Table 9: Investment opportunities before and after receiving a shareholder proposal - the US evidence

This table examines growth prospects surrounding the event of receiving a shareholder proposal for the US sample. Panel A reports the results from univariate comparison between the sample and matching firms. To qualify as a match, the firm cannot receive a shareholder proposal in the match year (the year that the sample firm receives a shareholder proposal), comes from the same Fama and French industry, and has a market value of equity within 25% of that of the sample firm. If more than one matching firm meets those criteria, we choose the one with the closest MVE. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10% based on one-tailed Paired *t*-tests or Wilcoxon tests (in parentheses), respectively. Panel B reports the mean and median values for the sample firms that have data on the reported variables for the four-year event window. Next to the mean and median values are the mean differences across years. For example, $(t+1)-(t)$ is the mean difference between the proposal year's value and the previous year's. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10%, respectively, based on one-tailed Wilcoxon tests. *Market-to-book ratio* is the ratio of market value to book value of assets. *Sales growth* is the ratio of current year net sales over the previous year's. *Capital expenditure* is the ratio of spending in property, plant, and equipment over total assets. We truncate *MTB* and *sales growth* at 1%, because they exhibit extreme outliers.

Panel A: Univariate comparison of investment opportunities before and after shareholder proposals for the U.S. sample and matching firms

	#Pairs	Sample	Match	Dif	Test statistics	#Pairs	Sample	Match	Dif	Test statistics
		Mean (Median)	Mean (Median)	Mean (Median)	Paired <i>t</i> -stat (Wilcoxon <i>z</i> -stat)		Mean (Median)	Mean (Median)	Mean (Median)	Paired <i>t</i> -stat (Wilcoxon <i>z</i> -stat)
		One year before the proposal year					The proposal year			
Market-to-book ratio	1,079	1.75 (1.31)	2.08 (1.52)	-0.33 (-0.12)	-7.47 ^a (-7.56) ^a	1,081	1.70 (1.32)	2.08 (1.52)	-0.38 (-0.11)	-8.61 ^a (-7.91) ^a
Sales growth	1,076	7.04% (4.97%)	12.80% (9.54%)	-5.76% (-4.43%)	-7.03 ^a (-8.07) ^a	1,075	6.77% (5.51%)	12.11% (10.10%)	-5.34% (-4.83%)	-5.77 ^a (-7.72) ^a
Capital expenditure	991	5.52% (4.39%)	5.88% (4.54%)	-0.36% (0.03%)	-1.98 ^b (-0.61)	998	5.21% (4.21%)	5.75% (4.38%)	-0.53% (-0.01%)	-2.88 ^a (-1.47) ^c
		One year after the proposal year					Two years after the proposal year			
Market-to-book ratio	876	1.66 (1.33)	2.00 (1.54)	-0.35 (-0.09)	-7.23 ^a (-6.28) ^a	629	1.64 (1.33)	1.88 (1.51)	-0.24 (-0.06)	-4.99 ^a (-4.17) ^a
Sales growth	870	6.00% (5.39%)	10.77% (9.72%)	-4.76% (-3.75%)	-5.34 ^a (-6.96) ^a	626	6.25% (6.07%)	8.74% (8.70%)	-2.49% (-2.44%)	-2.58 ^a (-2.88) ^a
Capital expenditure	814	5.03% (4.06%)	5.54% (4.45%)	-0.51% (-0.03%)	-2.85 ^a (-1.25)	594	4.78% (3.94%)	5.22% (4.09%)	-0.43% (-0.03%)	-2.14 ^b (-0.70)

Panel B: Investment opportunities for the U.S. sample firms that have continuous data from one year before to two years after receiving a shareholder proposal

	#obs	One year before (t-1)	Proposal year (t)	One year after (t+1)	Two years after (t+2)
		Mean (Median)	Mean (Median)	Mean (Median)	Mean (Median)
					$(t+2)-(t+1)$
					$(t+2)-(t)$
					$(t+2)-(t-1)$
Market-to-book ratio	669	1.74 (1.28)	1.67 (1.28)	-0.067	-0.003 -0.024 ^a -0.090 ^a
Sales growth	652	5.30% (3.12%)	5.12% (3.76%)	-0.18%	0.95% ^a 1.07% ^a 0.89% ^a
Capital expenditure	623	6.10% (5.15%)	5.49% (4.49%)	-0.61% ^a	-0.24% -0.77% ^a -1.38% ^a

Table 10: Corporate policies before and after receiving a shareholder proposal - the US evidence

This table examines corporate policies surrounding the event of receiving a shareholder proposal for the US sample. Panel A reports the results from univariate comparison between the sample and the matching firms. To qualify as a match, the firm cannot receive a shareholder proposal in the match year (the year that the sample firm receives a shareholder proposal), comes from the same Fama and French industry, and has a market value of equity within 25% of the sample firm's MVE. If more than one matching firm meets those criteria, we choose the one with the closest MVE. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10% based on one-tailed Paired *t*-test or Wilcoxon test (in parentheses), respectively. Panel B reports the mean and median values for the sample firms that have data on the reported variables for the four-year event window. Next to mean and median values are the mean differences (in italic) across years. For example, $(t+1)-(t)$ is the mean difference between the proposal year's value and the previous year's. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10%, respectively, based on one-tailed Wilcoxon tests. *Debt ratio* is the total debt over total assets. *Payout ratio* is the sum of common and preferred dividends plus share repurchases over earnings before interest and taxes. *CEO total pay* is the sum of CEO salary, bonus, option and stock awards, long-term incentive pay, and other annual payments. *CEO pay-for-performance sensitivity* is the change in the value of CEO's option portfolio with respect to \$1,000 change in firm value. We follow the one-year approximation method of Core and Guay (2002) to compute the value of CEO option portfolio. In computing option value, we use the Black-Scholes (1973) method, assuming options are granted at the money with a seven-year maturity and the grant price is the closing stock price from the previous fiscal year. We follow Yermack (1995) to compute CEO pay-for-performance sensitivity. We obtain the value of CEO salary, bonus, stock awards, long-term incentive pay, and other annual payments directly from EXECUCOMP. We obtain variables required to compute option value from CRSP (stock price), EXECUCOMP (stock return volatility and dividend yields), and WRDs (the risk-free rate).

Panel A: Univariate comparison of corporate policies before and after shareholder proposals for the U.S. sample and matching firms

	Sample		Match	Dif		Test statistics		Sample		Match	Dif		Test statistics	
	Mean	Mean	Mean	Mean	Paired t-stat	Mean	Paired t-stat	Mean	Mean	Mean	Paired t-stat	Mean	Paired t-stat	
	#Pairs	(Median)	(Median)	(Median)	(Wilcoxon z-stat)	#Pairs	(Median)	(Median)	(Median)	(Median)	(Median)	(Median)	(Wilcoxon z-stat)	
		One year before the proposal year						The proposal year						
Debt ratio	1,094	22.30%	18.86%	3.44%	5.74 ^a	1,097	22.07%	18.27%	3.80%	6.42 ^a				
		(22.62%)	(16.55%)	(1.87%)	(5.60) ^a		(21.66%)	(16.00%)	(2.18%)	(6.27) ^a				
Payout ratio	895	22.48%	24.59%	-2.11%	-1.88 ^c	909	23.66%	26.15%	-2.50%	-2.20 ^b				
		(17.19%)	(17.35%)	(0.00%)	(-0.84)		(17.29%)	(18.23%)	(0.00%)	(-1.55) ^c				
CEO total pay (\$000)	688	40,181	60,608	-20,427	-3.06 ^a	681	38,483	60,352	-21,869	-2.98 ^a				
		(18,125)	(22,340)	(-4,215)	(-2.68) ^a		(18,103)	(24,922)	(-6,819)	(-3.40) ^a				
CEO pay-for-performance sensitivity	689	7.35	10.64	-3.28	-4.00 ^a	692	7.32	10.33	-3.01	-4.22 ^a				
		(3.76)	(6.08)	(-2.32)	(-4.70) ^a		(3.87)	(6.08)	(-2.21)	(-5.19) ^a				
		One year after the proposal year						Two years after the proposal year						
Debt ratio	883	22.29%	18.22%	4.07%	6.09 ^a	637	21.64%	18.90%	2.74%	3.62 ^a				
		(20.88%)	(16.29%)	(2.83%)	(5.85) ^a		(20.32%)	(16.52%)	(2.21%)	(3.89) ^a				
Payout ratio	743	24.50%	27.18%	-2.68%	-1.81 ^c	523	25.09%	29.11%	-4.02%	2.25 ^b				
		(17.27%)	(18.41%)	(-0.77%)	(-1.50) ^c		(18.24%)	(19.10%)	(-0.84%)	(3.71) ^a				
CEO total pay (\$000)	556	33,167	51,264	-18,097	-4.24 ^a	396	32,236	43,005	-10,769	-2.58 ^a				
		(17,207)	(21,397)	(-4,190)	(-2.56) ^a		(18,347)	(19,887)	(-1,540)	(-1.13)				
CEO pay-for-performance sensitivity	565	6.90	10.36	-3.45	-4.61 ^a	408	7.93	8.84	-0.91	-0.87				
		(4.08)	(6.08)	(-2.00)	(-5.03) ^a		(4.08)	(5.81)	(-2.00)	(-3.11) ^a				

Panel B: Corporate policies for the U.S. sample firms that have continuous data coverage from one year before to two years after receiving a shareholder proposal

	#obs	One year before	Proposal year		One year after		Two years after	
		(t-1)	(t)	(t)-(t-1)	(t+1)	(t+1)-(t)	(t+2)	(t+2)-(t+1)
		Mean (Median)	Mean (Median)		Mean (Median)	(t+1)-(t) (t+1)-(t-1)	Mean (Median)	(t+2)-(t) (t+2)-(t-1)
Debt ratio	687	22.31% (23.16%)	22.41% (22.95%)	0.10%	22.08% (21.71%)	-0.32% -0.23%	21.17% (19.70%)	-0.92% -1.24% ^b -1.15% ^c
Payout ratio	543	21.90% (17.18%)	20.11% (16.28%)	-1.79% ^c	21.19% (15.81%)	1.08% -0.71%	24.60% (17.93%)	3.41% ^a 4.49% ^a 2.70%
CEO total pay (\$000)	446	37,966 (13,801)	33,713 (14,808)	-4,253	30,584 (15,752)	-3,129 -7,382	30,823 (16,626)	239 -2,890 ^b -7,143 ^b
CEO pay-for-performance sensitivity	474	7.25 (3.44)	7.78 (3.88)	0.53	7.68 (4.46)	-0.09 0.43	8.56 (4.09)	0.88 0.79 1.31

Table 11: The impact of shareholder proposals on firm operation and board structure – the UK evidence

Panel A reports the mean and median values for the UK firms that have data coverage on the key financial variables the year before, of, and after receiving a shareholder proposal. Next to the mean and median values are the mean differences across years. For example, $(t+1)-(t)$ is the mean difference between the proposal year's value and the previous year's. ^{a, b} and ^c denote the significance levels at 1%, 5% and 10%, respectively, based on one-tailed Wilcoxon tests. Panel B reports the mean and median values of board attributes before and after the proposal year. We use Paired t-test and Wilcoxon tests to compare the changes in board size and %non-executive directors on the board before and after receiving a shareholder proposal, and find no statistical significance in the differences. We use Chi-square tests and Fisher exact tests to compare the changes in the percentage of sample firms having combined CEO and Chairman positions, and fail to detect any statistical significance.

Panel A: Firm operation surrounding shareholder proposals

	#obs	One year before	Proposal year		One year after	
		(t-1)	(t)	(t)-(t-1)	(t+1)	(t+1)-(t)
		Mean (Median)	Mean (Median)		Mean (Median)	(t+1)-(t) (t+1)-(t-1)
Total Assets (\$MM)	54	7,523 (69)	8,645 (61)	1,122	9,209 (58)	564 1,685
Stock return	25	-9.30% (-0.65%)	8.85% (4.24%)	18.15% ^c	5.73% (4.24%)	-3.12% 15.03%
EPS (\$)	40	-0.171 (-0.001)	-0.046 (-0.020)	0.126	0.031 (-0.009)	0.077 0.202
ROA	54	-7.43% (2.57%)	-14.47% (-6.33%)	-7.04% ^b	-8.54% (0.13%)	5.93% -1.11%
Sales growth	47	17.74% (4.14%)	0.64% (0.75%)	-17.10% ^c	-2.77% (0.00%)	-3.41% -20.50% ^b
Debt ratio	54	49.02% (51.14%)	51.55% (54.12%)	2.53%	52.74% (54.87%)	1.19% 3.73%
Dividend per share	45	0.035 (0.000)	0.033 (0.000)	-0.002	0.039 (0.000)	0.005 0.003

Panel B: Board structure surrounding shareholder proposals

	#obs	Mean (Median)		
		The year before	One year after	Dif.
%Non-executive directors on the board	48	56.80% (60.00%)	58.35% (60.00%)	1.55% (0.00%)
Board size	50	7.94 (7.00)	7.64 (7.00)	-0.30 (0.00)
CEO is Chairman of the Board	46	17.39% (0.00%)	13.04% (0.00%)	-4.35% (0.00%)