

Investors' Perceptions of Activism Via Voting: Evidence from Contentious Shareholder Meetings

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Motivation

- “Activism via ownership”
 - Power to influence the firm derives from the costly acquisition of a significant equity stake (hedge fund activism, proxy contests, block/large shareholders)
 - Threat of gaining control and threat of “exit”
 - However: activism via ownership usually not available to highly diversified funds and prohibitively costly in large firms
- “Activism via voting” (or ‘low-cost’ shareholder activism; Ferri 2012)
 - Casting “dissent” votes to influence management’s actions
 - Voting in favor of shareholder proposals, voting against management proposals, withholding votes from directors up for election
 - Power to influence the firm is predicated upon:
 - Ability of the activist to build consensus among a broad spectrum of shareholders—as reflected in an often symbolic, **non-binding vote**
 - Assumption that boards will respond because “symbols have consequences” (Grundfest 1993)

Motivation (cont'd)

Pre-Enron:

- High dissent votes rare and largely inconsequential

Post-Enron:

- Increase in frequency/magnitude of “dissent votes”
 - Focus on determinants of votes (proxy advisors, mutual funds' voting, etc.)
- Dramatic increase in firm's responsiveness to votes, even when non-binding.
 - *Voting dissent associated with various governance and non-governance changes in firms' policies, **directly or indirectly** induced by the vote*
- Policy reforms and policy debate
- Shareholder votes emerged as an important performance metric, control system and communication channel
- But are there **value implications**? Or is much ado about nothing?

RQ: Does activism via voting affect value?

Arguments for **negative** effect:

- Reputation-sensitive boards will pander to unsophisticated and/or uninformed shareholders often driven by special interests, taking value-destroying actions (e.g. one-size-fits-all governance structures promoted by proxy advisors)
- Management distraction

Arguments for **positive** effect:

- Shareholders on average vote for value-enhancing changes
- Reputation-sensitive boards will better monitor management
 - Votes give 'backbone' to weak boards
- Management will respond to scrutiny and pressure
- Positive spillover effects from greater engagement

Argument for **no** effect:

- Minor changes, window dressing

Potential Approaches – Event study around...

- Regulatory events
 - Contaminated; often low ‘power’; specific provisions
- Announcements of vote-induced changes
 - Not always announced, largely anticipated, often contaminated
- Proxy filing dates
 - Contaminated; may not capture likely impact of vote
- Annual meetings (day of vote)
 - Cunat et al (2012): voting outcome largely anticipated
 - **Positive reaction to “close-call” shareholder proposals**
 - Generalizability?
 - Only speaks to perceived value of specific proposed governance provisions

Our approach

Examine **stock price reaction to “news” of activism via voting** (i.e. instances of high-dissent votes likely to affect firms’ policies) as a way capture investors’ perceptions of its value implications

- Akin to event studies around 13D filings used to infer investors’ perceptions of the net impact of HF activists’ campaigns

Challenge: define **event of interest** and **event window**

- Event of interest: “**contentious**” meetings
- Event window: the “**proxy-to-meeting**” window

Event of interest - contentious meeting

- **Contentious meeting:** meetings where the level of expected voting dissent is likely to trigger a firm's response (i.e. induce changes in firm's policies)
- Prior research shows that degree of voting dissent likely to trigger a firm's response differs by ballot item
- Hence, we develop a definition of contentious for each type of ballot item: ***director elections, management proposals, shareholder proposals***
- We further partition contentious meetings based on **past performance** (the other key determinants of firm's responsiveness to votes)

Identifying contentious shareholder proposals

- Prior studies
 - Significant jump in probability of implementation if >50% of the votes in favor (Ertimur et al. 2010; Cunat et al. 2012)
 - Voting patterns mostly reflect type of proposal
- Contentious Shareholder Proposal: if that type of (governance-related) proposal historically averages > 45% voting support (4.7% of meetings)
 - Similar results if we add as a condition a favorable ISS recommendation (4.5% of meetings classified as contentious)
 - Tabulate results using also 30%, 40% and mere presence of a governance proposal

Examples of contentious proposals: declassify board (30%), majority voting (22%), right to call special meeting (13%), submitting poison pill to shareholder approval (11%), etc.

Identifying contentious meetings - Summary

Ballot Item	Trigger*	Proxy for Expected Vote	% Meetings coded as Contentious
Shareholder Proposal	> 45%	Type of Proposal (history)	4.7%
Management Proposal	> 20%	Type of Proposal (history)	3.7%
Director Elections	> 20%	ISS “withhold” recommendation for > 1/3 of directors	14.9%

* In robustness tests, we use alternative thresholds

*Annual meeting defined as **contentious** if on the ballot there is either a contentious director election, a contentious shareholder proposal or a contentious management proposal (overall, 23% of meetings are contentious)*

Event window - “Proxy-to-meeting” window

Window over which investors form expectations about occurrence and impact of contentious votes

- **Proxy filing date**

- Meeting agenda: typically, first “news” about items on the ballot
- Contextual information affecting expectations about likelihood of a contentious vote
 - E.g.: info on directors (independence, other seats held, meetings’ attendance) may affect votes withheld in director elections

- **Between proxy filing date and meeting date**

- Public and private communications by firms, institutional investors/activists and proxy advisors
 - Proxy advisor reports, campaigns by activists, position of key investors revealed, amendment to proxy filings, management’s private meetings with investors, press coverage
- Information about peer firms’ votes and actions

Our Approach – Summary and Caveats

- **Compare abnormal returns during the proxy-to-meeting window for contentious and non-contentious meetings**
- **Caveat #1: Focus on investors' perceptions, not long-term effect on value**
 - However, perceptions informed by investors' experience of real effects of similar votes at other portfolio firms
- **Caveat #2: Focus on perceived net effect of all consequences of dissent vote, on average**
 - Same contentious vote may be perceived as having both some positive and some negative effects. We cannot speak to value implications of specific consequences of voting dissent
 - Effects may differ across firms and over time

Sample – Russell 3000, 2003-2012 (ISS VA)

- 28,729 ‘regular’ annual meetings, 220,620 ballot items:
 - 214,332 management proposals (160,500 director elections); 6,288 shareholder proposals (60% governance, 40% social/environmental)
- Proxy-to-Meeting returns: size- and market-adjusted CAR and B&H
 - Following Dimitrov and Jain (2011)

Table 1 Panel B: abnormal returns prior to proxy-to-meeting window

	Full Sample (N=26,283)	Past Losers (N=13,095)	Past Winners (N=13,168)	Difference Past Losers – Past Winners
Size-adjusted CAR (%)	0.366***	1.043***	-0.310***	1.353***
Market-adjusted CAR (%)	0.381***	1.099***	-0.336***	1.435***
Size-adjusted B&H (%)	0.541***	1.340***	-0.256**	1.596***
Market-adjusted B&H (%)	0.530***	1.375***	-0.313***	1.688***

- Positive proxy-to-meeting CAR (as in Dimitrov and Jain 2011)
- Driven by poorly performing firms (as in Dimitrov and Jain 2011)

Proxy-to-meeting returns: role of contentious votes

Table 2 Panel B (Past Losers)

Criteria for Contentious	Contentious N	Non-Cont. N	Contentious CAR %	Non-Cont. CAR %	Difference
<i>Director Elections – ISS Withhold for:</i>					
At least one director	3,655	9,369	1.552	0.808	0.744**
At least two directors	2,023	11,001	2.310	0.779	1.531***
> 1/3 of directors	1,967	11,057	2.459	0.760	1.699***
<i>Management Proposals</i>					
Historical dissent > 15%	3,822	8,012	1.781	0.706	1.075***
Historical dissent > 20%	397	11,437	4.006	0.951	3.055***
Historical dissent > 25%	191	11,643	4.368	0.999	3.369**
<i>Shareholder Proposals</i>					
At least one proposal	1,097	11,998	1.549	0.996	0.553
Historical support > 30%	801	12,294	1.883	0.988	0.895
Historical support > 40%	716	12,379	2.033	0.985	1.048*
Historical support > 45%	608	12,487	2.285	0.982	1.303**
<i>Annual Meeting</i>	2,797	9,262	2.522	0.570	1.952***

Contentious meetings associated with 1.9% higher CAR

Univariate Analysis - Summary

Across all three items proxy-to-meeting returns prior to contentious meetings:

- are significantly positive
- are significantly higher than before non-contentious meetings
- increase in the degree of contentiousness
- are driven by poorly performing firms

Consistent with investors viewing instances of voting dissent as having positive implications, on average

Alternative Explanations

1. Systematically more positive firm-specific news ahead of contentious meetings?
 - Firms facing contentious votes may be undertaking value-increasing actions in response to the problems causing shareholders' dissatisfaction in the first place
2. Contentious meetings associated with firm characteristics in turn associated with positive pre-meeting returns?
3. Risk-based explanation?
 - Higher returns prior to contentious meetings reflect risk
4. Strategic timing of good news ahead of contentious votes
 - Returns reversal after the meeting?

1. Firm-specific news (Table 5, Panel B)

Variable (in %)	Mean		
	Contentious	Non-contentious	Difference
<i>Firm-initiated Disclosures</i>			
Earnings Surprise	-0.159	-0.125	-0.033
Guidance Surprise	0.009	0.047	-0.038
8-K Filings (#)	1.991	2.058	-0.067**
3-Day CAR	0.668	0.256	0.412*
8-K Item 8.01 Filings (#)	0.336	0.347	-0.011
3-Day CAR	0.487	0.369	0.118

*No much evidence of more positive news
before contentious meetings*

Disclosures about the Firm

Forecast Revision 1-year	-0.253	-0.192	-0.061
Strong Buy Recommendation	19.225	19.011	0.215
Buy Recommendation	39.770	42.536	-2.766**
Press Articles	6.081	5.534	0.547
Press Article Sentiment	-0.004	-0.005	0.001

Other Events

13-D Filing	0.234	0.410	-0.176
3-Day CAR	4.843	3.621	1.222

Multivariate analysis (Table 6, Panel A)

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.011*	0.06	0.013**	0.04	0.005	0.13
Earnings Surprise Indicator	-0.004	0.27	0.007	0.17	-0.016***	<.01
Earnings Surprise ^a	3.423***	<.01	3.033***	<.01	4.234***	<.01
Guidance Indicator	-0.010	0.10	-0.009*	0.10	-0.005	0.21
Guidance Surprise ^a	6.670***	<.01	8.412***	<.01	5.104***	<.01
Press Release Sentiment	-0.004	0.93	-0.015	0.81	0.068	0.23
# 8-K Filings	-0.001**	0.05	-0.001**	0.07	-0.001**	0.02
Share Buyback	0.005	0.51	0.019	0.14	-0.005	0.60
Forecast Revision Indicator	0.007**	0.04	0.001	0.81	0.011**	0.02
Forecast Revision ^a	0.029***	0.01	0.125**	0.03	0.013***	0.01
Recommendation Indicator	-0.014**	0.03	-0.021***	<.01	-0.012***	0.01
Buy Recommendation ^a	0.046***	<.01	0.066***	<.01	0.030***	<.01
Press Article Sentiment	0.177***	<.01	0.217***	<.01	0.153***	<.01
13-D Filing	0.108***	<.01	0.132***	<.01	0.071***	<.01
Past Returns	-0.017	0.21	-0.082	0.23	-0.008	0.11
Firm Size	-0.003**	0.01	-0.000	0.92	-0.004***	0.01
Book-to-Market	0.017***	<.01	0.014***	<.01	0.003	0.39
Days from Proxy to Meeting	0.000	0.26	0.001	0.13	0.000	0.44
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	20,066		9,866		10,200	
Adjusted R ²	0.070		0.146		0.068	

Contentious meetings associated with 1.3% higher CAR

2. Firm Characteristics (Table 4, Panel A)

- Firm characteristics differ between contentious and non-contentious meetings (size, governance, etc.).
- However: no obvious characteristic associated with contentious votes **and** likely to explain the positive CAR during the proxy-to-meeting window.
 - Known characteristics. Should be priced *prior* to the proxy-meeting window.
 - Results hold when employing **entropy balancing (Table 6 Panel B)**

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.011*	0.07	0.017*	0.06	0.003	0.47
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	17,025		8,344		8,681	
Adjusted R ²	0.071		0.095		0.072	

2. Firm Characteristics (Table 4, Panel B-D)

Firm characteristics associated with contentious votes *differ* by contentious item

- Since results holds across the three items, it should be the case that *different* characteristics associated with *different* types of contentious votes all happen to explain the positive CAR during the proxy-to-meeting window.
- **Table 6: Panel C**

Contentious Item	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Shareholder Proposal	0.007*	0.06	0.014***	<.01	-0.003	0.51
Management Proposal	0.009	0.15	0.014*	0.07	0.000	0.96
Director Election	0.0134**	0.03	0.012**	0.04	0.010**	0.04
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	19,504		9,603		9,901	
Adjusted R ²	0.071		0.149		0.069	

3. Risk factors?

- We control for proxies for risk factors (size, book-to-market, past returns)
- In entropy balancing test, we match on a number of observable characteristics, potentially associated with risk factors
- In Table 6, Panel D, we re-run main test using abnormal returns adjusted for Fama-French risk factors (instead of size-adjusted abnormal returns)

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.009**	0.05	0.012**	0.04	0.003	0.36
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	19,452		9,540		9,912	
Adjusted R ²	0.112		0.119		0.098	

- **Fig. 1 and Fig. 2:** returns pattern unique to proxy-to-meeting window

Fig.1 Full sample

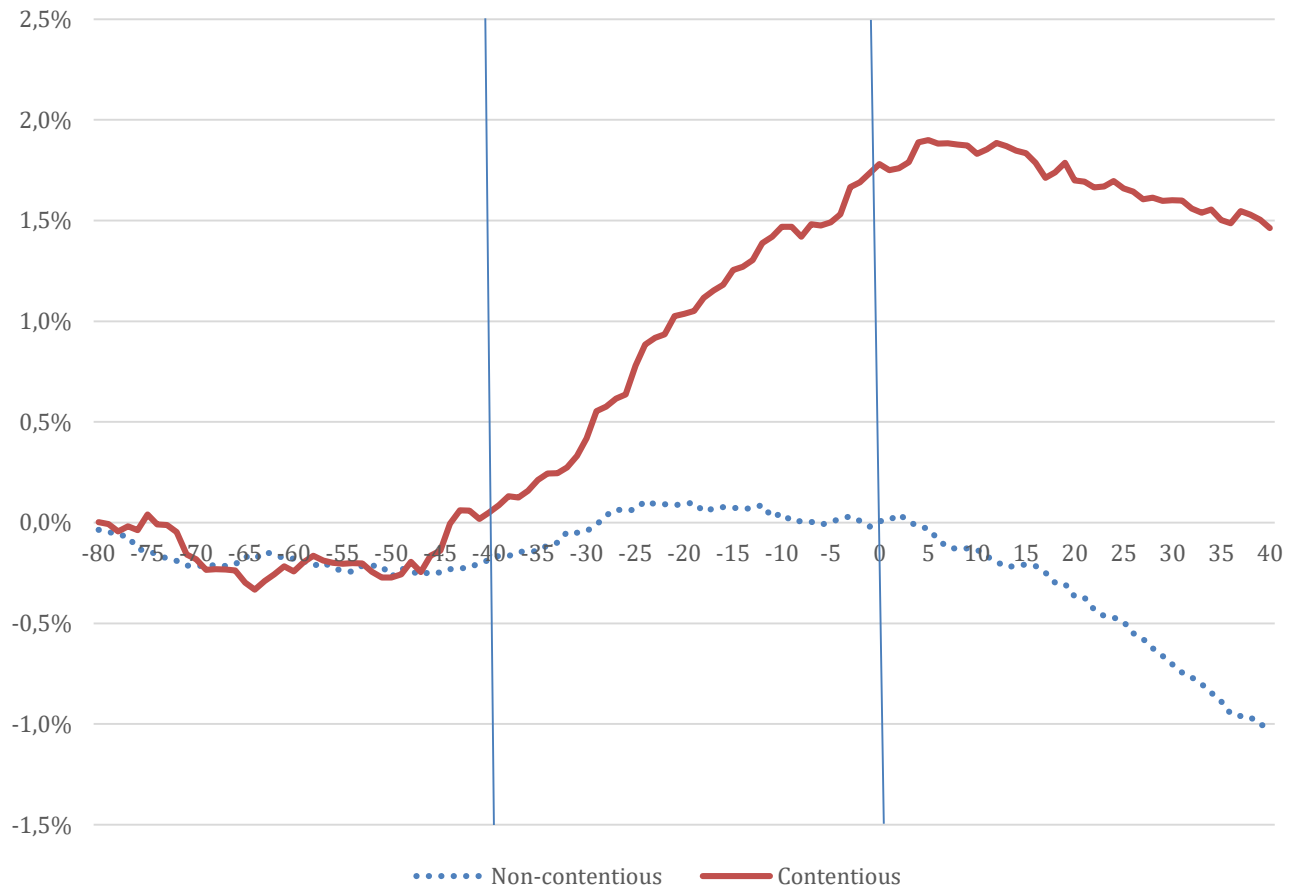
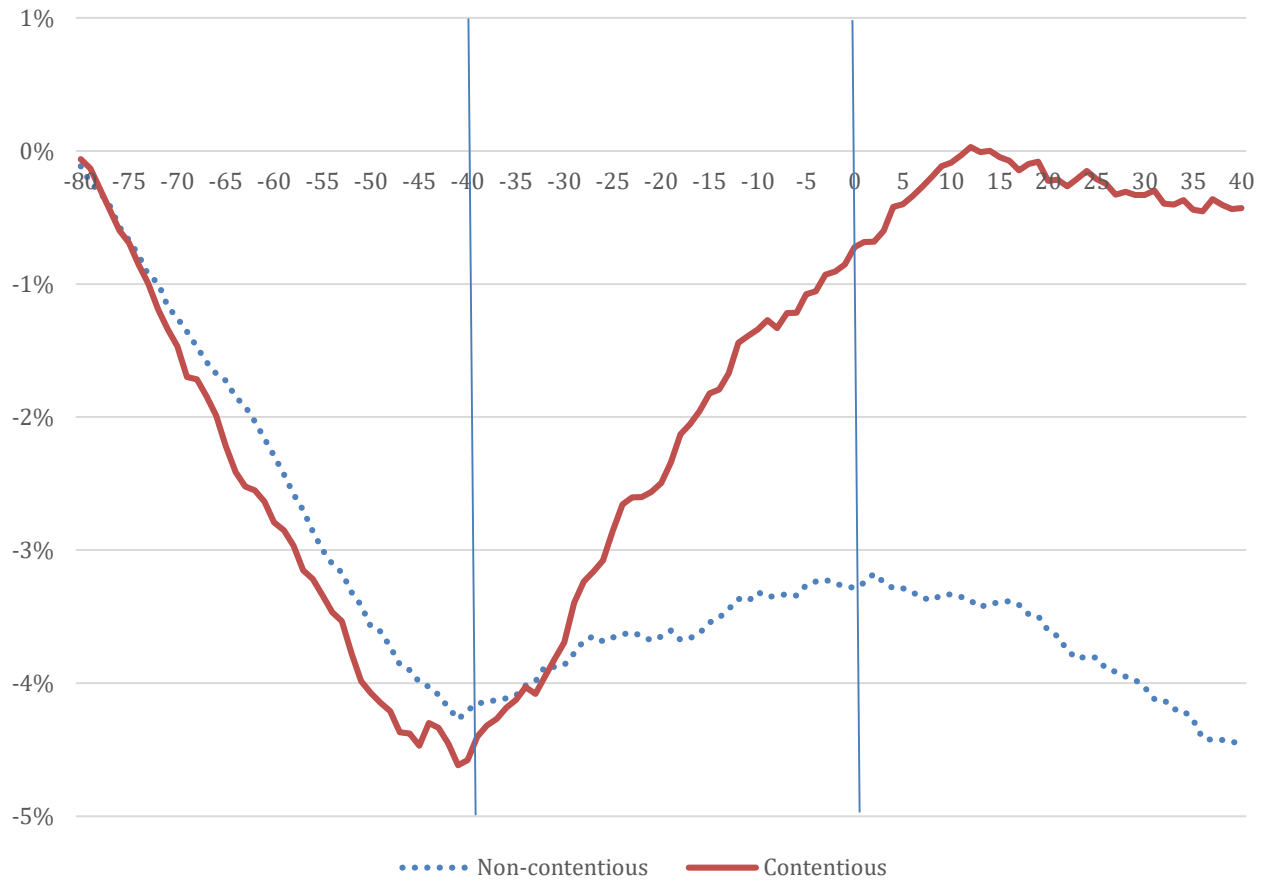


Fig.2 Past Losers



Summary of findings

- Developed ex ante measures of degree of *contentiousness* of annual meeting based on type of items on the ballot and expected voting outcomes
- Documented positive association between *degree* of contentiousness and proxy-to-meeting CAR, driven by poorly performing firms
 - Positive CAR unique to this window, no price reversal
 - Results do not appear to be driven by firm-specific news during the proxy-to-meeting window, or by firm characteristics
- Consistent with investors expecting **activism via voting** to have positive effects on firm value, on average, among poorly performing firms

Contribution

Literature on shareholder activism/voting: attempt to examine wealth implications of activism via voting

Literature on vote trading around proxy record dates

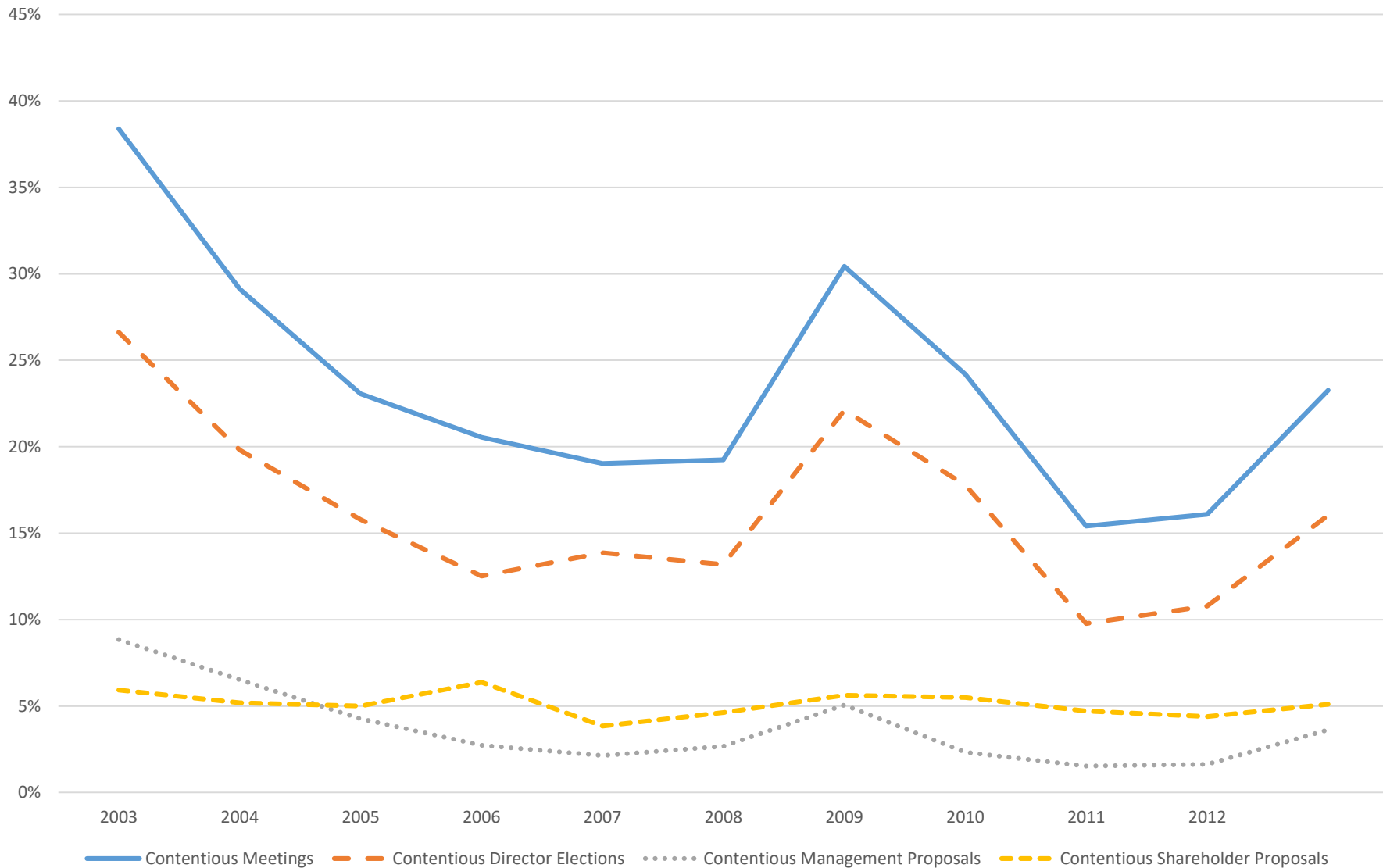
Christoffersen et al. (2007): votes' trading correlates with more (less) support for shareholder (management) proposals; vote trading higher in poorly performing firms and when vote is closer.

Aggarwal et al. (2015): investors recall loaned shares prior to record date; higher recall in poorly performing and weakly governed firms, and when there are more important proposals on the ballot; recall correlates with more (less) ex post support for shareholder (management) proposals;

Our study: our evidence that “votes matter” (in terms of shareholder wealth effects), particularly in poorly performing firms, is consistent with the evidence of substantial vote trading

Thank you!

Time-Series of Contentious Meetings and Items



Contribution

Literature on disclosures

- Proxy filings an important source of value-relevant information when contentious items are on the ballot at the annual meeting
- Extend to (non-contested) annual meetings the body of research examining information flow and disclosures around proxy contests (DeAngelo 1988; Alexander et al. 2010; Baginski et al. 2014)
- Dimitrov and Jain (2011):
 - Positive pre-meeting CAR for poorly performing firms
 - Disclosure-based explanation: favorable (unfavorable) news timed before (after) the annual meeting
- Our study:
 - Pre-meeting CAR depend on contentious nature of the meeting (after controlling for strategic disclosures)
 - Explanation: expected impact of instances of activism via voting

Example

Vote on management proposal to (re)unite the CEO-Chairman position at Bank of America

*Jack O. Bovender Jr., the bank's lead independent director, along with the vice chairwoman, Anne M. Finucane, and the vice chairman, Gary G. Lynch, have **traveled the country speaking to investors about the matter.** "We have had frank discussions about the vote that the board announced last spring," Ms. Finucane said. "**We have heard our shareholders' voices, and we will abide by their decision on Tuesday.**" ("At Bank of America, a Vote to Give Shareholders Due Respect", New York Times, September 18, 2015)*

Tables

Table 1

- Panel A: 40-day window

	Full Sample (N=27,834)	Past Losers (N=13,871)	Past Winners (N=13,943)	Difference Past Losers – Past Winners
Size-adjusted CAR (%)	0.661 ***	1.634 ***	-0.311 **	1.945 ***
Market-adjusted CAR (%)	0.750 ***	1.777 ***	-0.276 **	2.053 ***
Size-adjusted B&H (%)	0.925 ***	2.179 ***	-0.325 **	2.504 ***
Market-adjusted B&H (%)	1.030 ***	2.357 ***	-0.293 **	2.650 ***

- Panel B: Proxy-to-meeting window

	Full Sample (N=26,283)	Past Losers (N=13,095)	Past Winners (N=13,168)	Difference Past Losers – Past Winners
Size-adjusted CAR (%)	0.366 ***	1.043 ***	-0.310 ***	1.353 ***
Market-adjusted CAR (%)	0.381 ***	1.099 ***	-0.336 ***	1.435 ***
Size-adjusted B&H (%)	0.541 ***	1.340 ***	-0.256 **	1.596 ***
Market-adjusted B&H (%)	0.530 ***	1.375 ***	-0.313 ***	1.688 ***

Table 2, Panel A – Full Sample

Criteria for Contentious	Contentious N	Non-Cont. N	Contentious CAR %	Non-Cont. CAR %	Difference
<i>Director Elections – ISS Withhold for:</i>					
At least one director	7,316	18,809	0.705	0.218	0.487**
At least two directors	3,932	22,193	1.076	0.227	0.849***
> 1/3 of directors	3,849	22,276	1.314	0.189	1.125***
<i>Management Proposals</i>					
Historical dissent > 15%	8,135	15,603	0.675	0.227	0.448**
Historical dissent > 20%	860	22,878	1.835	0.326	1.509***
Historical dissent > 25%	333	23,405	3.050	0.343	2.707***
<i>Shareholder Proposals</i>					
At least one proposal	2,162	24,121	0.405 [†]	0.362	0.043
Historical support > 30%	1,593	24,690	0.455 [†]	0.360	0.095
Historical support > 40%	1,434	24,849	0.403 [†]	0.364	0.039
Historical support > 45%	1,226	25,057	0.639	0.353	0.286
<i>Annual Meeting</i>	5,577	18,625	1.222	0.093 [†]	1.129***

Table 2, Panel B – Past Losers

Criteria for Contentious	Contentious N	Non-Cont. N	Contentious CAR %	Non-Cont. CAR %	Difference
<i>Director Elections – ISS Withhold for:</i>					
At least one director	3,655	9,369	1.552	0.808	0.744**
At least two directors	2,023	11,001	2.310	0.779	1.531***
> 1/3 of directors	1,967	11,057	2.459	0.760	1.699***
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Historical support > 40%	716	12,379	2.033	0.985	1.048*
Historical support > 45%	608	12,487	2.285	0.982	1.303**
<i>Annual Meeting</i>	2,797	9,262	2.522	0.570	1.952***

Table 2, Panel C – Past Winners

Criteria for Contentious	Contentious N	Non-Cont. N	Contentious CAR %	Non-Cont. CAR %	Difference
<i>Director Elections – ISS Withhold for:</i>					
At least one director	3,647	9,434	-0.148 [†]	-0.370	0.222
At least two directors	1,901	11,180	-0.216 [†]	-0.324	0.108
> 1/3 of directors	1,876	11,205	0.125 [†]	-0.381	0.506
<i>Management Proposals</i>					
Historical dissent > 15%	5,435	7,931	0.062 [†]	-0.158 [†]	0.220
Historical dissent > 20%	726	12,640	0.545 [†]	-0.104 [†]	0.649
Historical dissent > 25%	161	13,205	1.620 [†]	-0.090 [†]	1.710
<i>Shareholder Proposals</i>					
At least one proposal	1,254	13,545	-0.641	-0.055 [†]	-0.586*
Historical support > 30%	932	13,867	-0.888	-0.052 [†]	-0.836**
Historical support > 40%	842	13,957	-1.126	-0.043 [†]	-1.083***
Historical support > 45%	741	14,058	-0.912	-0.062 [†]	-0.850*
<i>Annual Meeting</i>	2,958	9,879	-0.082 [†]	-0.403	0.321

Table 3: Stock Returns around Proxy Filing Dates

	Contentious	Non-Cont.	Contentious	Non-Cont.	Difference
	N	N	CAR %	CAR %	
Full Sample					
Director Elections	3,839	20,541	0.31%	0.05%†	0.26%***
Management Proposals	858	18,729	0.19%†	0.05%†	0.14%
Shareholder Proposals	1,225	20,677	0.24%	0.05%	0.19%
Annual Meeting	5,564	18,597	0.27%	0.05%†	0.22%***
Past Losers					
Director Elections	1,969	10,235	0.54%	0.11%	0.43%***
Management Proposals	397	9,323	0.43%†	0.11%	0.32%
Shareholder Proposals	608	10,299	0.51%	0.12%	0.39%*
Annual Meeting	2,799	9,262	0.51%	0.11%	0.40%***
Past Winners					
Director Elections	1,870	10,306	0.07%†	-0.01%†	0.08%
Management Proposals	471	9,407	-0.02%†	-0.01%†	-0.01%
Shareholder Proposals	617	10,378	-0.02%†	-0.01%†	-0.01%
Annual Meeting	2,765	9,335	0.02%†	-0.01%†	0.03%

Table 4, Panel A

	Full Sample			Past Losers		
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference
<i>Financial characteristics and performance</i>						
Total Assets	8112.8	6217.7	1895.1 ***	8618.3	6473.1	2145.2 ***
Market Cap	6702.0	4544.9	2157.1 ***	6504.5	4130.3	2374.2 ***
Book-to-Market	0.5498	0.5458	0.004	0.6347	0.6259	0.0088
Leverage	0.2385	0.2222	0.0163 ***	0.2446	0.2245	0.0201 ***
Sales Growth	0.0947	0.1101	-0.0154 ***	0.0817	0.1013	-0.0196 ***
ROA	0.0507	0.0529	-0.0022	0.0363	0.0393	-0.003
Change in ROA	0.0065	0.0092	-0.0027	-0.0077	-0.0027	-0.005
Past Return	0.0873	0.0947	-0.0074	-0.2567	-0.2328	-0.0239 ***
Volatility	0.1178	0.1067	0.0111 ***	0.1169	0.1037	0.0132 ***
<i>Ownership composition</i>						
Institutional Ownership	0.6405	0.7275	-0.087 ***	0.6392	0.7213	-0.0821 ***
Executive Ownership	0.0430	0.0308	0.0122 ***	0.0407	0.0299	0.0108 ***
<i>Governance characteristics</i>						
% Independent Directors			***			***
	0.7185	0.7679	-0.0494	0.7171	0.7667	-0.0496
% Coopted Directors	0.4600	0.4671	-0.0071	0.4572	0.4715	-0.0143
CEO-Chairman	0.7457	0.7299	0.0158	0.7553	0.7427	0.0126
Poor Meeting Attendance			***			***
	0.1462	0.0951	0.0511	0.1376	0.1001	0.0375
Indep. Dir. Ownership	0.0109	0.0133	-0.0024 ***	0.0111	0.0138	-0.0027 ***
Classified Board	0.5444	0.5408	0.0036	0.5295	0.5378	-0.0083
Poison Pill	0.3754	0.3751	0.0003	0.3722	0.3625	0.0097
ISS Governance Rating	-0.3387	0.1323	-0.471 ***	-0.3515	0.1087	-0.4602 ***
Total CEO Pay	6651.9	5067.5	1584.4 ***	6561.0	4745.8	1815.2 ***
Excess CEO Pay	0.0037	0.0238	-0.0201	0.0081	0.0011	0.00698
<i>Information environment</i>						
Analyst Following	9.578	10.101	-0.523 ***	9.899	10.242	-0.343 *
Press Articles	57.945	53.297	4.648 ***	59.205	51.987	7.219 ***
<i>Notable events</i>						
13-D Filings	0.0192	0.0208	-0.0016	0.0258	0.0268	-0.001
Restatements	0.0649	0.0594	0.0055	0.0401	0.0331	0.007
Lawsuits	0.0280	0.0217	0.0063 **	0.0683	0.0655	0.0028

Table 4, Panel B (director elections)

	Full Sample			Past Losers		
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference
<i>Financial characteristics and performance</i>						
Total Assets	3342.5	5859.3	-2516.8 ***	3733.3	6094.3	-2361.0 ***
Market Cap	2221.0	4262.8	-2041.8 ***	2052.5	3882.1	-1829.6 ***
Book-to-Market	0.5534	0.5472	0.0062	0.6301	0.6250	0.0051
Leverage	0.2361	0.2207	0.0154 ***	0.2425	0.2225	0.0200 ***
Sales Growth	0.1030	0.1099	-0.0069	0.0903	0.1004	-0.0101
ROA	0.0450	0.0538	-0.0088 ***	0.0291	0.0407	-0.0116 **
Change in ROA	0.0048	0.0086	-0.0038	-0.0077	-0.0033	-0.0044
1-Year Return	0.0877	0.0934	-0.0057	-0.2671	-0.2305	-0.0366 ***
Volatility	0.1263	0.1062	0.0201 ***	0.1253	0.1034	0.0219
<i>Ownership composition</i>						
Institutional Ownership	0.6090	0.7202	-0.1112 ***	0.6125	0.7183	-0.1058 ***
Executive Ownership	0.0597	0.0324	0.0273 ***	0.0553	0.0315	0.0238 ***
<i>Governance characteristics</i>						
% Independent Directors						
	0.6872	0.7638	-0.0766 ***	0.6869	0.7628	-0.0759 ***
% Coopted Directors	0.4915	0.4679	0.0236 **	0.5033	0.4710	0.0323 **
CEO-Chairman	0.7170	0.7269	-0.0099	0.7231	0.7142	0.0089
Poor Meeting Attendance						
	0.1598	0.0966	0.0632 ***	0.1448	0.1016	0.0433 ***
Indep. Dir. Ownership	0.0140	0.0134	0.0006	0.0146	0.0140	0.0006
Classified Board	0.5444	0.5449	-0.0005	0.5295	0.5406	-0.0111
Poison Pill	0.3754	0.3769	-0.0015	0.3722	0.3639	0.0083
ISS Governance Rating	-0.4626	0.1144	-0.5770 ***	-0.4694	0.0945	-0.5640 ***
Total CEO Pay	4941.3	4945.0	-3.7	5030.0	4626.1	403.9
Excess CEO Pay	-0.0175	0.0285	-0.0460 **	-0.0306	0.0069	-0.0375
<i>Information environment</i>						
Analyst Following	7.257	9.713	-2.456 ***	7.711	9.851	-2.139 ***
Press Articles	36.759	50.593	-13.834 ***	36.954	49.602	-12.648 ***
<i>Notable events</i>						
13-D Filings	0.0191	0.0209	-0.0019	0.0243	0.0267	-0.0024
Restatements	0.0706	0.0610	0.0096 **	0.0767	0.0667	0.0100
Lawsuits	0.0252	0.0217	0.0035	0.0371	0.0331	0.0040

Table 4, Panel C (management proposals)

	Full Sample			Past Losers		
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference
<i>Financial characteristics and performance</i>						
Total Assets	4420.5	6185.9	-1765.4 ***	5274.2	6437.9	-1163.7
Market Cap	2779.7	4530.3	-1750.6 ***	2730.4	4111.2	-1380.8 ***
Book-to-Market	0.5702	0.5455	0.0247	0.7260	0.6251	0.1009 **
Leverage	0.2107	0.2220	-0.0113	0.2201	0.2241	-0.0040
Sales Growth	0.1156	0.1102	0.0054	0.0932	0.1010	-0.0078
ROA	0.0304	0.0525	-0.0222 ***	0.0108	0.0386	-0.0278 **
Change in ROA	0.0226	0.0094	0.0132	-0.0096	-0.0026	-0.0070
1-Year Return	0.1415	0.0951	0.0464 **	-0.2725	-0.2329	-0.0396 ***
Volatility	0.1304	0.1071	0.0233 ***	0.1266	0.1041	0.0225 ***
<i>Ownership composition</i>						
Institutional Ownership	0.6722	0.7262	-0.0540 ***	2730.4	4111.2	-1380.8 ***
Executive Ownership	0.0448	0.0308	0.0140 ***	0.7260	0.6251	0.1009 **
<i>Governance characteristics</i>						
% Independent Directors						
	0.7174	0.7679	-0.0504 ***	0.7275	0.7667	-0.0392 ***
% Coopted Directors	0.5294	0.4673	0.0621 ***	0.5037	0.4714	0.0323
CEO-Chairman	0.6861	0.7357	-0.0496 **	0.6738	0.7210	-0.0472
Poor Meeting Attendance						
	0.1338	0.0951	0.0387 **	0.1500	0.1001	0.0499 *
Indep. Dir. Ownership	0.0137	0.0133	0.0004	0.0117	0.0138	-0.0021
Classified Board	0.4752	0.5349	-0.0597 **	0.4575	0.5316	-0.0741 **
Poison Pill	0.4539	0.3660	0.0879 ***	0.4528	0.3531	0.0997 ***
ISS Governance Rating	0.0024	0.1295	-0.1271 ***	0.0259	0.1057	-0.0798
Total CEO Pay	4792.9	5077.3	-284.4	5385.1	4742.6	642.5
Excess CEO Pay	0.0366	0.0391	-0.0025	0.1114	0.0158	0.0956
<i>Information environment</i>						
Analyst Following	9.128	10.080	-0.952 ***	10.242	10.217	0.024
Press Articles	41.999	52.823	-10.824 ***	50.247	51.736	-1.490
<i>Notable events</i>						
13-D Filings	0.0205	0.0208	-0.0003	0.0256	0.0268	-0.0012
Restatements	0.0605	0.0599	0.0006	0.0465	0.0656	-0.0191 *
Lawsuits	0.0249	0.0220	0.0029	0.0419	0.0331	0.0088

Table 4, Panel D (shareholder proposals)

	Full Sample			Past Losers		
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference
<i>Financial characteristics and performance</i>						
Total Assets	25894.6	5846.3	20048.3 ***	27471.4	6078.4	21393.0 ***
Market Cap	23359.8	4252.2	19107.6 ***	23095.0	3867.8	19227.2 ***
Book-to-Market	0.5438	0.5470	-0.0032	0.6314	0.6245	0.0068
Leverage	0.2701	0.2205	0.0496 ***	0.2745	0.2221	0.0524 ***
Sales Growth	0.0464	0.1097	-0.0633 ***	0.0262	0.1001	-0.0739 ***
ROA	0.0848	0.0535	0.0313 ***	0.0769	0.0401	0.0368 ***
Change in ROA	-0.0032	0.0088	-0.0120 ***	-0.0111	-0.0032	-0.0079 ***
1-Year Return	0.0409	0.0937	-0.0528 ***	-0.2164	-0.2306	0.0142 **
Volatility	0.0825	0.1065	-0.0240 ***	0.0841	0.1038	-0.0197 ***
<i>Ownership composition</i>						
Institutional Ownership	0.7403	0.7191	0.0212 **	0.7333	0.7175	0.0158 ***
Executive Ownership	0.0159	0.0324	-0.0165 ***	0.0159	0.0315	-0.0156 ***
<i>Governance characteristics</i>						
% Independent Directors			***			
	0.7893	0.7637	0.0256	0.7899	0.7628	0.0271 ***
% Coopted Directors	0.4056	0.4678	-0.0622 ***	0.3861	0.4709	-0.0848 ***
CEO-Chairman	0.8185	0.7264	0.0921	0.7916	0.7026	0.0890 ***
Poor Meeting Attendance			***			
	0.1230	0.0967	0.0264	0.1159	0.1016	0.0143
Indep. Dir. Ownership	0.0071	0.0135	-0.0065 ***	0.0079	0.0140	-0.0062 ***
Classified Board	0.5573	0.5443	0.0130	0.5595	0.5399	0.0196
Poison Pill	0.3533	0.3768	-0.0235	0.3410	0.3637	-0.0227
ISS Governance Rating	0.1436	0.1119	0.0317	0.1038	0.0919	0.0119
Total CEO Pay	9839.5	4946.9	4892.6 ***	9377.6	4623.5	4754.1 ***
Excess CEO Pay	0.0703	0.0283	0.0420 **	0.0221	0.0063	0.0158
<i>Information environment</i>						
Analyst Following	17.847	9.697	8.149 ***	17.419	9.832	7.587 ***
Press Articles	138.90	50.34	88.56 ***	141.0	49.4	91.6 ***
<i>Notable events</i>						
13-D Filings	0.0207	0.0209	-0.0002	0.0337	0.0267	0.0070
Restatements	0.0552	0.0611	-0.0059	0.0613	0.0668	-0.0055
Lawsuits	0.0437	0.0217	0.0220 ***	0.0567	0.0332	0.0235 *

Table 5, Panel A

Variable (in %)	Mean		
	Contentious	Non-contentious	Difference
<i>Firm-initiated Disclosures</i>			
Earnings Surprise	-0.102	-0.025	-0.077
Guidance Surprise	0.104	0.039	0.066
8-K Filings (#)	1.971	2.040	-0.070**
3-Day CAR	0.349	0.202	0.146
8-K Item 8.01 Filings (#)	0.361	0.353	0.008
3-Day CAR	0.053	0.239	-0.186
Share Buyback	1.686	2.144	-0.457**
3-Day CAR	1.760	1.531	0.229
Firm-Initiated Press Releases	2.775	2.551	0.224***
Press Release Sentiment	0.011	0.012	-0.001**
<i>Disclosures about the Firm</i>			
Forecast Revision 1-year	-0.083	-0.054	-0.032
Strong Buy Recommendation	20.300	21.255	-0.956
Buy Recommendation	44.005	46.047	-2.041**
Press Articles	6.260	5.784	0.476***
Press Article Sentiment	-0.003	-0.005	0.001**
<i>Other Events</i>			
13-D Filing	0.169	0.311	-0.143**
3-Day CAR	3.729	3.751	-0.022

Table 5, Panel B

Variable (in %)	Mean		
	Contentious	Non-contentious	Difference
<i>Firm-initiated Disclosures</i>			
Earnings Surprise	-0.159	-0.125	-0.033
Guidance Surprise	0.009	0.047	-0.038
8-K Filings (#)	1.991	2.058	-0.067**
3-Day CAR	0.668	0.256	0.412
8-K Item 8.01 Filings (#)	0.336	0.347	-0.011
3-Day CAR	0.497	0.269	0.228
Share Buyback	1.840	2.265	-0.457**
3-Day CAR	2.351	2.160	0.192
Firm-Initiated Press Releases	2.843	2.574	0.269***
Press Release Sentiment	0.009	0.011	-0.001**
<i>Disclosures about the Firm</i>			
Forecast Revision 1-year	-0.253	-0.192	-0.061
Strong Buy Recommendation	19.225	19.011	0.215
Buy Recommendation	39.770	42.536	-2.766**
Press Articles	6.081	5.534	0.547
Press Article Sentiment	-0.004	-0.005	0.001
<i>Other Events</i>			
13-D Filing	0.234	0.410	-0.176
3-Day CAR	4.843	3.621	1.222

Table 6, Panel A

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.011*	0.06	0.013**	0.04	0.005	0.13
Earnings Surprise Indicator	-0.004	0.27	0.007	0.17	-0.016***	<.01
Earnings Surprise ^a	3.423***	<.01	3.033***	<.01	4.234***	<.01
Guidance Indicator	-0.010	0.10	-0.009*	0.10	-0.005	0.21
Guidance Surprise ^a	6.670***	<.01	8.412***	<.01	5.104***	<.01
Press Release Sentiment	-0.004	0.93	-0.015	0.81	0.068	0.23
# 8-K Filings	-0.001**	0.05	-0.001**	0.07	-0.001**	0.02
Share Buyback	0.005	0.51	0.019	0.14	-0.005	0.60
Forecast Revision Indicator	0.007**	0.04	0.001	0.81	0.011**	0.02
Forecast Revision ^a	0.029***	0.01	0.125**	0.03	0.013***	0.01
Recommendation Indicator	-0.014**	0.03	-0.021***	<.01	-0.012***	0.01
Buy Recommendation ^a	0.046***	<.01	0.066***	<.01	0.030***	<.01
Press Article Sentiment	0.177***	<.01	0.217***	<.01	0.153***	<.01
13-D Filing	0.108***	<.01	0.132***	<.01	0.071***	<.01
Past Returns	-0.017	0.21	-0.082	0.23	-0.008	0.11
Firm Size	-0.003**	0.01	-0.000	0.92	-0.004***	0.01
Book-to-Market	0.017***	<.01	0.014***	<.01	0.003	0.39
Days from Proxy to Meeting	0.000	0.26	0.001	0.13	0.000	0.44
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	20,066		9,866		10,200	
Adjusted R ²	0.070		0.146		0.068	

Table 6, Panel B

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.011*	0.07	0.017*	0.06	0.003	0.47
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	17,025		8,344		8,681	
Adjusted R ²	0.071		0.095		0.072	

Table 6, Panel C

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Shareholder Proposal	0.007*	0.06	0.014***	<.01	-0.003	0.51
Contentious Management Proposal	0.009	0.15	0.014*	0.07	0.000	0.96
Contentious Director Election	0.0134**	0.03	0.012**	0.04	0.010**	0.04
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	19,504		9,603		9,901	
Adjusted R ²	0.071		0.149		0.069	

Table 6, Panel D

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.009**	0.05	0.012**	0.04	0.003	0.36
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	19,452		9,540		9,912	
Adjusted R ²	0.112		0.119		0.098	

Table 7

Dependent Variable: Size-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Annual Meeting	0.016**	0.02	0.020***	0.01	0.007	0.16
Earnings Surprise Indicator	-0.032***	<.01	-0.019*	0.10	-0.047***	<.01
Earnings Surprise ^a	4.176***	<.01	4.265***	<.01	3.898***	<.01
Guidance Indicator	-0.013**	0.02	-0.014*	0.08	-0.009	0.12
Guidance Surprise ^a	8.408***	<.01	8.649***	<.01	8.313***	<.01
Press Release Sentiment	-0.026	0.79	-0.138	0.35	0.143***	0.01
# 8-K Filings	0.000	0.58	-0.001	0.17	-0.000	0.79
Share Buyback	-0.006	0.43	0.009	0.54	-0.012	0.23
Forecast Revision Indicator	0.026***	<.01	0.029***	<.01	0.018**	0.03
Forecast Revision ^a	3.293***	<.01	3.162***	<.01	3.845***	<.01
Recommendation Indicator	-0.015	0.10	-0.021*	0.08	-0.012	0.11
Buy Recommendation ^a	0.063***	<.01	0.083***	<.01	0.045***	<.01
Press Article Sentiment	0.329***	<.01	0.308***	<.01	0.401***	<.01
13-D Filing	0.043***	<.01	0.043**	0.02	0.043	0.14
Past Returns	-0.031**	0.04	-0.054	0.52	-0.024***	0.01
Firm Size	-0.009***	<.01	-0.009**	0.02	-0.009***	<.01
Book-to-Market	0.017	0.30	0.011	0.38	-0.005	0.65
Days from Proxy to Meeting	0.000	0.13	0.000	0.39	0.001	0.14
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	20,129		9,931		10,198	
Adjusted R ²	0.100		0.146		0.105	

Contribution

Literature on value relevance of governance arrangements

Gompers et al. (2003): in the 1990s positive association between quality of governance and subsequent stock returns (“surprise” argument: investors did not fully incorporate value of governance into stock prices)

Bebchuk et al. (2013): in the 2000s association disappears; evidence that disappeared because “learning” took place

Our study:

- Consistent with “learning” argument: expected value of governance changes incorporated into prices
- Mechanism: votes at annual meetings acted as focal point to help investors assess the value of governance arrangements