

# The Costs and Benefits of Shareholder Democracy

Finance Working Paper N° 586/2018

June 2019

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## Abstract

We document for the first time the costs and benefits of individual investor activism through shareholder-sponsored proposals. As the least costly form of intervention, shareholder proposals can benefit firms that are less likely to be targeted by hedge funds. Yet, many proposals are submitted by the same few “corporate gadflies”, individuals without organizational capabilities to analyze a large number of firms. These proposals, if supported by a majority of the votes cast and subsequently implemented, appear to destroy shareholder value. Only firms whose shareholders collect information before voting benefit from low-cost shareholder activism because informed shareholders weed out low-quality proposals.

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

JEL Classifications: G3, D72

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Nickolay Gantchev and Mariassunta Giannetti\*

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We document for the first time the costs and benefits of individual investor activism through shareholder-sponsored proposals. As the least costly form of intervention, shareholder proposals can benefit firms that are less likely to be targeted by hedge funds. Yet, many proposals are submitted by the same few “corporate gadflies”, individuals without organizational capabilities to analyze a large number of firms. These proposals, if supported by a majority of the votes cast and subsequently implemented, appear to destroy shareholder value. Only firms whose shareholders collect information before voting benefit from low-cost shareholder activism because informed shareholders weed out low-quality proposals.

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## 1. Introduction

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

However, broad shareholder participation also exacerbates the risk that boards may feel compelled to comply with a meaningless cacophony of demands by possibly uninformed shareholders. The financial press unflatteringly refers to individual proposal sponsors as “gadflies”, who waste managerial time and cost firms millions of dollars “by creating big fights in the courts and at the Securities and Exchange Commission”.<sup>1</sup> Due to these concerns, regulators are currently considering measures to modify the proxy process and increase the cost of submitting proposals (SEC, 2018).

To date, data limitations have prevented a systematic analysis of individual investor activism through shareholder-sponsored proposals, which could inform this debate. Existing literature shows that shareholder proposals do not yield significant valuation gains (e.g., Karpoff, Malatesta, and Walkling, 1996; Gillan and Starks, 2000; Cai and Walkling, 2010). Small positive valuation effects have been highlighted only in samples of contested proposals, which pass by narrow margins (Cuñat, Gine, and Guadalupe, 2012).<sup>2</sup>

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<sup>1</sup> See “Grappling with the Cost of Corporate Gadflies”, *The New York Times*, August 19, 2014.

<sup>2</sup> This approach overcomes the limitation of previous studies that the value generated by the implementation of the proposal is already incorporated in prices for proposals that are widely anticipated to pass or not to pass. However, recent work by Bach and Metzger (2018) suggests that managers actively manipulate

Using hand-collected data on the identities of the sponsors and the subsequent implementation of their proposals, this paper shows that the ineffectiveness of the average shareholder proposal masks large cross-sectional variation in valuation effects and is a consequence of the low cost of this type of intervention. We show that shareholder proposals, and in particular proposals sponsored by individual investors, may be beneficial. As the least costly means of intervention, proposals can reach companies that are less likely to be targeted by other forms of investor activism. For instance, despite the positive long-term effects of hedge fund activism, high costs confine its benefits to few and relatively small firms, which are undervalued but have good growth prospects (Brav, Jiang, Partnoy, and Thomas, 2008; Brav, Jiang, and Kim, 2015).

As shareholders with a minimal share ownership are allowed to submit proposals to be voted on at the company's annual meeting, proposals can potentially benefit a variety of companies.<sup>3</sup> However, the low cost of submitting proposals also allows unskilled or uninformed shareholders to post a large number of proposals. As a result, few individuals and other sponsors, such as associations and unions, submit a strikingly large number of proposals every year. In contrast, investment companies submit very few proposals. Since the most active sponsors are unlikely to have organizational capabilities to analyze dozens of companies, many proposals fail to address firms' specific needs.

We show that the proposals submitted by the most active individual sponsors tend to receive less support and produce negative abnormal returns if they pass with a majority

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proposal pass rates, which potentially limits the application of the approach suggested by Cuñat, Gine, and Guadalupe (2012).

<sup>3</sup>Any shareholder with an investment of \$2000 or 1% ownership is allowed to file proposals. See <https://www.sec.gov/interps/legal/cfs1b14g.htm>.

in the shareholder meeting. These proposals are also less likely to be implemented by management, but if implemented, produce negative long-term abnormal returns.

Notably, the costs associated with low-quality shareholder proposals emerge only in companies in which shareholders do not seem to collect information before voting in the shareholder meeting. To reach this conclusion, we explore how mutual funds vote on shareholder proposals. We conjecture that mutual funds that always follow the recommendations of proxy advisory firms are unlikely to collect vote-relevant information (Iliev and Lowry, 2015). Unfortunately, this behavior does not lead necessarily to good decisions because proxy advisory firms typically give generic recommendations when the same issues arise at different companies, and have incentives to increase the value of their services by generating controversy with management (Spatt, 2019). Other mutual funds always vote in the same way when similar issues arise at different firms, suggesting that they follow their own preferences, instead of acquiring information on the provisions that may improve a firm's performance (Bolton et al., 2018; Bubb and Catan, 2018). We test whether ill-advised proposals sponsored by uninformed individual shareholders are more likely to pass and to be subsequently implemented in firms whose shares are owned by mutual funds that are less likely to collect information. Our results show that if a large proportion of a company's shares are held by discerning mutual funds, harmful proposals are more likely to be weeded out. In addition, shareholder proposals yield on average positive abnormal returns in firms with an informed shareholder base.

Overall, our results highlight that while low-cost investor activism can be beneficial, this form of shareholder democracy crucially requires that investors collect information before voting and are able to discern between good and bad proposals.

A casual interpretation of our findings faces the challenges common to all prior work exploring the effects of shareholder proposals. First, shareholder proposals may appear to have no effect on firm valuations because the outcome of the vote is already anticipated by the market and therefore incorporated in prices (Cuñat, Gine and Guadalupe, 2012). To mitigate this problem, we focus on proposals that are reasonably uncertain to pass (within a 20 percent interval from the passing threshold). Within this set of proposals, we show that proposal returns are on average not statistically different from zero. However, this is not because the outcome of the vote is anticipated but rather because of the considerable heterogeneity among proposals, with some experiencing significantly positive and others significantly negative returns. Our contribution is to study the determinants of this heterogeneity.

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



Our paper contributes to several strands of the corporate governance literature. First, we contribute to the literature on shareholder activism by showing under what conditions shareholder proposals can perform a useful function in disciplining firms. Empirically, only takeovers and hedge fund activism have been consistently associated with large valuation gains for the targets (Denes, Karpoff, and McWilliams, 2017). However, these forms of intervention are very costly (Gantchev, 2013), not least because they require large investments in the target companies. Shareholder proposals are the least costly means of intervention but are only advisory in nature. Even though for reputational reasons boards tend to implement proposals that are supported by a majority of shareholder votes (Ferri, 2012; Ertimur, Ferri, and Stubben, 2010), this form of intervention does not seem to yield significant valuation gains (e.g., Karpoff, Malatesta, and Walkling, 1996; Gillan and Starks, 2000; Cai and Walkling, 2010).

Recent work in the literature highlights that shareholder proposals may be driven by conflicts of interest, especially if sponsored by unions in contract renewal years (Matusaka, Ozbas, and Yi, 2018). To the best of our knowledge, we are the first to document that a large number of shareholder proposals are submitted by few overly active individual shareholders without organizational capabilities to analyze multiple firms, and that, as a result, such proposals are value-destroying.

Finally, we contribute to an emerging literature on shareholder voting. Several papers examine the effects of mutual fund attributes on voting behavior (Dimmock et al., 2018; Cvijanović, Dasgupta, and Zachariadis, 2016; Iliev and Lowry, 2015; Matvos and Ostrovsky, 2010; and Davis and Kim, 2007). We are the first to highlight that funds'

propensity to acquire information reduces the extent to which harmful proposals receive majority support, and hence, enhances the benefits of low-cost shareholder activism.

## **2. Institutional Background**

Under Rule 14a-8 of the Securities Exchange Act of 1934, any shareholder holding shares worth \$2,000 (or 1% of the firm's equity) for at least one year is allowed to submit one proposal with a 500-word supporting statement to be included in the proxy distributed by the company for its annual meeting. Typically, such proposals must be submitted at least 120 days before the proxy is mailed to shareholders. Proposals must be included in the proxy mailed in advance of the annual meeting – together with a statement by the board explaining its position – and must be put to a shareholder vote unless the company obtains permission from the SEC to exclude the proposal. Matsusaka, Ozbas, and Yi (2019) show that the market typically reacts positively when the SEC permits companies to exclude proposals by issuing no-action letters. However, no-action decisions occur only in extreme circumstances if the proposal addresses ordinary business matters, if it would result in a violation of state or federal laws, if it is related to a personal claim or grievance, or if it is materially false or misleading.

Even if they receive majority support, proposals are only advisory in nature. While in this respect they should produce limited costs for the targeted firms, proposals with significant shareholder support tend to be implemented by boards largely for reputational reasons, especially following the governance scandals of the early 2000s (Ertimur, Ferri, and Stubben, 2010). In addition, management frequently discusses in company filings what steps have been taken to meet the shareholders' requests in the

proposals. Therefore, proposals may generate significant costs if they are submitted predominantly by uninformed or conflicted shareholders.

Such concerns are accentuated by the fact that a large proportion of proposals are submitted by unions and small individual investors, who may be uninformed about the companies' needs. The press has widely reported that a small group of individuals, often referred to as corporate gadflies, submits a disproportionate number of proposals. These individual sponsors, such as John Chevedden and William Steiner, do not acquire large stakes and are not particularly wealthy, but submit dozens of shareholder proposals every year, convinced that "it is the right thing to do". For instance, in an interview, William Steiner compares his fights for shareholder rights to his military combat service during World War II: A fight to spread democracy.<sup>4</sup>

Presumably because of active sponsors' significant experience in submitting proposals, the SEC rarely issues no-action letters allowing companies to exclude these proposals. As a result, companies end up including in their proxy filings a large number of proposals submitted by active sponsors and putting them to a vote.

Yet, concerns that a few active sponsors may destroy shareholder value by submitting harmful proposals have led institutional investors, represented by the Council of Institutional Investors, and the Business Roundtable, to discuss possible ways to curb activism by shareholder proposals (Wall Street Journal, Nov 15, 2018). The recent Investor Roundtable on Proxy Access, which aims to solicit views and comments on the shareholder proposal process, must be viewed in this context.

Unfortunately, existing academic research can provide little guidance to this debate. In particular, the academic literature is largely silent on the effects of proposals

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<sup>4</sup> See <https://www.corpgov.net/2017/10/william-steiner-shareholder-activist/>.

submitted by individual sponsors. As we discuss below, this is largely due to data limitations.

### **3. Data**

#### *3.1 Sources*

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

The ISS data report the company name, date of the annual meeting, general description of the proposal, management and ISS recommendations, vote requirement for passing and vote base for calculating the passing threshold, number of outstanding shares, number of votes cast in favor, against, and abstaining, as well as some information on the sponsor of the proposal, which we complete and refine by hand-collection as described below. We use the vote requirement and the vote base to create an indicator for whether a proposal receives a majority vote, that is, if the votes cast in favor exceed the vote requirement. Because there are three different bases to calculate majority passing (all outstanding shares, all shares cast in favor and against, or all shares cast in favor, against, and abstaining), we pay particular attention to the vote base (Bach and Metzger, 2017).

To focus on consequential proposals that may generate shareholder interest and whose valuation effects are less likely to have already been incorporated in prices, we

consider shareholder proposals that (i) fall within 20 percent (above and below) of the company's passing threshold (i.e., proposals with a reasonable expectation of passing) – 2,212 proposals, and (ii) proposals with conflicting recommendations by management and ISS – 1,307 proposals. After excluding 135 misclassified proposals for director elections, we are left with a final sample of 3,384 proposals.<sup>5</sup>

Our decision to exclude proposals that pass (or fail to pass) by extremely large margins is similar to the approach adopted in Cuñat, Gine, and Guadalupe (2012). However, we consider larger margins to have enough statistical power to explore the heterogeneity of proposals by sponsor type and category of proposal and study how a firm's shareholder base affects the probability that proposals with certain characteristics pass and get implemented by the firm. As explained above, anticipation effects are unlikely to bias our results because we find that abnormal returns are significantly different from zero.

For each of the proposals in our sample, we hand-collect the identity of the sponsor. This information is vital for identifying individual sponsors and for measuring to what extent some sponsors are particularly active. Sponsor identities are incompletely recorded in at least 25% of our sample of proposals and this problem is particularly severe for proposals submitted by individual sponsors. For example, 11% (364) of the proposals have the sponsor coded as “shareholder” and 4% have an “unknown” or missing sponsor. In addition, we find that the sponsor in the actual proxy filing is different from the one recorded by ISS in 9% (310) of the proposals. Furthermore, ISS

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<sup>5</sup> The initial sample includes 4,301 shareholder proposals. The median (mean) pass margin of the proposals we exclude from the analysis is -0.404 (-0.323), i.e., far below the passing threshold. As a result, these proposals are unlikely to have meaningful valuation effects because their vote outcome is probably anticipated by the market.

does not consistently classify proposals submitted on behalf of another sponsor as well as proposals by related parties. For example, Amalgamated Bank is not classified as part of a union (The Services Employees International Union, or SEIU) even though it is owned by it. Such a misclassification would affect a total of 115 proposals in our sample.

We therefore hand-collect the identity of each sponsor from proxy filings and then classify the sponsors as individuals or institutions, and further subdivide institutions into public pension funds, unions, and investment firms. We group all remaining proposals into a category called “other”, which includes mostly religious organizations, environmental entities, groups without lead proponents, and sponsors that we are not able to conclusively classify.

In addition, besides verifying the meeting date, which is incorrectly recorded for 1% of the meetings in the ISS data, we read the proxy filing announcing the annual meeting at which the proposal is to be voted on, the next meeting’s proxy filing and all 8-K reports between the two meetings. In this way, we ascertain whether the firm implements the shareholder proposal(s). In some cases, when discussing implementation, the firm references the original proposal. However, in the majority of cases, we need to compare the specific terms of the original proposal to the language of management’s discussion of the relevant issues. For example, if a proposal requires changes to a firm’s executive compensation structure, we verify that any modifications to executive compensation address specifically the request(s) made in the proposal. We consider a firm to have implemented the proposal if the firm’s filings describe that management has taken sufficient steps towards implementation.

### *3.2 Summary Statistics and Descriptive Evidence*

Panel A of Table 1 reports descriptive statistics for our sample of proposals. Thanks to our hand-collection of sponsors' identities, we find that individuals put forward nearly 40% of the proposals and are by far more frequent sponsors than pension funds, unions, or investment companies. Yet, individual sponsors have been largely neglected in the existing literature that tends to focus on public pension funds, such as CalPERS (Smith, 1996; Del Guercio and Hawkins, 1999; Gillan and Starks, 2000), or unions (Ertimur, Ferri and Muslu, 2011). The relevance of proposals sponsored by individuals suggests that reasons other than conflicts of interests and hidden agendas may drive the low effectiveness of this form of shareholder activism.

Proposals target a variety of topics. The most frequent proposals regard issues related to voting, such as amending a company's bylaws for voting requirements, proxy access, and requesting cumulative voting or supermajority voting for director elections. The second most frequent category of proposals regards the board. Since we exclude director elections, board proposals focus on board declassification, having an independent board chair, introducing a governance committee, etc. Each of the seven broad categories of proposals listed in Panel A of Table 1 includes a number of finer proposal categories. We have a total of 43 proposal types, which we use in the empirical analysis to control for differences between specific proposals.

Panel B considers how frequently proposals receive majority shareholder support. On average, 32% of the proposals in our sample pass with majority, driven by high support for board and voting proposals. Thus, the proposals in our sample appear to garner higher shareholder interest than proposals in earlier periods explored in the

literature. This partly depends on our sampling choice of focusing on important proposals, but is also consistent with the increased effectiveness of shareholder proposals following the corporate scandals of the early 2000s (Ertimur, Ferri, and Muslu, 2011).

Importantly, proposals submitted by individual shareholders are significantly more likely to pass than proposals submitted by institutions. This indicates that individual sponsors may indeed affect firms' policies and warrants a study of the effects of this form of shareholder activism.

Panel C shows our hand-collected data on proposal implementation. On average, slightly over 20% of the proposals are implemented, driven again by the high implementation rates for board and voting proposals. The overall low implementation rate indicates that management may choose not to implement proposals even when they are approved by a majority of the voting shareholders. Thus, both shareholder voting and management implementation decisions may shield companies from the effects of potentially harmful proposals, which do not reflect firms' specific needs. In what follows, we explore under what conditions this is the case.

Yet, proposals submitted by individuals are more likely to be implemented than proposals submitted by institutions. While this is unsurprising given that individual-sponsored proposals are more likely to receive a majority in Panel B, higher implementation rates also indicate that the proposals of individual sponsors merit closer scrutiny to assess the cross-sectional heterogeneity in the valuation effects of proposals.



### 3.3 Active Sponsors

Anecdotal evidence suggests that “corporate America is being held hostage” by a small number of individual investors, whose combined proposals “accounted for 70 percent of all proposals sponsored by individuals” in 2014.<sup>6</sup> However, lack of precise data on sponsor identities has hindered a careful examination of this phenomenon and its consequences.

In what follows, we study for the first time the extent to which some types of sponsors are more or less active. We then explore how their activities are received by other shareholders and how these activities affect companies. In principle, active sponsors could have particular skills that enable them to discipline managers. It is also possible, however, that their attempts do not reflect the circumstances of the companies they target and instead spread the latest corporate governance fads, even when they are not relevant or useful to the targeted companies.

Table 2 supports the notion that a large number of proposals is submitted by the same few sponsors, and that this is the case especially for individual investors, who are less likely to have substantial organizational capabilities. Panel A of Table 2 shows that on average in a given year an individual sponsor submits more proposals than an investment company (4.53 vs. 1.48). Also, while the vast majority of sponsors submit a handful of proposals per year, a minority of sponsors submits a very large number of proposals. The top individual sponsor in the sample puts forward 45 proposals per year, compared to the most active union and pension fund which submit 41 and 30 proposals, respectively. Notably, investment companies do not submit on average more than one proposal per year.

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<sup>6</sup> See “Grappling with the Cost of Corporate Gadflies”, *The New York Times*, August 19, 2014.

The rest of the table lists the top sponsors for each sponsor type. Several patterns emerge. First, the concentration of submitted proposals is much higher among individuals than among institutions – the top three individuals account for more than 55% of all individual proposals, whereas the top three institutions account for less than 35% of all institutional proposals. In addition, investment companies are not among the most active institutional sponsors, possibly because they are able to engage management behind the scenes. Overall, while a wide-range of shareholders are able to put forward proposals, the submission of proposals appears to be very concentrated, especially in the case of individual sponsors.

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

In this section, we compare the targets of shareholder proposals to those of hedge fund activism, an external governance mechanism that has attracted considerable attention in the literature. We also describe the characteristics of firms targeted by different sponsors of shareholder proposals. If the same types of firms were to be disciplined by other forms of shareholder activism, shareholder proposals could be viewed as redundant, especially given that the literature highlights at best small valuation effects of shareholder proposals. Thus, concerns about their costs could rightly drive changes in regulation.

As is common in the literature (Brav, Jiang, Partnoy, and Thomas, 2008; Brav, Jiang, and Kim, 2015), we describe how the targets of each type of activism differ from the average firm in the industry with similar market capitalization and Tobin's  $Q$ . Therefore, in each event year, we match targets of hedge fund activism (column 1) and targets of proposals submitted by different sponsors (remaining columns) to non-targets

in the same 48 Fama-French industries and in the same deciles of market capitalization and Tobin's  $Q$ . Not performing this matching procedure yields results that are qualitatively similar to those we report.

In Table 3, we estimate linear probability models to explore which firm characteristics predict the probability that a firm becomes a target of hedge fund activism or of proposals submitted by different types of sponsors. Consistent with the findings of the existing literature (Brav, Jiang, Partnoy, and Thomas, 2008; Brav, Jiang, and Kim, 2015), column 1 of Table 3 shows that hedge funds tend to target firms that are smaller and have high growth opportunities, as captured by a relatively high Tobin's  $Q$  and high R&D expenses. Hedge funds also target firms that have experienced negative returns over the previous year and are therefore somewhat undervalued.

This evidence is consistent with the idea that hedge fund activists target firms at which improvements can produce returns that are high enough to recover the initial investment. Because buying a block in a company is costly, activists have incentives to do so only if they can guarantee their investors a sufficiently large Sharpe ratio. Overall, due to its high cost (Gantchev, 2013), the reach of hedge fund activism is limited to only about two percent of firms between 1994 and 2011, even though its incidence has been increasing over time.

Shareholder proposals, on the other hand, are a significantly cheaper means to affect firm policies. Shareholders are allowed to submit proposals as long as they have at least an investment of \$2000 or 1% ownership. This makes shareholder activism by submitting proposals an extremely low-cost method of intervention, available to both individual and institutional shareholders.

Column 2 of Table 3 shows that shareholder proposals reach firms with characteristics that are markedly different from those of the targets of hedge fund activism. Compared to hedge fund targets, the targets of proposals are larger than the matched firms in their industries and have experienced higher returns over the previous year. Therefore, shareholder proposals appear to be complementary to hedge fund activism. Increases in stock prices prevent the purchase of large blocks by hedge fund activists but are not an obstacle for sponsors of shareholder proposals, who need limited investments and do not have to recover high fixed costs. Similarly, proposals can target less liquid firms, in which hedge funds may find it difficult to assemble blocks. Furthermore, relative to hedge fund targets, proposal targets have lower but more concentrated institutional ownership (as captured by the institutional Herfindahl index), indicating that they are not necessarily weakly monitored.

While shareholder proposals reach firms that are unlikely to be targeted by high-cost hedge fund activism, proposals are aimed at firms that underperform their industry peers. Proposal targets have lower profitability and lower sales growth than similar firms in their industries. As profitability and sales growth are unrelated to a firm's probability of being targeted by hedge fund activists, shareholder proposals may be better suited than hedge fund activism to discipline poorly performing companies. This makes our exploration of the costs and benefits of shareholder proposals particularly relevant.

The rest of Table 3 compares the characteristics of firms targeted by different types of sponsors. The targets of institutional and individual sponsors appear to have remarkably similar characteristics; in addition, active (i.e., top 10) individual and institutional sponsors target very similar firms. Thus, any differences between the

valuation effects of the proposals submitted by active individual sponsors and other sponsors are more likely to capture differences in the merits of the proposals – as we argue – rather than differences in firm characteristics.

## **5. The Effects of Shareholder Proposals Sponsored by Individuals**

### *5.1 Average Performance of Shareholder Proposals*

We start by providing descriptive evidence on the valuation effects of shareholder proposals. Table A1 presents firms' price reactions to proposals, measured by cumulative abnormal returns (CARs) in excess of the CRSP value-weighted index over a three-day window around the shareholder meeting.

Panel A provides summary statistics for the CARs around the meeting date. On average, CARs are indistinguishably different from zero, but this may simply reflect that some proposals pass and other do not. Panel B tests whether proposals supported by a majority of votes generate positive abnormal returns. We compare proposals receiving majority support with proposals that fail to do so. We do not find any consistent evidence that proposals generate gains for shareholders. In column 1, the average proposal appears to generate zero abnormal returns. Whereas proposals submitted by pension funds obtain positive abnormal returns if they pass with a majority (column 3), proposals submitted by investment firms generate negative abnormal returns (column 4). Importantly, proposals sponsored by individual investors have a negative but not statistically significant effect on firm valuations (column 2).

Our conclusions are unlikely to depend on the possibility that the vote outcome is anticipated because our tests concentrate on proposals that are in a relatively close

interval around the passing threshold. In addition, we obtain similar results if we consider abnormal returns around the date on which proxy materials containing the shareholder proposal are mailed.

Also, differences in the valuation effects of proposals targeted by different types of sponsors are unlikely to be driven by differences in target characteristics because, as noted in Table 3, firms targeted by different types of proposal sponsors have very similar characteristics.

Overall, this evidence confirms prior results in the literature that on average shareholder proposals appear to be ineffective (Denes, Karpoff, and McWilliams, 2017), at least in terms of their impact on shareholder value. In this context, we explore whether the merits of low-cost investor activism may be concealed by differences in the quality of the proposals submitted by different sponsors. In particular, we ask to what extent active individual sponsors submit ill-conceived shareholder proposals and whether this justifies the current attention of the SEC on restricting the ability of small (individual) shareholders to sponsor proposals.

## *5.2 Proposals by Active Sponsors*

We conjecture that the insignificant impact of the average proposal on firm performance may hide large cross-sectional variation in proposal quality. Some proposals may be beneficial if they target firms that are too large or not sufficiently undervalued to be attractive targets for hedge fund activists. On the other hand, the low cost of submitting proposals may enable “gadflies” to demand corporate changes without tailoring a proposal to a firm’s circumstances. Proposals submitted by overly active

sponsors are unlikely to yield any benefits and may even be harmful if they are submitted without a careful evaluation of the target firm's specific situation.

To evaluate the effects of corporate gadflies, we compare the proposals submitted by individual sponsors who are among the top 10 most active sponsors during a year with the proposals submitted by other individuals and by the remaining sponsors. Active individual sponsors are unlikely to have the organizational capabilities needed to carry out an in-depth analysis of the targets and may therefore submit harmful proposals. We study whether individual proposals, and in particular proposals by active individual sponsors, are effective, considering the percentage of votes cast in favor, the probability that the proposal passes, and the probability that it is subsequently implemented. We then explore the effects on short- and long-term returns.

Column 1 in Panel A of Table 4 shows that proposals sponsored by individuals typically receive more support in terms of the percentage of votes "For" than proposals submitted by other sponsors, unless they are submitted by active individual sponsors, as seen by the negative coefficient on the interaction between *Individual* and *Top 10 sponsor*. At the same time, the coefficient on *Top 10 sponsor* is positive and statistically significant, suggesting that active institutional sponsors tend to receive a higher proportion of votes in support of their proposals. Thus, even though any problems associated with overly active sponsors seem to be due to individual investors, shareholder voting behavior suggests that individual proposals are generally valuable.

In column 2, the coefficients on *Individual*, *Top 10 sponsor* and their interaction remain quantitatively and qualitatively unchanged when we control for the 43 proposal topics and for a variety of firm characteristics. Thus, omitted factors, correlated with firm

characteristics, are unlikely to drive our findings. This conclusion is consistent with the evidence in Table 3 suggesting that different sponsors appear to target similar firms.

In columns 3 and 4, instead of the percentage of votes cast in favor, we consider the probability that a proposal is supported by a majority of votes. While proposals submitted by individuals are more likely to pass than other proposals, proposals submitted by active individual sponsors are less likely to pass with a majority, as seen by the coefficient on the interaction term between *Individual* and *Top 10 sponsor*, which is negative and statistically significant.

Finally, the results in columns 5 and 6 reveal that proposals submitted by individuals are not only as likely to pass but also at least as likely to be implemented. In particular, in column 6, where we control for the percentage of votes cast in favor, proposals sponsored by individuals are more likely to be implemented than those submitted by other sponsors, unless the individual proponents are too active.

Since individual proposals appear to be at least as relevant as the more widely studied institutional proposals, it is important to ask how they affect firm valuations. Panel B presents these tests. As before, we compute short-term returns as a firm's cumulative abnormal returns, in excess of the CRSP value-weighted index, during a three-day window around the shareholder meeting.

We exploit cross-sectional differences in CARs between proposals within a 20% margin of passing, which are supported by a majority of shareholders. The identifying assumption, supported by the evidence in Table 3, is that proposals target similar companies and that the voting outcome is not anticipated. We also use proposals that do not pass, but are still within a margin of 20%, to run a placebo test, which provides



complementary evidence that our results are driven by the passing of certain proposals, rather than by firm characteristics associated with the vote on these proposals. As we discuss below, the robustness of the results to the inclusion of a wide range of controls further mitigates any remaining concerns.

Columns 1 and 2 in Panel B of Table 4 provide clear evidence that proposals submitted by active individual sponsors generate negative short-term abnormal returns. Consistent with the interpretation that individual proposals by top 10 sponsors may be costly to the firm, we find that such proposals generate 1.5-1.8% lower short-term returns than proposals by other individual sponsors, even after controlling for firm characteristics, and year and proposal type fixed effects. Proposals submitted by less active individuals tend to generate positive abnormal returns at least in column 1, before we control for firm characteristics.<sup>7</sup>

As discussed before, our results are unlikely to be generated by the possibility that individual sponsors, and top 10 individual sponsors in particular, target different firms. Not only is this concern assuaged by the evidence in Table 3, but our results are qualitatively invariant when we control for a wide range of firm characteristics, including past firm performance and the percent and concentration of institutional ownership. We also include proposal issue dummies throughout the analysis.

However, active individual sponsors may submit proposals to companies that are temporarily attracting more attention; for instance, these companies may be experiencing more shareholder dissent. If this is the case, more information may be released around these firms' shareholder meetings, which may affect our results and bias our inferences.

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<sup>7</sup> The sum of the coefficients on *Individual* and *Individual x Top 10 sponsor* is always negative and statistically significant at conventional levels.

This is unlikely because the valuation effects mirror our findings on shareholder support for specific proposals, from which we can infer shareholders' expectations about the quality of these proposals. Nevertheless, column 2 also controls for the fact that proposals are voted on in shareholders meetings at which other issues are likely to be discussed.

Besides controlling for whether other proposals have been considered and the broad issues addressed in these concurrent proposals, we include a variable – *Meeting dissent* – measuring the number of votes cast against (or withheld from) management in other proposals voted on at the same meeting. This variable captures whether the meeting is contentious. Including this control leaves our results unaffected, suggesting that the negative effects of proposals submitted by active individual sponsors are not driven by concurrent events.

To provide further evidence that information released at the meeting does not drive our results, columns 3 and 4 report the same tests for proposals that fail to pass. We do not find any effect of proposals submitted by top 10 individual sponsors, supporting our interpretation that the passing of the proposals, and not some other information revealed at the shareholder meeting, produces the negative abnormal returns.

Finally, we explore the effects of proposal implementation. A majority of votes in support of a proposal increases the probability that the proposal is actually implemented. However, information about implementation is revealed over time in the months following the annual meeting. Thus, studying the effects of proposal implementation requires considering firms' long-term returns. Following Brav, Jiang, Partnoy, and Thomas (2008), we compute long-term returns with respect to the CRSP value-weighted index from one month before to 12 months after the annual meeting.

In columns 5 and 6, we perform the same tests as in columns 1 and 2 and find that if implemented, proposals sponsored by active individuals produce negative long-term abnormal returns, even after controlling for firm characteristics.

### *5.3 Good and Bad Proposals*

This subsection explores why proposals by active individual sponsors may be destroying shareholder value. We classify proposals to capture specific reasons for why this may be the case. In Panel A of Table 5, we use three definitions that consider different aspects of potentially damaging proposals. Our first definition classifies a proposal as *Generic* if the sponsor targets multiple companies within the same year with precisely the same proposal (e.g., limiting executive compensation). Specifically, proposals by sponsors whose number of targeted companies divided by the proposal types they submit is in the top quartile of all sponsors (i.e., more than three companies with the same proposal) are considered generic proposals.

On the one hand, these sponsors may be specialists on a particular issue, such as board declassification, and may knowingly bring up this issue at different companies. On the other hand, they may be less likely to have researched the individual circumstances of each company and tailored the proposal to the company's needs. Once again, this may be especially relevant for individual investors who are less likely to have organizational capabilities to identify companies with similar circumstances. Panel A of Table 5 shows that about 45% of the proposals in our sample are classified as generic. Nearly 65% of the proposals submitted by individual investors fall in this category.

We also consider proposals submitted by unfocused sponsors, that is, by sponsors who submit many different types of proposals in the same year (e.g., voting proposals, climate change proposals, compensation proposals, etc.). An unfocused sponsor is a sponsor who is in the top quartile for the number of proposal types submitted in a given year (i.e., more than three proposal types). A proposal is defined as *Unfocused* if it is submitted by an unfocused sponsor.

On the one hand, sponsors who do not focus on a certain type of issue are less likely to be specialists in that issue. On the other hand, some sponsors such as institutional investors may have organizational capabilities to propose specific changes tailored to the necessities of different firms. About 76% of the proposals in our sample are classified as unfocused. Notably, we classify over 90% of the proposals submitted by individuals as unfocused.

Finally, we define a *Fad* proposal as one that is submitted in a year when both the number of this type of proposal and the number of sponsors submitting such proposals are in the top tercile of all years. Fad proposals are likely to follow popular trends and be less company-specific. As such, they may impose one-size-fits-all prescriptions, which may be value-destroying for some companies. Fad proposals tend to be submitted by both individuals and institutions, even though pension funds appear to put forward relatively more such proposals.

Panel B of Table 5 shows that a lower percentage of votes are cast in favor of generic, unfocused, and fad (collectively, “bad”) proposals by individual sponsors. This is not generally true for proposals submitted by individuals or for proposals classified as potentially bad according to all three definitions, suggesting that active individual

sponsors with low organizational capabilities submit low-quality proposals and shareholders who are aware of this behavior vote against these proposals. Consistent with this interpretation, generic, unfocused and fad proposals submitted by individual sponsors are less likely to pass with a majority and to be implemented. Proposals submitted by individual sponsors that are not too active are more likely to pass and to be implemented suggesting that individual investor activism may have merits.

Overall, shareholder voting appears to provide at least some discipline in screening out bad proposals. Thus, even if some bad proposals end up being implemented, it is unclear whether active individual sponsors indeed destroy shareholder value and whether this phenomenon should be regulated.

Panel C of Table 5 shows the short-term and long-term abnormal returns of generic, unfocused, and fad proposals, comparing proposal returns between individuals and other sponsors. In all cases, bad proposals sponsored by individuals generate lower short-term abnormal returns if they receive majority support (columns 1 to 3). Bad proposals sponsored by individuals are also associated with negative long-term abnormal returns if they are implemented (columns 4 to 6). Other proposals sponsored by individuals generate similar abnormal returns to the proposals of other sponsors.

We obtain these results when we control for a variety of firm characteristics, year and proposal type fixed effects, as well as for the topics of concurrent issues addressed at the shareholder meeting and how contentious the meeting is. Overall, it appears that low-cost investor activism generates significant costs because some individuals submit too many proposals that do not consider the specific circumstances of the firms being

targeted or simply follow popular governance fads. Proposals sponsored by individuals who are not too active are no worse than other proposals.

Table A2 in the Appendix sheds some light on why management may choose to implement bad proposals. Firms that implement proposals, whether good or bad, are less likely to be targeted by hedge fund activists, presumably because they demonstrate that they listen to their shareholders. Thus, implementing even bad proposals may be a way for managers to preserve their jobs and private benefits of control.

## **6. Shareholder Voting and the Quality of Proposals**

### *6.1 Data on Mutual Fund Voting and Ownership*

The submission of bad proposals can destroy shareholder value only if these proposals are supported by a majority of votes and implemented. Informed shareholders could in principle weed out low-quality proposals and minimize the costs associated with this type of activism. To evaluate this conjecture, we use mutual funds' general voting behavior and identify funds that are more or less likely to collect information regarding the merits of different proposals.

We expect that a fund is less likely to gather information about the issues being voted on at a firm if it always follows the recommendations provided by ISS, a proxy advisory firm (as argued by Iliev and Lowry, 2015, and Malenko and Shen, 2016). ISS tends to be less supportive of management than governance-focused asset managers, arguably because controversy increases the value of its services (Spatt, 2019). For 98.7% of the proposals in our sample, ISS recommends voting in favor; thus, ISS' recommendations also do not appear to take into consideration the specific firms'

circumstances, as the recommendations do not vary when the same issue comes up at different firms. Thus, just following the ISS recommendations may be pernicious in the case of shareholder proposals submitted by active sponsors who may not consider the firms' specific needs.

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

Since 2003, the SEC requires that mutual funds report in Form N-PX the way in which they vote all shares for which they have fiduciary responsibility. ISS compiles these votes in its Voting Analytics database and provides a link to the actual regulatory filing detailing the votes (ISS NPX filing ID). We find that in 89% of the proposals in our sample all funds within a family vote the same way. As a result, we focus on fund families rather than individual funds, but modify our procedure below for fund families that split their vote across funds.

To capture the proclivity of a fund family to collect vote-relevant information, we regress a variable that takes the value of one if the fund family votes in favor of a proposal (and zero otherwise) on an indicator for an ISS recommendation to vote for the proposal, and the 43 (finer) proposal category dummies. For the 11% of the fund families, which split their votes across funds, we set the dependent variable equal to the fraction of funds that votes in favor of the proposal. A high R-squared from this

regression indicates that the fund family does not differentiate votes between firms when the same issue arises, because of its own preferences or because it most often follows the ISS recommendation. Such a fund is unlikely to collect any firm-specific information. Therefore, we capture whether a fund family is inclined to gather information using the inverse of the R-squared.

The first row in Panel A of Table 6 reports statistics on the R-squared estimated from the above regression. Our proxy points to large differences in funds' propensity to collect information. The average (median) R-squared by fund family is 0.63, with a minimum of 0.01 and a maximum of 1. These statistics suggest that fund families often follow the ISS recommendations, or do not differentiate their votes when the same issue arises at different firms. However, there is substantial cross-sectional variation captured by the large standard deviation of R-squared (0.22).

To evaluate how much the vote of each fund family affects voting outcomes in a specific firm, we estimate the proclivity of the firm's shareholder base to collect information. Specifically, we use the holdings of each fund family as weights to calculate the weighted-average information gathering propensity of the firm's shareholder base. As ISS does not report how much each fund owns, we use the ISS NPX filing ID to download the actual filing of the fund family and scrub the CIK code of the fund. Then, we use the CIK codes to get the fund's holdings in the firm from the CRSP Mutual Fund database. Using this matching procedure, we are able to obtain holdings information for 706 of the 814 fund families voting on our sample of proposals. These correspond to 9039 unique funds, of which 8984 vote in the same way across all funds in the family.



Panel A of Table 6 also shows that there is substantial cross-sectional variation in the *Informed ratio*, which captures the average of the inverse R-squared, computed using as weights the proportion of shares owned by mutual funds for which we have available information. The minimum *Informed ratio* is close to one (i.e., mutual funds always follow the ISS recommendations) but the maximum is well above one.

## 6.2 Mitigating Effects of Informed Voting

Ill-conceived proposals are implemented only insofar as they are supported by other shareholders. Thus, lack of informed voting may limit the benefits of low-cost investor activism. To capture this idea, we use the *Informed ratio* to measure the proportion of mutual fund families in a firm's shareholder base that do not closely follow ISS recommendations or their own preferences but vary their votes when the same issue is raised at different firms. We control throughout the analysis for the level and concentration of institutional ownership.

Panel B of Table 6 shows that generic, unfocused, and fad proposals sponsored by individual investors receive a lower percentage of votes in favor if firms have more informed shareholders. In terms of economic magnitudes, a one-standard-deviation increase in the *Informed ratio* is associated with a decrease in the proportion of votes supporting harmful individual proposals by about 6.2-9.3% of a standard deviation.<sup>8</sup> In columns 4-6, a one-standard-deviation increase in our proxy for an informed investor base decreases the probability that a bad proposal passes by 20-30% (relative to the standard deviation of the dependent variable). Columns 7-9 show that harmful proposals

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<sup>8</sup> For example, the economic magnitude of the interaction in column 1 is estimated as the coefficient on the interaction  $\times$  (SD of *Informed ratio*/SD of Percent votes for) = 0.1117  $\times$  (0.15/0.18) = 9.31.

are also less likely to be implemented; a one-standard-deviation increase in the *Informed ratio* decreases the probability of implementation of a bad proposal by about 15-17% (again relative to the standard deviation of the dependent variable). Thus, having an informed shareholder base decreases the costs associated with harmful shareholder proposals.

The voting behavior of mutual funds has important consequences for the effects of low-cost shareholder activism on firm performance. In firms with more informed shareholders only value-enhancing shareholder proposals will presumably obtain support from informed mutual funds; value-destroying proposals are more likely to be rejected. Hence, a larger proportion of the proposals that pass is likely to be value-enhancing. Consistent with this interpretation, Table 7 shows that shareholder proposals that receive a majority of votes are associated with 1.14-1.19% higher short-term returns around the meeting date when the *Informed ratio* increases by one standard deviation (columns 1 and 2).

Conditional on being implemented after passing with a majority (columns 3 and 4), proposals are associated with 14-22% higher long-term returns when a firm's *Informed ratio* increases by one standard deviation. These results support the conclusions of Malenko and Malenko (2018) that there may be over-reliance on proxy advisor recommendations and excessive conformity in voting. This behavior may allow value-destroying proposals to pass and ultimately destroy shareholder value.

### *6.3 Additional Evidence on Mutual Fund Trading*

How likely is it that informed mutual funds select different companies, which react differently to shareholder proposals because of their characteristics, rather than because of the quality of the proposals supported by a majority of shareholders?

To provide more direct evidence for our interpretation of the empirical evidence, we consider how mutual funds trade if they vote against a bad proposal that nevertheless passes. We expect that mutual funds with negative private information about the firm's future prospects are more likely to sell. Based on our previous results, we conjecture this to be particularly likely if bad shareholder proposals pass and become likely to be implemented. In this case, expecting negative abnormal returns in the long run, informed mutual funds should sell.

To test this conjecture, we use data from the CRSP Mutual Fund database and consider how the ownership of a fund family changes between the quarter before and the one after the shareholder meeting if the fund votes against the proposal. We define informed mutual funds as the ones with an inverse R-squared above the median and test whether they sell in anticipation of poor performance when bad proposals pass despite the fund's opposing vote. We explore how the trading behavior of informed mutual funds differs from that of other mutual funds following a vote against a proposal. Since generic, unfocused and fad proposals sponsored by individual investors have been identified as potentially value-destroying, we expect informed mutual funds to sell more than other mutual funds following the approval of these bad proposals.

Since many mutual funds trade in a given firm at a given point in time, we can control for interactions of firm and time effects as well as proposal topic fixed effects.

Thus, firm characteristics, including the type of proposals voted in a given quarter, are completely absorbed and cannot drive our findings.

Columns 1-3 of Table 8 consider the subsample of proposals that pass and show that informed mutual funds that vote against bad individual proposals that pass reduce their shareholdings by 10-15% in the quarter after the vote. Importantly, informed mutual funds sell to a larger extent stocks of firms with bad proposals that pass, but not stocks of firms with other proposals that pass but the funds did not support. Thus, the trading of informed mutual funds is not merely driven by shareholder disagreement, which Li, Maug, and Schwartz-Ziv (2019) argue leads to higher trading volume in the days immediately following shareholder meetings.

One may wonder whether the mutual funds voting against bad shareholder proposals always sell, even if the proposals are not supported by a majority of shareholders. This could be the case because voting against bad proposals may simply capture discontent with firm policies. Such an interpretation is unlikely because we consider shareholder, not management, proposals.

Columns 4 to 6 of Table 8 consider the subsample of proposals that do not pass and confirm that it is indeed the passing and likely implementation of bad proposals that prompts informed mutual funds to sell. These funds are not more likely to sell than other mutual funds if bad proposals happen not to receive majority support. This also indicates that our results are not driven by the possibility that the targets of bad proposals are different or are subject to other concurrent shocks. Thus, it is the passing of a bad proposal that motivates informed mutual funds to sell.

## **7. Conclusion**

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

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

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**Table 1. Descriptive Statistics**

This table reports the number of proposals (Panel A), the percent of proposals passing with a majority (Panel B), and the percent of proposals implemented by the company (Panel C). The sample includes shareholder-sponsored proposals over the 2003-2014 period. In all panels, proposals are classified into seven non-overlapping categories and sponsors are classified as individuals or institutions, with the latter further subdivided into public pension funds, unions, and investment firms. Other (sponsors) are groups with no lead sponsor, religiously-affiliated organizations, and environmental sponsors that cannot be classified, and are excluded from the *Total* column.

<b>Panel A. Proposal Counts</b>	<b>Individual</b>	<b>Institution</b>	<b>Pension</b>	<b>Union</b>	<b>Inv firm</b>	<b>other</b>	<b>Total</b>
Board	291	316	109	178	29	43	607
CSR	9	143	82	12	49	160	152
Compensation	187	475	55	402	18	100	662
Gov disclosure	42	203	93	77	33	102	245
Operations	24	19	2	11	6	12	43
Poison pill	95	27	3	13	11	0	122
Voting	541	357	67	283	7	11	898
Total	1,189	1,540	411	976	153	428	2,729

  

<b>Panel B. Majority Pass</b>	<b>Individual</b>	<b>Institution</b>	<b>Pension</b>	<b>Union</b>	<b>Inv firm</b>	<b>other</b>	<b>Total</b>
Board	51.20%	47.47%	75.23%	29.78%	51.72%	34.88%	48.31%
CSR	0.00%	2.10%	3.66%	0.00%	0.00%	1.25%	1.60%
Compensation	10.16%	21.47%	20.00%	22.14%	11.11%	14.00%	17.72%
Gov disclosure	45.24%	6.40%	4.30%	5.19%	15.15%	1.96%	9.80%
Operations	4.17%	5.26%	0.00%	9.09%	0.00%	0.00%	3.64%
Poison pill	72.63%	70.37%	100.00%	69.23%	63.64%		72.13%
Voting	33.46%	42.58%	56.72%	38.87%	57.14%	36.36%	37.07%
Total	36.82%	28.36%	34.14%	27.09%	21.25%	8.14%	32.04%

  

<b>Panel C. Implementation</b>	<b>Individual</b>	<b>Institution</b>	<b>Pension</b>	<b>Union</b>	<b>Inv firm</b>	<b>other</b>	<b>Total</b>
Board	32.65%	30.06%	45.87%	20.22%	31.03%	30.23%	31.23%
CSR	0.00%	3.50%	4.88%	0.00%	2.04%	6.88%	5.13%
Compensation	24.06%	15.37%	25.45%	13.93%	16.67%	28.00%	19.16%
Gov disclosure	30.95%	9.36%	6.45%	12.99%	9.09%	3.92%	10.37%
Operations	4.17%	0.00%	0.00%	0.00%	0.00%	0.00%	1.82%
Poison pill	15.79%	0.00%	0.00%	0.00%	0.00%		12.30%
Voting	24.77%	37.82%	40.30%	37.10%	42.86%	45.45%	30.14%
Total	25.36%	21.03%	24.46%	21.08%	11.87%	13.49%	22.91%



**Table 2. Proposals by Sponsor Type**

Panel A reports the number of proposals submitted by each sponsor type in a given year. Panels B, C, and D report the top 10 individual, institutional, and other sponsors, considering shareholder-sponsored proposals over the 2003-2014 period. Institutions include pension funds, unions, and investment firms. Other (sponsors) are groups with no lead sponsor, religiously-affiliated organizations, and environmental sponsors that cannot be classified.

<i>Panel A. Number of proposals</i>	<b>Mean</b>	<b>Median</b>	<b>St Dev</b>	<b>Min</b>	<b>Max</b>
Individual	4.53	1	8.14	1	45
Institution	4.50	2	5.35	1	41
Pension	5.62	3	6.79	1	30
Union	6.02	5	5.55	1	41
Inv firm	1.48	1	0.82	1	4
Other	3.99	1	7.90	1	38

<i>Panel B. Top 10 individual sponsors</i>	<b># Proposals</b>	<b>% Total</b>
John Chevedden	290	24.39
Kenneth Steiner	222	18.67
Gerald Armstrong	157	13.20
Evelyn Y. Davis	133	11.19
Nick Rossi	125	10.51
James McRitchie	36	3.03
Harold J. Mathis, Jr.	13	1.09
June Kreutzer and Cathy Snyder	9	0.76
Hazel A. Floyd	8	0.67
Richard A. Dee	7	0.59

<i>Panel C. Top 10 institutional sponsors</i>	<b># Proposals</b>	<b>% Total</b>
Comptroller of the City of New York	206	13.38
United Brotherhood of Carpenters	193	12.53
Am. Fed. of State, County and Municipal Empl.	119	7.73
AFL-CIO Reserve Fund	112	7.27
Service Employees International Union (SEIU)	108	7.01
International Brotherhood of Teamsters	72	4.68
International Brotherhood of Electrical Workers	62	4.03
Sheet Metal Workers	53	3.44
Comptroller of the State of New York	46	2.99
Trowel Trades S&P 500 Index Fund	45	2.92

<i>Panel D. Top other</i>	<b># Proposals</b>	<b>% Total</b>
Nathan Cummings Foundation	42	8.99
Unitarian Universalist Assoc. of Congregations	18	3.85
As You Sow Foundation	11	2.36
Province of St. Joseph of the Capuchin Order	7	1.5
Mercy Investment Services	6	1.28
Sisters of Charity of the Blessed Virgin Mary	6	1.28
United Methodist Church	5	1.07
Christopher Reynolds Foundation	4	0.86
Episcopal Church	4	0.86
Humane Society of the United States	4	0.86
Investor Voice	4	0.86
Sierra Club	4	0.86

**Table 3. Targeting by Hedge Fund Activism and Shareholder Proposals**

This table reports OLS regressions of the probability of a firm being targeted by hedge fund activism or shareholder proposals. The sample includes shareholder-sponsored proposals over the 2003-2014 period. Sponsors are classified as *Active* if they are in the top 10 of all sponsors based on the total number of proposals submitted in a given year. Targets of activism/proposals are matched to non-targets based on industry (Fama-French 48), year, and deciles of market capitalization and Tobin's *Q*. Hedge fund activism data come from SEC Schedule 13D and FactSet's SharkRepellent.net. All control variables are lagged by one year. All regressions include industry and year fixed effects, and cluster standard errors by firm. \*, \*\*, and \*\*\* refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Firm targeted by:					
	Hedge fund activism	Shareholder proposal	Individual proposal	Institutional proposal	Active individual sponsor	Active institutional sponsor
Log market cap	-0.0125*** (-4.88)	0.0785*** (14.58)	0.0706*** (10.68)	0.0656*** (12.46)	0.0649*** (12.94)	0.0641*** (14.28)
Tobin's Q	0.0064* (1.75)	-0.0056 (-0.91)	-0.0157* (-1.68)	0.0034 (0.50)	-0.0067 (-0.72)	0.0108 (1.52)
Sales growth	-0.0106** (-2.52)	-0.0342*** (-7.70)	-0.0359*** (-5.37)	-0.0240*** (-5.71)	-0.0355*** (-4.93)	-0.0232*** (-5.46)
ROA	0.0044 (0.23)	-0.0489** (-2.10)	-0.0072 (-0.20)	-0.0483** (-2.06)	-0.0161 (-0.43)	-0.0468* (-1.83)
Cash flow	-0.0002 (-0.60)	-0.0014*** (-3.55)	-0.0011*** (-2.71)	-0.0011*** (-2.64)	-0.0014*** (-3.45)	-0.0011*** (-2.80)
Annual return	-0.0070** (-2.56)	0.0077*** (3.03)	0.0114*** (3.39)	0.0083*** (3.34)	0.0100*** (2.81)	0.0110*** (3.88)
Book lev	0.0186 (1.60)	0.0175 (1.17)	0.0388** (2.00)	0.0093 (0.63)	0.0493** (2.49)	0.0147 (0.83)
Div yld	0.0041 (0.13)	-0.0539 (-1.33)	-0.0361 (-0.61)	-0.0322 (-0.81)	0.0276 (0.37)	-0.0891** (-2.32)
R&D	0.0584* (1.87)	0.0303 (0.94)	0.0410 (0.57)	0.0392 (1.31)	0.0300 (0.42)	0.0219 (0.66)
Inst own percent	0.0531*** (6.04)	-0.0441*** (-3.24)	-0.0281* (-1.77)	-0.0309** (-2.48)	-0.0156 (-0.89)	-0.0405*** (-3.04)
Inst herfindahl	-0.0426*** (-4.78)	0.1249*** (8.83)	0.0951*** (5.95)	0.1195*** (8.98)	0.0917*** (6.40)	0.1131*** (8.93)
Neg Amihud	-0.0155 (-0.31)	-0.4807*** (-6.27)	-0.5835*** (-5.88)	-0.4177*** (-5.80)	-0.5390*** (-5.92)	-0.3867*** (-5.32)
Constant	0.0762*** (3.51)	-0.4421*** (-11.51)	-0.4284*** (-8.83)	-0.3874*** (-10.59)	-0.4056*** (-9.68)	-0.3770*** (-11.26)
Industry & year FE	YES	YES	YES	YES	YES	YES
Observations	16,838	19,216	10,402	14,770	10,592	13,060
Adjusted R2	0.0232	0.152	0.146	0.135	0.159	0.151

**Table 4. Proposals by Active Sponsors**

This table reports the probability of passing and implementation of proposals submitted by active sponsors and the proposals' short- and long-term cumulative abnormal returns (CARs). Sponsors are classified as active if they are in the top 10 of all sponsors based on the total number of proposals submitted in a given year. The sample includes shareholder-sponsored proposals over the 2003-2014 period. Panel A reports estimates from OLS regressions of a proposal's proportion of votes "For" (columns 1-2), probability of passing with a majority (columns 3-4), and being implemented (columns 5-6). Panel B reports OLS regressions of short-term CARs for majority passed proposals (columns 1-2) and proposals that fail to pass with a majority (columns 3-4), and long-term CARs for implemented proposals (columns 5-6). CARs are estimated with respect to the VW CRSP index. *Meeting dissent* is a continuous measure of against and abstain votes cast across all proposals at the meeting (excluding the studied proposals). All regressions include year and proposal type fixed effects and cluster standard errors by firm and proposal type. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

**Panel A. Majority passing and implementation**

	(1)	(2)	(3)	(4)	(5)	(6)
	Percent Votes For		Majority Passing		Implementation	
Individual	0.1352*** (9.40)	0.0756* (2.23)	0.3153*** (8.61)	0.1895* (2.11)	0.2398*** (7.25)	0.1091** (2.63)
Top10 sponsor	0.0555*** (5.17)	0.0293** (2.70)	0.1207*** (4.42)	0.0832 (1.92)	0.0592** (2.40)	0.0002 (0.01)
Individual x Top10 sponsor	-0.1270*** (-7.73)	-0.1111** (-2.92)	-0.3012*** (-7.20)	-0.2623** (-2.49)	-0.2559*** (-6.77)	-0.1131*** (-4.42)
Size		-0.0000** (-2.95)		-0.0000** (-3.55)		-0.0000 (-1.56)
Tobin's Q		-0.0020 (-0.48)		-0.0079 (-0.80)		0.0100 (1.46)
Sales growth		-0.0035 (-0.45)		0.0018 (0.23)		-0.0094 (-0.73)
ROA		0.1437** (3.17)		0.2545** (3.22)		-0.2216* (-2.39)
Cash flow		0.0001 (0.49)		-0.0000 (-0.09)		0.0004 (1.44)
Lag ann return		-0.0031 (-0.31)		0.0017 (0.08)		-0.0140 (-0.80)
Book lev		-0.0688* (-2.03)		-0.1158 (-1.50)		0.0174 (0.34)
Div yld		0.0055*** (4.76)		0.0035 (0.71)		0.0002 (0.03)
R&D		0.0993 (1.70)		0.1958 (1.42)		-0.3440* (-2.04)
Inst own percent		0.0801* (1.96)		0.1939** (2.49)		0.0742 (1.33)
Inst herfindahl		-0.6038** (-3.21)		-0.7197 (-1.75)		0.0095 (0.03)
Neg Amihud		-0.3436* (-2.24)		-0.7410 (-1.94)		-0.0224 (-0.12)
Percent votes for						1.1167*** (11.69)
Constant	0.3828*** (40.95)	0.4253*** (38.16)	0.1920*** (8.07)	0.2900*** (10.00)	0.1653*** (7.70)	-0.2633*** (-8.98)
Proposal & year FE	YES	YES	YES	YES	YES	YES
Observations	2,750	2,280	2,750	2,280	2,750	2,280
Adjusted R2	0.0305	0.264	0.0254	0.185	0.0204	0.267

**Panel B. Returns**

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1d) -		CAR (-1, +1d) -		LTCAR (-1, +12m) -	
	Maj Pass		Failed to Pass		Implemented	
Individual	0.0073*	0.0080	0.0017	0.0011	0.1494***	0.0648
	(1.83)	(1.48)	(0.63)	(0.26)	(3.45)	(0.70)
Top10 sponsor	0.0102***	0.0126***	-0.0014	-0.0024	0.2274***	0.1798***
	(2.86)	(4.82)	(-0.77)	(-1.17)	(5.95)	(5.21)
Individual x Top10 sponsor	-0.0152***	-0.0178**	-0.0012	0.0016	-0.3046***	-0.2193**
	(-3.34)	(-3.64)	(-0.40)	(0.37)	(-6.05)	(-2.63)
Size		0.0000*		0.0000		0.0000
		(2.12)		(0.71)		(0.83)
Tobin's Q		-0.0010		-0.0012		-0.0595***
		(-0.86)		(-0.82)		(-6.08)
Sales growth		-0.0007		-0.0001		0.0099
		(-0.42)		(-0.13)		(0.08)
ROA		-0.0012		0.0126		0.0715
		(-0.15)		(1.06)		(0.74)
Cash flow		0.0001		-0.0001		-0.0083**
		(0.25)		(-1.68)		(-3.28)
Lag ann return		0.0045		0.0127**		0.2726***
		(1.48)		(3.50)		(4.86)
Book lev		0.0064		0.0104**		-0.0109
		(0.58)		(2.65)		(-0.16)
Div yld		0.0006		0.0004		0.0101**
		(1.48)		(0.92)		(2.82)
R&D		0.0170		0.0351		-0.1112
		(1.47)		(1.85)		(-0.36)
Inst own percent		0.0019		-0.0022		-0.0831
		(0.18)		(-0.39)		(-0.75)
Inst herfindahl		0.0238		-0.0010		0.5527
		(0.66)		(-0.07)		(0.93)
Neg Amihud		-0.0368		0.0017		0.2737
		(-1.00)		(0.06)		(0.53)
Other board proposal		-0.0015		-0.0021		0.0129
		(-0.50)		(-1.01)		(0.52)
Other compensation proposal		0.0005		-0.0025		-0.0018
		(0.10)		(-1.00)		(-0.04)
Other governance proposal		-0.0059		0.0016		0.0049
		(-1.42)		(1.06)		(0.08)
Other operations proposal		-0.0043		-0.0034		-0.1173
		(-0.37)		(-0.91)		(-1.59)
Other poison pill proposal		0.0078		-0.0049		0.1035
		(0.97)		(-1.12)		(0.81)
Other voting proposal		0.0009		-0.0001		0.0388
		(0.28)		(-0.05)		(1.23)
Other CSR proposal		-0.0027		-0.0057		0.0066
		(-0.81)		(-1.92)		(0.18)
Meeting dissent		0.0030		0.0043		-0.1210
		(0.18)		(0.38)		(-0.91)
Constant	-0.0086***	-0.0073*	0.0016	0.0005	-0.2009***	-0.1482**
	(-2.65)	(-2.29)	(1.07)	(0.25)	(-5.85)	(-3.32)
Proposal & year FE	YES	YES	YES	YES	YES	YES
Observations	873	687	1,833	1,562	621	501
Adjusted R2	0.0162	0.0637	-0.0006	0.0447	0.0788	0.2250

### Table 5. Frequency and Performance of Bad Proposals

This table reports the frequency and performance of bad proposals, defined according to one of three definitions. *Generic* proposals are submitted by sponsors who target multiple companies within the same year with the same proposal type. *Unfocused* proposals are submitted by sponsors who engage with many different types of proposals within the same year. *Fad* proposals are proposals submitted in a year when both the type of proposal and the number of sponsors submitting such proposals are in the top tercile of all years. Panel A reports the percent of bad proposals by category (rows) and sponsor (columns) as a fraction of the total count of proposals reported in the last row. The sample includes shareholder-sponsored proposals over the 2003-2014 period. Panel B reports estimates from OLS regressions of a proposal's proportion of votes "For" (columns 1-2), probability of passing with a majority (columns 3-4), and being implemented (columns 5-6). Panel C reports OLS regressions of short- and long-term CARs for majority passed proposals (columns 1-3), and implemented proposals (columns 4-6). CARs are estimated with respect to the VW CRSP index. *Meeting dissent* is a continuous measure of against and abstain votes cast across all proposals at the meeting (excluding the studied proposals). All regressions include proposal type and year fixed effects and cluster standard errors by proposal and firm. \*, \*\*, and \*\*\* refer to statistical significance at 10%, 5%, and 1% levels, respectively.

#### Panel A. Frequency of bad proposals

Bad Proposal Type	Individual	Institution	Pension	Union	Inv firm	other	Total
Generic	64.52%	29.84%	27.12%	35.85%	0.00%	9.85%	44.91%
Unfocused	90.46%	65.72%	74.82%	70.26%	14.37%	71.95%	76.47%
Fad	26.95%	32.73%	46.25%	28.00%	26.87%	24.20%	30.22%
<i>Total count</i>	<i>1,189</i>	<i>1,540</i>	<i>411</i>	<i>976</i>	<i>153</i>	<i>428</i>	<i>2,729</i>

**Panel B. Majority passing and implementation**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Percent Votes "For"			Majority Passing			Implementation		
	Generic	Unfocused	Fad	Generic	Unfocused	Fad	Generic	Unfocused	Fad
Individual	0.0465 (1.89)	0.0440** (2.69)	0.0621 (1.76)	0.1945** (3.69)	0.2333*** (4.99)	0.2123** (2.89)	0.1346** (3.26)	0.1692** (2.72)	0.0635** (2.63)
Generic prop	-0.0109 (-0.92)			-0.0582 (-1.43)			0.0195 (1.38)		
Individual x Generic prop	-0.0588** (-3.38)			-0.2088** (-2.61)			-0.1456*** (-5.82)		
Unfocused prop		-0.0277 (-1.14)			-0.0611 (-1.12)			-0.0418* (-2.30)	
Individual x Unfocused prop		-0.0477* (-2.02)			-0.2462** (-3.04)			-0.1458* (-2.04)	
Fad prop			0.0971** (2.89)			0.2029** (2.51)			0.0417 (1.92)
Individual x Fad prop			-0.1131*** (-3.92)			-0.3425*** (-5.34)			-0.0601 (-1.80)
Size	-0.0000** (-3.28)	-0.0000** (-3.24)	-0.0000** (-2.81)	-0.0000*** (-3.77)	-0.0000* (-2.08)	-0.0000** (-3.49)	-0.0000 (-0.75)	-0.0000 (-1.11)	-0.0000 (-1.10)
Tobin's Q	-0.0019 (-0.47)	-0.0027 (-0.66)	-0.0028 (-0.70)	-0.0064 (-0.62)	-0.0085 (-0.81)	-0.0097 (-0.99)	0.0107 (1.55)	0.0100 (1.40)	0.0091 (1.32)
Sales growth	-0.0032 (-0.37)	-0.0032 (-0.36)	-0.0036 (-0.52)	0.0034 (0.29)	0.0023 (0.22)	0.0024 (0.35)	-0.0100 (-0.78)	-0.0093 (-0.78)	-0.0096 (-0.67)
ROA	0.1466** (3.11)	0.1510** (3.11)	0.1570*** (3.74)	0.2548** (2.68)	0.2679** (2.86)	0.2915** (3.54)	-0.2300** (-2.57)	-0.2190** (-2.45)	-0.2123* (-2.20)
Cash flow	0.0000 (0.26)	0.0000 (0.35)	0.0000 (0.19)	-0.0001 (-0.20)	-0.0000 (-0.11)	-0.0001 (-0.38)	0.0005* (1.99)	0.0005* (2.09)	0.0004 (1.58)
Lag ann return	-0.0021 (-0.20)	-0.0020 (-0.19)	0.0005 (0.05)	0.0002 (0.01)	-0.0007 (-0.03)	0.0054 (0.24)	-0.0154 (-0.87)	-0.0176 (-0.94)	-0.0114 (-0.65)
Book lev	-0.0690* (-2.00)	-0.0684* (-2.00)	-0.0599 (-1.75)	-0.1217 (-1.50)	-0.1202 (-1.57)	-0.0974 (-1.22)	0.0154 (0.31)	0.0136 (0.26)	0.0236 (0.50)
Div yld	0.0054** (3.67)	0.0055*** (5.30)	0.0051** (3.52)	0.0037 (0.93)	0.0039 (1.05)	0.0013 (0.29)	-0.0000 (-0.01)	0.0002 (0.05)	-0.0006 (-0.12)
R&D	0.1091 (1.85)	0.1057 (1.74)	0.1145* (2.21)	0.2028 (1.36)	0.1856 (1.20)	0.2306 (1.76)	-0.3497* (-2.11)	-0.3543* (-2.09)	-0.3212 (-1.80)
Inst own percent	0.0812 (1.73)	0.0811 (1.82)	0.0908* (2.15)	0.1889* (2.06)	0.1863* (2.22)	0.2168** (2.56)	0.0734 (1.39)	0.0685 (1.31)	0.0823 (1.53)
Inst herfindahl	-0.6112** (-3.28)	-0.5893** (-3.03)	-0.6265** (-3.59)	-0.7781 (-1.92)	-0.7019 (-1.70)	-0.7640* (-2.01)	-0.0085 (-0.03)	0.0127 (0.04)	0.0137 (0.05)
Neg Amihud	-0.3449* (-2.14)	-0.3339* (-2.08)	-0.3702** (-2.57)	-0.7303 (-1.83)	-0.7029 (-1.78)	-0.8328* (-2.22)	-0.0255 (-0.12)	-0.0002 (-0.00)	-0.0447 (-0.24)
Percent votes for							1.1256*** (11.45)	1.1194*** (11.97)	1.1247*** (10.34)
Constant	0.4505*** (43.05)	0.4642*** (29.18)	0.3885*** (15.55)	0.3710*** (16.62)	0.3908*** (9.80)	0.2312*** (4.22)	-0.2732*** (-10.82)	-0.2392*** (-9.30)	-0.2930*** (-12.76)
Proposal & year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,280	2,280	2,280	2,280	2,280	2,280	2,280	2,280	2,280
Adjusted R2	0.255	0.255	0.281	0.191	0.188	0.202	0.267	0.269	0.263

**Panel C. Returns**

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1d) - Maj Pass			LTCAR (-1, +12m) - Implemented		
	Generic	Unfocused	Fad	Generic	Unfocused	Fad
Individual	0.0050 (1.00)	0.0103 (1.19)	0.0033 (0.77)	0.0033 (0.07)	0.0254 (0.29)	-0.0154 (-0.36)
Generic prop	0.0011 (0.45)			-0.0315 (-1.72)		
Individual x Generic prop	-0.0161** (-3.09)			-0.1290** (-3.48)		
Unfocused prop		0.0058** (2.67)			0.0580** (2.78)	
Individual x Unfocused prop		-0.0221** (-2.76)			-0.1812** (-2.91)	
Fad prop			-0.0021 (-0.81)			0.0247 (0.54)
Individual x Fad prop			-0.0154** (-3.51)			-0.1249* (-2.37)
Size	0.0000 (1.20)	0.0000 (1.47)	0.0000 (1.48)	0.0000 (0.80)	0.0000 (0.91)	0.0000 (0.63)
Tobin's Q	-0.0010 (-0.95)	-0.0009 (-0.73)	-0.0011 (-0.88)	-0.0656*** (-6.41)	-0.0608*** (-5.41)	-0.0657*** (-6.03)
Sales growth	-0.0009 (-0.54)	-0.0009 (-0.54)	-0.0012 (-0.56)	0.0574 (0.43)	0.0366 (0.28)	0.0276 (0.22)
ROA	-0.0019 (-0.28)	0.0015 (0.19)	-0.0016 (-0.19)	0.0419 (0.44)	0.0695 (0.61)	0.0810 (0.80)
Cash flow	0.0000 (0.10)	-0.0000 (-0.09)	0.0001 (0.15)	-0.0077* (-2.43)	-0.0083** (-2.62)	-0.0079** (-3.07)
Lag ann return	0.0054 (1.75)	0.0057 (1.66)	0.0056 (1.65)	0.2946*** (4.73)	0.2947*** (5.17)	0.2996*** (5.18)
Book lev	0.0063 (0.58)	0.0061 (0.51)	0.0057 (0.51)	0.0263 (0.37)	0.0100 (0.14)	0.0020 (0.03)
Div yld	0.0008* (2.55)	0.0006 (1.74)	0.0007* (2.02)	0.0105** (2.62)	0.0098** (2.84)	0.0120** (2.98)
R&D	0.0272** (2.76)	0.0187 (1.70)	0.0248* (2.26)	-0.0493 (-0.18)	-0.0677 (-0.20)	-0.0175 (-0.06)
Inst own percent	0.0017 (0.19)	0.0013 (0.12)	0.0024 (0.21)	-0.0516 (-0.57)	-0.0657 (-0.58)	-0.0645 (-0.61)
Inst herfindahl	0.0039 (0.13)	0.0223 (0.59)	0.0338 (0.93)	0.2757 (0.42)	0.4337 (0.69)	0.4416 (0.72)
Neg Amihud	-0.0375 (-0.95)	-0.0340 (-0.87)	-0.0326 (-0.87)	0.1454 (0.26)	0.2015 (0.38)	0.2476 (0.48)
Other board proposal	-0.0033 (-1.00)	-0.0032 (-1.07)	-0.0020 (-0.50)	-0.0059 (-0.23)	-0.0040 (-0.16)	0.0078 (0.35)
Other compensation proposal	-0.0003 (-0.06)	-0.0003 (-0.05)	-0.0017 (-0.40)	0.0030 (0.06)	-0.0046 (-0.09)	-0.0020 (-0.04)
Other governance proposal	-0.0050 (-1.49)	-0.0060 (-1.60)	-0.0072 (-1.57)	0.0065 (0.11)	-0.0005 (-0.01)	-0.0063 (-0.11)
Other operations proposal	-0.0062 (-0.51)	-0.0045 (-0.47)	-0.0026 (-0.25)	-0.1458* (-2.22)	-0.1408 (-1.67)	-0.1194 (-1.75)
Other poison pill proposal	0.0075 (0.85)	0.0072 (0.91)	0.0091 (1.10)	0.0817 (0.61)	0.0961 (0.84)	0.0939 (0.74)
Other voting proposal	-0.0001 (-0.02)	0.0004 (0.15)	-0.0003 (-0.10)	0.0222 (0.63)	0.0341 (1.31)	0.0263 (0.85)
Other CSR proposal	-0.0012 (-0.33)	-0.0017 (-0.48)	0.0005 (0.19)	0.0391 (0.95)	0.0148 (0.39)	0.0323 (0.76)
Meeting dissent	-0.0001 (-0.01)	0.0008 (0.05)	0.0012 (0.07)	-0.1324 (-0.95)	-0.1092 (-0.68)	-0.0960 (-0.60)
Constant	0.0034 (1.23)	0.0005 (0.14)	0.0050 (1.74)	0.0056 (0.18)	-0.0358 (-1.27)	-0.0310 (-0.59)
Proposal & year FE	YES	YES	YES	YES	YES	YES
Observations	687	687	687	501	501	501
Adjusted R2	0.0715	0.0721	0.0817	0.219	0.205	0.202

## Table 6. Shareholder Voting Behavior and Bad Individual Proposals

This table reports statistics on informed investors in Panel A and estimates from OLS regressions of a proposal's proportion of votes "For" (columns 1-3), probability of passing with a majority (columns 4-6) and being implemented (columns 7-9) in Panel B. *Generic* proposals are submitted by individual sponsors who target multiple companies within the same year with the same proposal type. *Unfocused* proposals are submitted by individual sponsors who engage with many different types of proposals within the same year. *Fad* proposals are individual proposals submitted in a year when both the type of proposal and the number of sponsors submitting such proposals are in the top tercile of all years. *Informed ratio* is the ratio of informed mutual fund ownership divided by total mutual fund ownership. We estimate a mutual fund's propensity to acquire information on a shareholder proposal by  $1/R^2$  from a regression of the mutual fund's vote "For" a proposal on an ISS recommendation "For" and proposal category dummies. Then, a firm's informed ownership is the ownership-weighted average of the  $1/R^2$  of its mutual fund owners. Mutual fund holdings as of the quarter before the vote are obtained from the CRSP Mutual Fund database linked by CIK to ISS NPX file numbers. Funds with available NPX file numbers, as reported by ISS over 2006-2014, and CIK numbers from NPX filings are included in the sample. In 89% of proposal votes, all funds in a family vote the same. Thus, the dependent variable in the regression in Panel B is set equal to zero or one. For the remaining 11% of the proposals, we use the fraction of "For" votes of the mutual funds in the family as the dependent variable in the regression in Panel B. \*, \*\*, and \*\*\* refer to statistical significance at 10%, 5%, and 1% levels, respectively.

<b>Panel A. Informed shareholders</b>	Mean	Median	St Dev	Min	Max
R <sup>2</sup> (by fund family)	0.6260	0.6288	0.2168	0.0089	1.0000
Informed ownership (by firm)	0.3455	0.3442	0.1381	0.0000	0.8521
Total fund ownership (by firm)	0.1893	0.1898	0.0739	0.0000	0.4860
Informed ratio (by firm)	1.8253	1.7919	0.1500	1.2142	6.0297



**Panel B. Majority passing and implementation**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Percent Votes "For"			Majority Passing			Implementation		
	Generic	Unfocused	Fad	Generic	Unfocused	Fad	Generic	Unfocused	Fad
Informed ratio	0.0887*** (9.10)	0.0782*** (7.29)	0.0789*** (5.38)	0.0429 (1.68)	0.0051 (0.13)	0.0456 (1.05)	0.2423*** (4.41)	0.2319*** (4.20)	0.2420*** (4.90)
Generic prop	0.1809** (3.14)			-0.1996 (-0.79)			0.0884 (0.93)		
Generic prop x Informed ratio	-0.1117*** (-3.97)			-0.3241** (-2.48)			-0.1888** (-3.17)		
Unfocused prop		0.1254** (2.67)			-0.2951 (-1.60)			0.0577 (0.52)	
Unfocused prop x Informed ratio		-0.0747** (-3.05)			-0.2397** (-2.83)			-0.1817** (-3.01)	
Fad prop			0.1340* (2.44)			-0.0723 (-0.22)			0.1633* (2.14)
Fad prop x Informed ratio			-0.0871** (-2.79)			-0.3648** (-2.54)			-0.2083*** (-3.91)
Size	-0.0000** (-3.17)	-0.0000** (-3.15)	-0.0000** (-2.82)	-0.0000* (-2.31)	-0.0000* (-2.42)	-0.0000 (-1.63)	-0.0000 (-0.80)	0.0000 (0.07)	-0.0000 (-0.66)
Tobin's Q	0.0010 (0.20)	0.0010 (0.21)	0.0030 (0.68)	0.0097 (1.22)	0.0074 (0.87)	0.0078 (0.69)	-0.0114 (-1.49)	-0.0129 (-1.70)	-0.0059 (-0.64)
Sales growth	-0.0072 (-0.90)	-0.0072 (-0.86)	-0.0077 (-0.94)	-0.0010 (-0.13)	-0.0043 (-0.52)	0.0032 (0.38)	-0.0021 (-0.16)	-0.0031 (-0.23)	-0.0021 (-0.15)
ROA	0.1801** (3.31)	0.1802** (3.26)	0.1791** (3.26)	-0.0345 (-0.29)	0.0102 (0.10)	0.0917 (1.31)	-0.1156 (-1.71)	-0.1026 (-1.47)	-0.1012 (-1.22)
Cash flow	0.0003** (2.83)	0.0003** (2.51)	0.0004** (3.12)	0.0002 (0.59)	0.0001 (0.25)	-0.0002 (-0.60)	-0.0002 (-0.97)	-0.0003 (-1.06)	-0.0002 (-0.80)
Lag ann return	0.0066 (0.56)	0.0069 (0.57)	0.0047 (0.37)	0.0029 (0.21)	0.0005 (0.03)	-0.0086 (-0.70)	-0.0382 (-1.80)	-0.0406 (-1.61)	-0.0418 (-1.84)
Book lev	-0.0890* (-2.37)	-0.0900* (-2.41)	-0.0848* (-2.20)	-0.1020* (-1.97)	-0.0847 (-1.60)	-0.0817 (-0.97)	0.0026 (0.07)	0.0161 (0.36)	0.0191 (0.53)
Div yld	0.0060*** (4.03)	0.0060*** (5.61)	0.0055*** (4.36)	-0.0015 (-0.40)	-0.0028 (-0.77)	-0.0126** (-3.12)	0.0051* (2.07)	0.0046 (1.78)	-0.0002 (-0.06)
R&D	0.1557* (2.35)	0.1593* (2.35)	0.1491* (2.27)	-0.1621 (-0.81)	-0.1176 (-0.63)	0.0470 (0.42)	-0.1164 (-0.90)	-0.1154 (-0.87)	-0.0939 (-0.58)
Inst own percent	0.0538 (1.04)	0.0560 (1.10)	0.0583 (1.10)	0.0475 (0.71)	0.0406 (0.77)	0.0893 (1.26)	0.0547 (1.62)	0.0463 (1.17)	0.0707 (1.92)
Inst herfindahl	-0.5702** (-2.58)	-0.5640** (-2.55)	-0.5605* (-2.42)	-0.4395** (-3.16)	-0.2323 (-1.02)	-0.3487* (-2.24)	0.5262 (1.81)	0.6056 (1.78)	0.6262* (2.20)
Neg Amihud	-0.3463 (-1.90)	-0.3527* (-1.97)	-0.3490 (-1.85)	-0.3216 (-1.13)	-0.2919 (-0.96)	-0.5634 (-1.89)	0.1994 (1.12)	0.2099 (1.12)	0.1777 (0.89)
Percent votes for							0.5487*** (5.87)	0.5756*** (6.20)	0.6442*** (5.35)
Constant	0.2769*** (14.39)	0.2924*** (14.81)	0.2962*** (10.88)	0.9315*** (15.80)	1.0008*** (11.73)	0.8587*** (10.56)	-0.4349*** (-4.19)	-0.4125*** (-3.74)	-0.4978*** (-4.55)
Proposal & year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	1,890	1,890	1,916	1,890	1,890	1,916	1,890	1,890	1,916
Adjusted R2	0.261	0.257	0.259	0.699	0.627	0.608	0.242	0.262	0.218

**Table 7. Shareholder Propensity to Acquire Information and the Performance of Proposals**

This table reports OLS regressions of CARs for majority passed (columns 1-2) and implemented proposals (columns 3-4). CARs are estimated with respect to the VW CRSP index. *Informed ratio* is the ratio of informed to total mutual fund ownership, as in Table 6. \*, \*\*, and \*\*\* refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	CAR (-1, +1d)		LTCAR (-1, +12m)	
			Implementation (Maj Pass)	
Informed ratio	0.0056** (1.98)	0.0046* (2.23)	-0.0725** (-2.24)	0.0385 (1.04)
Majority pass	-0.0060 (-0.85)	-0.0072 (-0.85)		
Majority pass x Informed Ratio	0.0114*** (3.03)	0.0119** (2.63)		
Implementation				
Implementation x Informed Ratio				
Implementation (Maj Pass)			-0.1063 (-0.77)	0.0226 (0.25)
Implementation (Maj Pass) x Informed Ratio			0.2184*** (3.01)	0.1377** (2.75)
Size		-0.0000 (-0.16)		-0.0000 (-1.48)
Tobin's Q		-0.0010 (-1.07)		-0.0307** (-2.58)
Sales growth		-0.0011 (-1.28)		0.0173** (3.24)
ROA		-0.0012 (-0.13)		-0.1910*** (-3.78)
Cash flow		-0.0001 (-1.36)		0.0002 (0.46)
Lag ann return		0.0089** (3.64)		0.3524*** (7.89)
Book lev		0.0133** (3.07)		-0.0130 (-0.31)
Div yld		0.0003 (1.55)		0.0142* (2.34)
R&D		0.0176 (1.12)		-0.2621** (-2.68)
Inst own percent		0.0005 (0.11)		-0.1169 (-1.34)
Inst herfindahl		0.0287 (1.49)		0.2400 (0.95)
Neg Amihud		0.0016 (0.10)		0.5539* (1.98)
Other board proposal		-0.0019 (-1.34)		-0.0427 (-1.41)
Other compensation proposal		-0.0006 (-0.56)		-0.0043 (-0.23)
Other governance proposal		0.0005 (0.25)		-0.0119 (-0.54)
Other operations proposal		-0.0026 (-1.11)		-0.0957 (-1.62)
Other poison pill proposal		-0.0000 (-0.01)		0.0515 (0.67)
Other voting proposal		0.0005 (0.29)		-0.0107 (-0.64)
Other CSR proposal		-0.0026 (-1.15)		-0.0093 (-0.29)
Meeting dissent		0.0018 (0.21)		0.0380 (0.40)
Constant	-0.0124** (-2.34)	-0.0095** (-2.58)	0.1226** (2.05)	-0.0830 (-1.18)
Proposal & year FE	YES	YES	YES	YES
Observations	2,656	2,214	2,598	2,168
Adjusted R2	0.116	0.149	0.0874	0.245

**Table 8. Shareholder Propensity to Acquire Information and Trading after Voting against Proposals**

This table reports OLS regressions of the change in mutual fund ownership in firms at which the fund voted against a bad individual shareholder proposal. Generic, unfocused, or fad proposals are defined in Table 5. Columns (1)-(3) include only proposals that pass with a majority; Columns (4)-(6) focus on proposals that fail to pass. The change in mutual fund holdings is calculated as the mutual fund's % ownership in the quarter ending after the meeting minus the mutual fund's % ownership in the quarter ending before the meeting, divided by the mutual fund's % ownership in the quarter before the meeting. *Informed MF* is an indicator capturing a mutual fund's propensity to acquire information and equals one for mutual funds with above median  $1/R^2$ .  $R^2$  is estimated from a regression of the mutual fund's vote "For" a proposal on a dummy for an ISS recommendation "For" and proposal type dummies. All regressions include firm-by-year and proposal type fixed effects and cluster standard errors by fund. \*, \*\*, and \*\*\* refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Change in mutual fund ownership					
	Proposals passing with majority			Proposals failing to pass		
Informed MF	-0.0116 (-0.21)	-0.0115 (-0.21)	-0.0208 (-0.42)	-0.0104 (-0.22)	-0.0075 (-0.16)	-0.0074 (-0.16)
Oppose generic prop	-0.0626 (-0.99)			-0.0164 (-0.66)		
Oppose generic prop x Informed MF	-0.1540** (-1.98)			-0.0111 (-0.36)		
Oppose unfocused prop		-0.0327 (-0.60)			-0.0066 (-0.31)	
Oppose unfocused prop x Informed MF		-0.1398** (-2.14)			-0.0219 (-0.73)	
Oppose fad prop			0.0277 (0.66)			0.0040 (0.23)
Oppose fad prop x Informed MF			-0.0998*** (-3.08)			-0.0300 (-0.91)
Oppose	-0.0436 (-1.10)	-0.0544 (-1.28)	-0.0333 (-1.02)	-0.0249 (-0.68)	-0.0262 (-0.73)	-0.0303 (-0.92)
Constant	0.2663*** (6.01)	0.2661*** (6.13)	0.2662*** (6.49)	0.2406*** (7.30)	0.2389*** (7.34)	0.2388*** (7.50)
Firm-by-year and proposal FE	YES	YES	YES	YES	YES	YES
Observations	60,540	60,540	64,017	203,025	203,025	203,025
Adjusted R2	0.0216	0.0214	0.0210	0.0176	0.0176	0.0176

Appendix. Additional tables

**Table A1. Abnormal Returns Associated with Proposals**

*Panel A. Descriptive Evidence*

This table reports CARs from  $t-1$  to  $t+1$  days around the meeting date. CARs are estimated with respect to the VW CRSP index. The sample includes shareholder-sponsored proposals over the 2003-2014 period. Proposals are classified into seven non-overlapping categories and sponsors are classified as individuals or institutions, with the latter further subdivided into public pension funds, unions, and investment firms. Other (sponsors) are groups with no lead sponsor, religiously-affiliated organizations, and environmental sponsors that cannot be classified. The last row reports the average CAR across all proposal types. Differences from zero are statistically significant at 10% if shaded in grey and at 5% if in bold.

	<b>Individual</b>	<b>Institution</b>	<b>Pension</b>	<b>Union</b>	<b>Inv firm</b>	<b>Other</b>
Board	0.024%	0.010%	0.079%	0.034%	-0.453%	-0.627%
CSR	-1.254%	0.261%	0.076%	-0.338%	0.690%	-0.399%
Compensation	-0.036%	0.008%	-0.228%	0.076%	-0.793%	<b>-0.599%</b>
Gov disclosure	1.058%	0.115%	0.092%	0.331%	-0.324%	-0.395%
Operations	-0.149%	-0.370%	-0.797%	-1.448%	1.741%	-0.887%
Poison pill	-0.418%	0.550%	-0.959%	0.848%	0.455%	
Voting	0.009%	-0.019%	0.282%	-0.048%	-1.728%	-0.260%
Total	0.000%	0.050%	0.060%	0.060%	-0.020%	<b>-0.480%</b>

Panel B. Multivariate Analysis

This table reports OLS regressions for CARs from  $t-1$  to  $t+1$  days around the meeting date. CARs are estimated with respect to the VW CRSP index. The sample includes shareholder-sponsored proposals over the 2003-2014 period. All regressions include proposal type and year fixed effects and cluster standard errors by proposal type and firm. \*, \*\*, and \*\*\* refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
	CAR (-1, +1d)				
Maj pass proposal	-0.0003 (-0.28)	0.0012 (0.75)	-0.0015 (-1.26)	-0.0006 (-0.49)	0.0003 (0.25)
Individual		0.0016 (1.05)			
Individual x Maj pass proposal		-0.0038 (-1.86)			
Pension			-0.0003 (-0.14)		
Pension x Maj pass proposal			0.0074** (2.56)		
Union				-0.0005 (-0.55)	
Union x Maj pass proposal				0.0009 (0.60)	
Inv firm					0.0056 (1.53)
Inv firm x Maj pass proposal					-0.0190** (-3.10)
Size	-0.0000 (-0.83)	0.0000 (0.03)	-0.0000 (-0.84)	-0.0000 (-0.83)	-0.0000 (-0.79)
Tobin's Q	-0.0007 (-0.67)	-0.0007 (-0.65)	-0.0007 (-0.69)	-0.0007 (-0.66)	-0.0007 (-0.67)
Sales growth	-0.0012 (-1.21)	-0.0007 (-0.84)	-0.0013 (-1.30)	-0.0012 (-1.20)	-0.0013 (-1.29)
ROA	0.0012 (0.12)	0.0011 (0.10)	0.0008 (0.08)	0.0012 (0.12)	0.0008 (0.08)
Cash flow	-0.0001 (-1.87)	-0.0001 (-1.64)	-0.0001 (-1.92)	-0.0001 (-1.84)	-0.0001 (-1.93)
Lag ann return	0.0132** (3.52)	0.0144*** (3.75)	0.0132** (3.49)	0.0132** (3.53)	0.0131** (3.48)
Book lev	0.0159** (3.27)	0.0163** (3.24)	0.0160** (3.26)	0.0159** (3.24)	0.0159** (3.29)
Div yld	0.0004 (1.29)	0.0004 (1.32)	0.0003 (1.01)	0.0004 (1.30)	0.0003 (1.18)
R&D	0.0256 (1.48)	0.0234 (1.48)	0.0247 (1.45)	0.0255 (1.47)	0.0248 (1.46)
Inst own percent	-0.0100* (-2.15)	-0.0064 (-1.69)	-0.0101* (-2.16)	-0.0099* (-2.15)	-0.0098* (-2.07)
Inst herfindahl	-0.0380 (-1.84)	-0.0258 (-1.37)	-0.0391 (-1.86)	-0.0381 (-1.84)	-0.0346 (-1.73)
Neg Amihud	0.0079 (0.33)	0.0024 (0.08)	0.0081 (0.33)	0.0079 (0.33)	0.0074 (0.29)
Constant	-0.0017 (-1.05)	-0.0021 (-1.47)	-0.0017 (-0.95)	-0.0016 (-0.91)	-0.0019 (-1.09)
Proposal & year FE	YES	YES	YES	YES	YES
Observations	2,619	2,252	2,619	2,619	2,619
Adjusted R2	0.0347	0.0347	0.0357	0.0340	0.0368

**Table A2. Proposal Implementation and Hedge Fund Activism**

This table reports OLS regressions of the probability of being targeted by hedge fund activism as a function of the implementation of proposals voted on in the previous year's annual meeting. *Generic* proposals are submitted by sponsors who target multiple companies within the same year with the same proposal type. *Unfocused* proposals are submitted by sponsors who engage with many different types of proposals within the same year. *Fad* proposals are proposals submitted in a year when both the type of proposal and the number of sponsors submitting such proposals are in the top tercile of all years. The sample includes shareholder-sponsored proposals over the 2003-2014 period. All control variables are lagged by one year. All regressions include industry and year fixed effects, and cluster standard errors by firm. \*, \*\*, and \*\*\* refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Activist target					
No implementation non-fad prop	0.0179 (0.85)					
No implementation fad prop	0.0053 (0.36)					
Implementation non-fad prop		-0.0067** (-2.51)				
Implementation fad prop		-0.0137*** (-6.66)				
No implementation non-generic prop			-0.0059 (-0.52)			
No implementation generic prop			0.0254 (1.57)			
Implementation non-generic prop				-0.0120*** (-5.06)		
Implementation generic prop				-0.0100*** (-4.08)		
No implementation focused prop					0.0223 (0.95)	
No implementation unfocused prop					0.0068 (0.48)	
Implementation focused prop						-0.0132*** (-4.99)
Implementation unfocused prop						-0.0119*** (-5.81)
Size	-0.0000*** (-2.87)	-0.0000** (-2.45)	-0.0000*** (-2.73)	-0.0000** (-2.44)	-0.0000*** (-2.82)	-0.0000** (-2.45)
Tobin's Q	-0.0000 (-0.63)	-0.0000 (-0.64)	-0.0000 (-0.63)	-0.0000 (-0.64)	-0.0000 (-0.63)	-0.0000 (-0.64)
Sales growth	-0.0000 (-0.75)	-0.0000 (-0.73)	-0.0000 (-0.75)	-0.0000 (-0.73)	-0.0000 (-0.75)	-0.0000 (-0.73)
ROA	-0.0055 (-1.29)	-0.0056 (-1.30)	-0.0055 (-1.29)	-0.0056 (-1.30)	-0.0055 (-1.29)	-0.0056 (-1.30)
Cash flow	0.0000 (0.23)	0.0000 (0.22)	0.0000 (0.23)	0.0000 (0.22)	0.0000 (0.23)	0.0000 (0.22)
Lag ann return	-0.0026 (-1.64)	-0.0026 (-1.64)	-0.0026* (-1.65)	-0.0026 (-1.64)	-0.0026 (-1.64)	-0.0026 (-1.64)
Book lev	0.0131*** (2.75)	0.0131*** (2.75)	0.0132*** (2.75)	0.0132*** (2.75)	0.0131*** (2.75)	0.0132*** (2.75)
Div yld	-0.0000 (-1.04)	-0.0000 (-1.13)	-0.0000 (-1.03)	-0.0000 (-1.13)	-0.0000 (-1.04)	-0.0000 (-1.13)
R&D	0.0006 (0.06)	0.0004 (0.04)	0.0006 (0.06)	0.0004 (0.04)	0.0006 (0.06)	0.0004 (0.04)
Inst own percent	0.0273*** (6.72)	0.0272*** (6.71)	0.0273*** (6.72)	0.0273*** (6.71)	0.0273*** (6.72)	0.0273*** (6.71)
Inst herfindahl	-0.0189*** (-4.04)	-0.0188*** (-4.02)	-0.0189*** (-4.04)	-0.0188*** (-4.02)	-0.0189*** (-4.04)	-0.0188*** (-4.02)
Neg Amihud	-0.1304*** (-8.40)	-0.1290*** (-8.35)	-0.1303*** (-8.41)	-0.1290*** (-8.35)	-0.1302*** (-8.42)	-0.1290*** (-8.35)
Industry & year FE	YES	YES	YES	YES	YES	YES
Observations	36,954	36,954	36,954	36,954	36,954	36,954
Adjusted R2	0.0185	0.0184	0.0185	0.0184	0.0185	0.0184

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