Governance Changes through Shareholder Initiatives: The Case of Proxy Access

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Abstract

We study a regulatory change that led to over 300 shareholder proposals to instate proxy access and more than 250 firms adopting proxy access from 2012 to 2016. The firms expected to benefit most from proxy access have the most positive market reaction to receiving a proposal, but adoptions are not concentrated at these firms. We find that proposing and voting shareholders do not discriminate between firms that would or would not benefit and that management resists proxy access at the firms that stand to benefit most. This process results in the concentration of adoptions at large, already-well-governed firms.

I.   Introduction

Shareholder proposals, once viewed as ineffective in promoting change, have more recently been instrumental in several waves of governance reforms. Proposals to declassify boards became common in the late 1990s and early 2000s, whereas the next decade saw a raft of proposals to move to a majority-voting threshold in director elections. Lately, there has been a surge in proposals to adopt a proxy-access bylaw. These initiatives have met with great success, with each of these mechanisms having been adopted by the majority of the large Standard & Poor's

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(S&P) 500 companies. However, it is unclear whether these reforms are implemented at the firms where they would be most beneficial.

We study shareholder proposals for proxy access in the 2012–2016 proxy seasons, which were made possible by a 2011 regulatory change. Proxy access allows shareholders to nominate a limited number of their own director candidates alongside the nominees of the incumbent board, without launching a proxy contest. Given that those nominees otherwise run unopposed, proxy access can discipline entrenched management by introducing a credible threat of competition to a process otherwise widely viewed as a rubber stamp.[1] Prior to the 2012 proxy season, shareholders were generally unable to put forth a proposal for the adoption of a proxy-access bylaw because of the rules governing shareholder proposals.

The 338 proxy-access proposals submitted over the 5 years following the 2011 change in these rules represent a significant initiative, comparable to other major waves of shareholder proposals. In fact, proxy-access proposals filed in 2016 represented the highest number of shareholder proposals ever filed in a given year on a single topic, "by a long shot."[2]

Our analysis focuses on where proxy access has been delivered relative to where it would be most value-enhancing and how the shareholder-proposal process drives these outcomes. We exploit the adoption and unexpected retraction of a U.S. Securities and Exchange Commission (SEC) rule that would have mandated universal proxy access to extract the market's expectation of which firms would benefit from proxy access. We also examine the market reaction to the New York City (NYC) comptroller's surprise announcement in Nov. 2014 naming 75 firms that he was about to target with a shareholder proposal for proxy access. We document that being targeted with a shareholder-driven proxy-access proposal is on average beneficial, but the market reaction varies dramatically with firms' expected benefits from proxy access, as measured using their return to the stay of the universal proxy-access rule. Those that we ex ante identify as being expected to benefit most from proxy access experience an average abnormal return of +120 basis points (bps) upon the announcement of a proposal, whereas those expected to benefit the least experience an abnormal return of –18 bps on average.

However, when we examine the overall adoption of proxy access bylaws after the 2011 regulatory change, we find that they are not concentrated in firms where the market expects there is the greatest potential to unlock value. Instead, adoptions are most frequent among large, already-well-governed firms. To understand what may drive this puzzling finding, we next study the two driving forces behind this process: the choices of shareholders in submitting and voting on proposals and the actions of management in reaction to shareholder proposals.

First, we consider the targeting decisions of the shareholders who submit and steward proposals. When we examine where proxy-access proposals are submitted relative to our benchmark for the benefits of proxy access, we find that submissions are not sensitive to the expected shareholder-wide benefits. Instead, proposals are

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[1]The first proxy-access nominee in the United States was successfully elected to the board of the Joint Corp. in 2019.

[2]See "Proxy Season Shaping Up to Be Huge," *Pensions & Investments* (Feb. 22, 2016), quoting an executive at Institutional Shareholder Services (ISS).

primarily directed at large companies, and proponents overweight industries in a way that suggests that special interests play a role in targeting decisions. Our finding is consistent with prior research on say-on-pay and majority-voting proposals (Cai and Walkling (2011), Cai, Garner, and Walkling (2013)) finding that targeting is not driven by characteristics associated with a greater need for these governance provisions. These patterns highlight a general drawback of relying on shareholder proponents to instigate governance changes. That is, because of a classic free-rider problem among the dispersed shareholders, the few that step up to develop and submit proposals have a particularly strong interest in intervening, and these interests often do not align with those of the broad shareholder base.

We next examine the role of shareholders voting on proposals. We find that the dispersed nature of shareholders constrains them from coordinating to support proposals specifically where proxy access would be beneficial. At the firm level, voting outcomes are not sensitive to the expected benefits of proxy access. When we examine the voting decisions of specific institutions, we find that more of the variation in voting is driven by voter fixed effects than by firm characteristics. This apparent lack of discernment may be due to the costs involved for each voting shareholder to analyze the merits of a proxy-access proposal in the context of every individual firm. Perhaps for the same reason, we find that investors coalesce behind a fixed set of proxy-access terms for all firms, with the "standard" proposals conforming to the ownership requirements of the vacated SEC rule garnering significantly higher shareholder support. In fact, proxy-access proposals initially requested a variety of terms of proxy access at different firms but later converged to a nearly uniform set of terms. This lack of tailoring suggests that the costs of coordinating dispersed shareholders resulted in a one-size-fits-all focal-point solution.

Further, we document that conflicts across shareholders affect voting outcomes. As expected, inside ownership is associated with opposition to proxy access. What is more interesting is that large institutional blockholders are also significantly less likely to support these proposals than institutions with smaller stakes. Further, institutions are less likely to support the proposals at firms where they have a large stake than those at firms where they have a small stake. This result is interesting, given that any value enhancement would be proportionately more beneficial for larger shareholders in general and that proxy access would provide new rights to larger shareholders. We also find that, if anything, the relation of larger holdings with lower voting support is stronger at firms where the expected benefits of proxy access are greatest. Our findings are consistent with larger shareholders being uncomfortable with the extra responsibility that such rights would entail. In addition, management may negotiate with these holders to sway the voting outcome.

We therefore next investigate how managers use their influence in the voting process, using evidence of managerial interventions to reduce support for proposals. We collect direct evidence of shareholder outreach, such as direct mail campaigns or investor presentations that urge a vote against the proposal, which, to the best of our knowledge, has not been exploited in the literature. We also consider indirect evidence of managerial intervention in the form of the voting turnout of retail shareholders because encouraging such shareholders—who

generally vote in line with management's recommendations—to vote is a known tactic to enhance support for management. We find that when shareholder votes are expected to be close, the firms that are expected to benefit more from proxy access are more likely to expand their use of such interventions.

Finally, because the proposals are nonbinding, we examine how managers use their discretion in implementing proxy access. A passed proposal is significantly less likely to be followed by adoption at the firms with the greatest expected benefits of proxy access. Also, among firms where a proposal went to a vote, and after controlling for other factors, we find that firms with the greatest expected benefits from proxy access are significantly less likely than others to adopt proxy access as shareholder support increases. Overall, management is most likely to impede change where it is needed most.

The shareholder-proposal process has been touted as a more effective alternative to regulations that apply one-size-fits-all governance solutions because, in theory, changes could be targeted where they would be most value-enhancing. However, we provide new evidence that dispersed shareholders may default to approaches that approximate a one-size-fits-all pursuit of governance changes. They are not more likely to target and support proposals at firms that are expected to benefit most from proxy access than those least likely to benefit. We also show that management uses a range of tactics to oppose proxy access precisely where it would unlock the most value. In sum, although we document that shareholder proposals deliver proxy access at many firms, our findings highlight the agency conflicts and collective-action problems that not only constrain more tailored solutions but also impede the most beneficial changes.

Our article contributes to the extensive body of literature on shareholder activism. The effectiveness of activism through shareholder proposals is highly debated. Historically, these proposals have been found to have very limited effects. For example, Karpoff, Malatesta, and Walkling (1996) find that shareholder-initiated corporate governance proposals do not increase shareholder value or improve firm performance.[3] However, several studies have found that shareholder proposals have become more effective over time, achieving higher voting support and being more likely to be implemented in more recent years.[4] We extend the literature by providing direct evidence of the general conflicts and frictions faced by management, proponents, and shareholders that continue to limit the effectiveness of shareholder proposals despite their increased impact.

We also contribute to the literature on the adoption and evolution of governance structures. Several seminal articles argue that observed governance structures are the equilibrium outcome of optimization based on market forces (Hermalin and Weisbach (1998), Demsetz and Lehn (1985)). In contrast, others present evidence that suboptimal governance structures arise and can persist despite market forces, perhaps because of the influence of entrenched managers (Schoar and Washington (2011), Bebchuk and Fried (2003)). We provide direct evidence relevant to this

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[3]See also Del Guercio, Seery, and Woidtke (2008), Del Guercio and Hawkins (1999), Gillan and Starks (2000), Prevost and Rao (2000), Smith (1996), Strickland, Wiles, and Zenner (1996), and Wahal (1996).

[4]See, for example, Buchanan, Netter, Poulsen, and Yang (2012), Ertimur, Ferri, and Stubben (2010), Ertimur, Ferri, and Muslu (2011), Renneboog and Szilagyi (2011), and Thomas and Cotter (2007).

debate by documenting the pursuit of an important new governance mechanism and identifying the specific actions by managers and shareholders that may impede market forces from instituting some value-enhancing governance changes.

II.   Data and Sample Description

Our sample includes firms that received a proxy-access proposal (targeted) and those that did not (nontargeted). Beginning with the universe of firms in the Center for Research in Security Prices (CRSP)/Compustat Merged (CCM) data available through Wharton Research Data Services (WRDS), we keep all firms with positive total assets, a valid Central Index Key (CIK) in Compustat, and a link to CRSP securities data. We exclude foreign private issuers because they are not subject to the U.S. proxy rules, leaving us with 4,065 firms.[5] We collect information for these firms where available from the CRSP, Compustat, Trade and Quote (TAQ), Thomson Reuters 13F, ISS Voting Analytics (including Form N-PX data), and ISS Governance databases.[6] Appendix B provides details about the variables we construct.

We next hand-collect the proposals for proxy access submitted to firms in the 2012–2016 proxy seasons. Prior to the 2012 proxy season, any proposal about proxy access could be excluded by a firm from its voting materials under SEC rules. This blanket restriction was removed by a rule amendment that became effective in Sept. 2011.

We identify proposals by searching all definitive proxy materials filed on Schedule 14A in the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database and all no-action requests posted online by the SEC's Division of Corporation Finance, as well as an exhaustive Internet search for proposals disclosed by proponents or law firms.[7] Searching beyond definitive proxy materials allows us to include proposals that were submitted but did not make it to a vote. For the cases where a proposal made it to a vote, we collect relevant information, such as the meeting date, proponent type, and management recommendation, from the proxy statement. We also collect voting results from Form 8-K filings and review all filings of additional definitive proxy materials (DEFA 14As) to identify any letters or other related materials disseminated to shareholders in relation to the vote.

We study a total of 338 proxy-access proposals and 264 adoptions of proxy access over 5 years. Previously studied waves of proposals have been of similar or smaller magnitude. For example, Cai et al. (2013) study 228 proposals to move to a

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[5]In some tests, the sample is further limited by data availability or, as discussed in Section III.A, the applicability of a regulatory event.

[6]We thank Proxy Insight for providing additional data.

[7]We read each proposal and classify its relevant characteristics, such as the proposed terms of access. These terms include the amount of ownership (usually between 1% and 5% of a firm's equity) and the number of years of ownership (generally 1–3 years) required to qualify to nominate directors on the company's ballot. Other terms include whether or not a group of shareholders can join collectively to meet such thresholds and the number of directors (typically a number representing 20%–25% of the board) that can be nominated. The ownership requirements have been the most prominent and, at least initially, had the greatest variation.

majority-voting standard in uncontested director elections, and Ertimur et al. (2011) study different types of compensation-related proposals, of which the largest group is 274 proposals to initiate say-on-pay. Studies of the adoption of specific governance provisions have also had similar sample sizes. For example, Malatesta and Walkling (1988) study 132 poison-pill adoptions, and Faleye (2007) studies 188 firms that de-staggered their boards.

The number of shareholder proposals for proxy access was modest at first, followed by substantial growth, from 24 in 2012 to 171 in 2016.[8] Also, with each proxy season, an increasing number of the proposals made it onto ballots and received majority support from shareholders. In 2012, 12 proposals were voted on, and 2 received more than 50% shareholder support. By 2015, these numbers jumped significantly to 91 proposals voted on, of which 53 received majority support. The increase in proposals continued well into 2016: We record 78 proposals voted on before June 2016, 39 of which received majority support.

Table 1 presents summary statistics for the sample of firms targeted with a proxy-access proposal relative to those that did not receive a proposal. Targeted firms are 10 times larger, on average, than those that are not targeted. They have significantly lower 12-month stock returns and year-over-year sales growth in

TABLE 1

Summary Statistics

Table 1 presents summary statistics for 4,065 firms over the 2011–2016 period. We present descriptive statistics separately for the subsamples of firm-year observations targeted with proxy-access proposals and those that were not. All variables are defined in Appendix B. Standard errors are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Targeted		Not Targeted		
Variables	No. of Obs.	Mean	No. of Obs.	Mean	Difference
AB_RETURN_ON_STAY_DATE	321	0.452	15614	0.806	0.008***
MARKET_CAP	338	41,070	17,445	4,375	36,694***
CASH	338	0.142	17,445	0.190	−0.047***
LEVERAGE	338	0.62	17,445	0.55	0.07***
ROA	338	5.20	17,439	−1.76	6.95***
DIVIDEND_PAYER	338	70.71	17,445	44.62	26.09***
MARKET_TO_BOOK	338	4.14	17,442	1.76	2.38***
SALES_GROWTH	336	11.95	16,689	40.99	−29.04***
RETURNS (previous 12 months)	338	6.12	17,213	12.98	−6.86***
BOARD_SIZE	296	8.23	7,068	7.70	0.52***
BOARD_INDEPENDENCE	296	81.00	7,067	79.20	1.80**
GOLDEN_PARACHUTE	296	76.35	7,068	81.49	−5.14*
POISON_PILL	296	5.41	7,068	9.96	−4.55***
CEO_CHAIR_DUALITY	296	41.89	7,068	37.14	4.75
BOARD_AGE	296	62.86	7,066	62.89	−0.02
BOARD_TENURE	296	8.86	7,068	9.43	−0.57**
OUTSIDE_BOARDS	296	0.78	7,068	0.59	0.19***
NEW_DIRECTORS	296	0.43	7,068	0.33	0.10**
MAJORITY_VOTING	296	0.85	7,068	0.52	0.33***
CLASSIFIED_BOARD	301	17.94	7,269	38.31	−20.37***
DICTATOR (%)	301	79.07	7,269	84.52	−5.45
INSIDER_OWNERSHIP	299	1.94	8,338	3.49	−1.55***
NONCASH_COMPENSATION	304	75.98	8,583	66.13	9.85***
INSTITUTIONAL_OWNERSHIP	328	65.01	16,651	54.56	10.45***

[8]Proposals for proxy access are on par with the drive for a majority-voting standard in director elections and larger than the recent waves of proposals regarding the ability of shareholders to call special meetings and act by written consent. Many of the waves of proposals, like the wave of proxy-access proposals, are characterized by a slow buildup to a broader initiative.

advance of the targeting decision. Additionally, firms targeted with proxy-access proposals have characteristics associated with shareholder-friendly governance, such as a higher prevalence of majority voting and a lower likelihood of classified boards. They also have less inside ownership, higher institutional ownership, and higher incentive (noncash) chief executive officer (CEO) pay, and they differ from the average firm in terms of financial policies, such as financial leverage and payout policy. We explore the determinants of targeting in Section IV and find that these differences are primarily driven by the larger size of targeted firms.

III.   Expected Benefits and Adoptions of Proxy Access

Although proxy access has been of interest to shareholders and regulators for many decades, proxy-access bylaws have historically been very rare.[9] With the removal of the restriction on shareholder proposals for proxy access and the wave of proposals that followed, the adoption of these bylaws has suddenly become commonplace. Less than 1% of the S&P 500 had proxy-access bylaws in 2014, growing to over 70% at the end of 2018. The shareholder initiatives have clearly had an effect on governance structures. To better understand the impact of these changes, we evaluate whether the firms adopting proxy access are those where it is expected to be most beneficial.

A.   Measures of the Variation in the Expected Benefits of Proxy Access

In our tests, we need a measure of where proxy access will be beneficial for shareholders. Our approach builds on the work of prior studies that use the market reaction to regulatory events to estimate the value of proxy access. We exploit the cross section of these existing results, using the differential market reactions across firms to sort them into those expected to benefit more or less from proxy access. These market-based measures provide a single metric that plausibly accounts for all of the factors that investors believe affect the expected benefits. Importantly, we do not have to make assumptions about what aspects of governance or other firm characteristics increase or decrease the incremental benefits of proxy access and how these variables interact with each other.

Our primary measure is based on the reversal of the 2010 rules that would have made proxy access mandatory for all domestic public companies, which is also examined by Cohn, Gillan, and Hartzell (2016), Becker, Bergstresser, and Subramanian (2013), and Jochem (2012). These rules had not yet gone into effect when they were challenged in court and unexpectedly stayed by the SEC and then eventually invalidated. We focus on the SEC's Oct. 4, 2010, announcement that it would stay the effectiveness of these rules because of evidence that it was the primary date on which the market shifted its expectations about proxy access.[10]

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[9]We are aware of only one instance of a proactive adoption in that period, by a firm at the center of a serious scandal. See the Supplementary Material for details.

[10]It is very rare for the SEC to stay an adopted rule; in the case of other recently challenged SEC rules (related to mutual fund governance, conflict minerals, resource extraction, and securities issuance under Regulation A), the motions to stay were denied. Prior to the stay of the proxy-access rules, the chances of invalidation seemed limited because the Dodd–Frank Act clarified the authority of the SEC to issue such

We refer to this date as the date of the "stay announcement" or the "stay date." Together with the universal mandate, the rule that would newly allow shareholder proposals about proxy access was also stayed and not expected to be separately implemented. Thus, the reaction to the stay reflected a full reversal from an expectation of universal proxy access to one of a complete shutdown of the ability to pursue proxy access in the foreseeable future.

Based on abnormal returns on the stay date,[11] we sort firms into quintiles by their reaction to the unexpected announcement. In our quintile of the highest expected benefits, firms lost 1.4% of firm value upon the announcement of the elimination of universal proxy access, whereas in the quintile of the lowest expected benefits from proxy access, firms actually had a mild positive average reaction of 0.18%.

We also consider the intraday returns around the stay announcement, following Becker et al. (2013), and two additional measures based on related events studied by Cohn et al. (2016), Akyol et al. (2012a), (2012b), and Larcker, Ormazabal, and Taylor (2011). Details about the construction of each abnormal-event-return measure are available in Appendix A. Although we believe the stay-date returns provide the best benchmark for our purposes, we present results using the additional measures for robustness.

B. Expected Benefits from Proxy Access and Firm Characteristics

It is difficult to use firm characteristics directly to systematically identify which firms would benefit most from proxy access because many different variables play a role and may interact in complex ways. However, we expect our market-based benchmark to be associated with firm characteristics such as governance and ownership.

Table 2 presents the characteristics of firms expected to benefit more or less from proxy access, based on the stay-date returns, and the differences across these subsamples. The "Above-Median Benefits from Proxy Access" column represents the firms with more negative abnormal returns to the stay announcement, and thus greater expected benefits from proxy access, and the "Below-Median Benefits from Proxy Access" column represents those with below-median expected benefits. We report characteristics in 2010, at the time of the stay announcement.

Our first observation, based on the firm characteristics considered at the top of Table 2, is that the firms that are expected to benefit from proxy access are on average almost three times smaller. That is not surprising because small firms usually have more entrenched management and are not scrutinized to the same degree as their larger peers. Moreover, firms that hold more cash and perform poorly (in terms of return on assets (ROA), sales growth, and market returns) are

rules. Accompanying news accounts, law firm alerts, a spike in Google search volume, and the findings of Becker et al. (2013) all suggest that the announcement of the stay was both important and a surprise. We did not find similar evidence of the market being surprised at the time of the filing of the legal challenge or other related events. Further detail on this evidence is provided in the Supplementary Material.

[11]Because the stay affected all domestic firms, we follow Akyol, Lim, and Verwijmeren (2012a), (2012b) and use the Canadian S&P/Toronto Stock Exchange (TSX) Composite Index as a market benchmark to estimate abnormal returns to the event. Our results are robust to using either a Dow Jones Global Index with leads and lags to adjust for time zone differences or the raw returns on the stay date.

TABLE 2

Comparison of Firm Characteristics by Expected Benefits of Proxy Access

Table 2 presents the results of comparing characteristics in 2010 for firms with above- and below-median expected benefits based on their abnormal returns to the 2010 announcement that the U.S. Securities and Exchange Commission (SEC) was staying the recently adopted proxy-access rules. The sample of firms is restricted to those having data for all characteristics. All variables are defined in Appendix B. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Variable	Above-Median Benefits from Proxy Access	Below-Median Benefits from Proxy Access	Difference
MARKET_CAP	4,816	11,281	−6,465***
CASH	0.185	0.137	0.047***
LEVERAGE	0.490	0.562	−0.072***
ROA	2.853	3.939	−1.086**
DIVIDEND_PAYER	0.491	0.661	−0.170***
MARKET_TO_BOOK	2.611	2.106	0.506***
SALES_GROWTH	−0.065	−0.028	−0.036*
RETURNS (previous 12 months)	0.233	0.274	−0.042**
BOARD_SIZE	7.476	8.008	−0.532***
BOARD_INDEPENDENCE	0.780	0.772	0.007
GOLDEN_PARACHUTE	0.820	0.816	0.004
POISON_PILL	0.186	0.161	0.026
DICTATOR	0.874	0.844	0.030
CEO_CHAIR_DUALITY	0.399	0.467	−0.068**
BOARD_AGE	62.275	62.659	−0.385*
BOARD_TENURE	9.337	9.329	0.008
OUTSIDE_BOARDS	0.585	0.617	−0.033
NEW_DIRECTORS	0.239	0.286	−0.047
MAJORITY_VOTING	0.350	0.447	−0.097***
CLASSIFIED_BOARD	0.488	0.423	0.065**
INSIDER_OWNERSHIP	4.136	3.144	0.992***
NONCASH_COMPENSATION	0.635	0.643	−0.009
N_INSTITUTIONS_OWN_>3%	7.003	6.221	0.782***
No. of obs.	649	647	1,296

overrepresented in the "Above Median" column. Overall, firm characteristics suggest that our measure of expected benefits from proxy access captures a combination of firm characteristics that correlate with greater potential benefits of an intervention.

The remaining rows of Table 2 examine governance characteristics. We find that firms with greater expected benefits from proxy access have many of the characteristics associated with weak governance, such as a higher incidence of classified boards, a lower incidence of majority voting, and higher insider ownership. These findings are largely consistent with Campbell, Campbell, Sirmon, Bierman, and Tuggle (2012) and Akyol et al. (2012a), who find that proxy access is more valuable at a firm with weak governance characteristics.

Interestingly, we also find that firms with greater expected benefits from proxy access have some characteristics that are traditionally associated with strong governance, which demonstrates the difficulties in identifying which firms would benefit most from proxy access based solely on their characteristics as opposed to a market-based measure. For example, although a large board is often associated with entrenchment (Yermack (1996)), we find a strong negative relation between board size and our measure of expected benefits. As explained by Becker et al. (2013), this may reflect the fact that a few shareholder-nominated directors may have more influence on a small board than a larger one. We find a weaker negative relation with CEO–chair duality and board age, which may reflect similar dynamics: One or two new directors may have more hope of influencing a young board

with an independent chair. We also find that the firms we identify as having greater benefits have a larger number of institutional owners with greater than 3% holdings, the typical ownership level required to avail of proxy access, consistent with Cohn et al. (2016) and Becker et al. (2013), who find that proxy access is more valuable where it would be easier for it to be used.

C. Ex Ante Expected Benefits and the Market Reaction to Proxy-Access Proposals

For a subset of firms for which we can measure the market reaction to the receipt of a proxy-access proposal, we next check how these reactions line up with our ex ante measure of the expected benefits. Identifying when the market becomes aware of a shareholder proposal, and therefore being able to measure the market reaction, has been a major challenge to existing research in the field of shareholder proposals.[12] In this setting, we have a rare opportunity to analyze the market reaction to receiving proposals for a subsample of firms for which we have a well-defined announcement date.

Specifically, we study the NYC comptroller's unexpected announcement in Nov. 2014 of the targeting of 75 named firms with a shareholder proposal for proxy access. Because all 75 firms were affected on the same date, we use a range of standard event-study methodologies to account for the potential cross-correlation of the returns. Our primary approach is a generalized least squares estimation, which best preserves the power of our test, applied to a model with the 4 Fama–French–Carhart factors plus a firm-specific industry factor to account for industry concentration.[13] Panel A of Table 3 presents our results for the average effect across the affected firms. Using our primary approach, we find that the firms in this sample experienced a 53-bps abnormal return on average,[14] and the results are stable across estimation techniques and expected-return models.[15]

We next consider how the return to being targeted varies with the expected benefits of proxy access. In Panel B of Table 3, we formally test this relation by partitioning the firms that were targeted by the NYC comptroller into quintiles based on each of our measures of the expected benefits of proxy access and considering the average abnormal return upon receiving a proposal (using our

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[12]Previous research using the mailing or filing date of the proxy statement (e.g., Cai and Walkling (2011), Gillan and Starks (2000), and Karpoff et al. (1996)) has generally found an insignificant market reaction to shareholder proposals, but the proxy statement may contain other information, and the market may be aware of shareholder proposals before they are included in these documents.

[13]We also apply the standard portfolio approach, whereby we collapse the affected firms into an equally weighted portfolio and test if the abnormal portfolio return on the stay date is statistically different from 0 based on the empirical distribution of abnormal portfolio returns over the previous 180-day estimation window. Additionally, we use an alternative method for exploiting the empirical distribution of errors, where we first compute each affected firm's abnormal return on the stay date and then test if the mean abnormal return for all of the affected firms is different from 0 based on the empirical distribution of abnormal returns for false event dates.

[14]The median abnormal return is 44 bps.

[15]The event study excludes the five companies that a news run determined to have significant company-specific news (all earnings announcements) on this day, but the results are similar when we include these firms and use regression techniques robust to outliers.

TABLE 3

Abnormal Returns to Proposal Versus Expected Benefit from Proxy Access

Panel A of Table 3 presents the average abnormal return from the announcement of the New York City comptroller's initiative. We estimate the abnormal return using a portfolio approach similar to that of Jaffe (1974), a firm-by-firm approach using ordinary least squares (OLS), and generalized least squares (GLS) estimation in a seemingly unrelated regression (SUR) framework based on a Fama–French 3-factor or Fama–French–Carhart 4-factor model with an additional firm-specific industry factor in columns 2 and 4. The firm-specific industry factor is the equally weighted average return for all nontargeted firms within a targeted firm's Fama–French 30-industry classification. The estimated parameter on the event-date indicator is the abnormal return for the firm from the announcement of being targeted as part of the initiative. Panel B presents the average abnormal returns (estimated via SUR/GLS) for quintiles of firms sorted based on measures of the expected benefit of proxy access at those firms, where the fifth quintile is where the expected benefit would be the greatest. The measures used to form these quintiles are i) abnormal return on the stay date, ii) the intraday return around the initial announcement of the U.S. Securities and Exchange Commission (SEC) that it was staying the effectiveness of the proxy-access rules if the firm has a valid return in the 40-minute window around the announcement, iii) the abnormal returns upon Senator Dodd's announcement of an amendment that would make proxy access harder to use at a large firm, and iv) the additional events abnormal return described in Appendix A. The final column presents the difference between the first and fifth quintile. Variable definitions are provided in Appendix B. p-values are in parentheses. p-value calculations for each quintile are discussed in Section III.C. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Comptroller's Announcement Event Study

Variable	Average Abnormal Return			
Estimation Method	Fama–French 3		Fama–French–Carhart 4	
Portfolio approach	0.56	0.49*	0.52	0.48*
	(0.12)	(0.09)	(0.14)	(0.10)
Firm-by-firm OLS	0.51	0.54**	0.49	0.53**
	(0.12)	(0.02)	(0.13)	(0.03)
SUR/GLS	0.58	0.54**	0.55	0.53**
	(0.11)	(0.03)	(0.12)	(0.04)
Industry factor	No	Yes	No	Yes
No. of obs.	70	70	70	70

Panel B. Comptroller's Announcement Abnormal Return by Quintile of Sorting Variable

Variable	Average Abnormal Return					
Sorting Variable	Least Benefit	Q2	Q3	Q4	Most Benefit	Q5 – Q1
AB_RETURN_ON_STAY_DATE	−0.18*	0.25**	0.86***	0.61***	1.20***	1.38**
(no. of obs. = 67)	(0.06)	(0.01)	(0.00)	(0.00)	(0.00)	(0.03)
INTRADAY_RETURN_ON_STAY_DATE	0.24*	−0.02	0.76***	0.66***	1.09***	0.84***
(no. of obs. = 67)	(0.02)	(0.41)	(0.00)	(0.00)	(0.00)	(0.00)
SEN_DODD_ANNOUNCEMENT_AB_RETURN	−0.00	0.44***	−0.30	1.19***	1.65***	1.65***
(no. of obs. = 64)	(0.48)	(0.00)	(0.21)	(0.00)	(0.00)	(0.00)
ADDITIONAL_EVENTS_AB_RETURN	−0.25**	0.69***	0.38	0.94***	1.01***	1.26**
(no. of obs. = 66)	(0.03)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)

primary approach) for each such quintile.[16] When considering the statistical significance of these results, we are concerned that errors from the event study and from computing the benchmark returns could be correlated. That is, an omitted risk factor could cause the sorting of firms by their measured abnormal returns to one event to line up with their measured abnormal returns to another event. To address this possibility, we report the statistical significance of these patterns based on a simulation of the counterfactual relation of measured abnormal returns across these dates, based on the returns of unaffected firms.[17]

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[16]The sample of firms targeted by the NYC comptroller is fairly evenly distributed across the quintiles of the measures of the expected benefit of proxy access. For example, with our main measure of the expected benefits of proxy access, the sample is distributed across quintiles 1–5 as follows: 17.1%, 22.9%, 32.9%, 20.0%, and 7.1%.

[17]Specifically, we perform a placebo test that selects random firms that were not targeted by the NYC comptroller and computes their abnormal returns on the announcement date. We then sort the placebo

The first row of Panel B of Table 3 is based on abnormal returns on the stay date of the universal proxy-access rule. In this row, we find that the firms expected to benefit the most from proxy access have a 120-bps return to being targeted with a proxy-access proposal, compared with an average abnormal return of –18 bps for those expected to benefit the least, and that these returns are statistically significant relative to the simulated counterfactual returns for each quintile. When using our alternative benchmarks, we find a strong commonality between the returns and all measures of the expected benefits of proxy access: Firms expected to benefit from proxy access have large positive returns to being targeted with a proposal for proxy access, whereas those not expected to benefit have limited and sometimes negative reactions.

These results demonstrate that proposals for proxy access create significant value at firms where proxy access would be beneficial but not at all firms. Further, the consistent pattern for all of the events we consider suggests that our sorting methodology is, in fact, capturing variation in the expected benefits of proxy access and that this variation is consistent over time.

D.   Where Have Proxy Access Bylaws Been Adopted?

We identify 264 firms that adopted proxy access in our sample period. Adopting firms are generally already more shareholder-friendly, in that adoption is significantly more likely among firms that do not have a classified board or poison pill or that have a majority-voting threshold for director elections. The lower rate of adoption among the firms with less shareholder-friendly corporate governance practices is puzzling, given the shareholder-driven nature of the initiatives instigating these changes.

In Table 4, we formally test how the adoptions of proxy access in our sample line up against the expected benefits of proxy access, based on the stay-date returns. We report the percentage of firms in each quintile of expected benefits that have adopted a proxy-access bylaw, as well as the difference between the fifth and the third (greatest vs. average expected benefit) quintiles as well as the fifth and first (greatest vs. least expected benefit) quintiles. We find that firms expected to benefit the most from proxy access are consistently less likely to adopt proxy-access bylaws than those with average benefits, although adoptions are also low among those expected to benefit the least. For example, in the first column, with the sorting of firms based on abnormal returns on the stay date, we find that 2.9% of the firms expected to benefit the most from proxy access (the fifth quintile) have adopted a proxy-access bylaw. This is significantly less than the 12.3% of adoptions among those with average benefits, although it is not statistically different from the 5.4% of firms adopting such bylaws among those expected to benefit least. The following three columns use alternate measures of the expected benefits of proxy access and find similar results. Overall, it is clear that the adoption of proxy-access bylaws is not concentrated among the firms with the greatest expected benefits.

It is possible that the firms that would have benefited most from proxy access at the time of the regulatory events we exploit have been pressured to make other

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firms into quintiles based on the expected-benefit measures and calculate the average abnormal return for each quintile. We repeat this placebo test 1,000 times and use the resulting distribution of returns for each quintile to measure the significance of the returns for the targeted firms.

TABLE 4

Adoption Versus Expected Benefit of Proxy Access

Table 4 presents the percentage of firms that adopted a proxy-access proposal for each quintile of expected benefits from proxy access, as well as the difference between the fifth and third or first quintiles. The measures used to sort firms in to quintiles of expected benefits are i) the abnormal return on the stay date, ii) the abnormal return upon Senator Dodd's announcement of an amendment that would make proxy access harder to use, iii) the intraday return around the initial announcement of the U.S. Securities and Exchange Commission (SEC) that it was staying the effectiveness of the proxy access rules, and iv) the additional events abnormal return. Columns 5–7 restrict the sample to those that either had no change in limits to act by written consent (column 5), no change in limits to call a special meeting (column 6), or no change in majority or plurality voting standards (column 7). Coefficients are scaled to be interpreted as percentages, and all measures have been adjusted so that quintile 5 indicates the most benefit from proxy access, whereas quintile 1 indicates the least benefit. p-values, reported in parentheses, are calculated with standard errors clustered at the Fama–French 30-industry level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Measures of the Expected Benefits of Proxy Access						
	Full Sample				No Change In:		
					Written Consent	Special Meeting	Voting Standard
Variable	AB_RETURN_ ON_STAY_DATE	SEN_DODD_ ANNOUNCEMENT_ AB_RETURN	INTRADAY_ RETURN_ON_ STAY_DATE	ADDITIONAL_ EVENTS_AB_ RETURN	AB_RETURN_ ON_STAY_DATE	AB_RETURN_ ON_STAY_DATE	AB_RETURN_ ON_STAY_DATE
QUINTILE_1 (least benefit)	5.392*** (0.000)	14.533*** (0.000)	5.210*** (0.000)	5.650** (0.019)	12.644*** (0.000)	14.912*** (0.000)	14.388*** (0.000)
QUINTILE_2	12.602*** (0.000)	18.056*** (0.000)	9.839*** (0.000)	10.000*** (0.000)	23.297*** (0.000)	22.642*** (0.000)	24.686*** (0.000)
QUINTILE_3	12.255*** (0.000)	19.444*** (0.000)	13.655*** (0.000)	11.676*** (0.000)	21.739*** (0.000)	21.264*** (0.000)	23.673*** (0.000)
QUINTILE_4	7.692*** (0.000)	18.056*** (0.000)	12.048*** (0.000)	12.264*** (0.000)	12.500*** (0.000)	10.526*** (0.001)	14.097*** (0.000)
QUINTILE_5 (most benefit)	2.946*** (0.002)	13.542*** (0.000)	9.237*** (0.000)	5.472*** (0.000)	5.650*** (0.008)	4.494* (0.064)	5.442** (0.037)
QUINTILE_5 – QUINTILE_1	−2.446 (0.131)	−0.991 (0.785)	4.027** (0.050)	−0.178 (0.956)	−6.994* (0.064)	−10.418** (0.020)	−8.946* (0.068)
QUINTILE_5 – QUINTILE_3	−9.309*** (0.000)	−5.903** (0.037)	−4.418** (0.024)	−6.204*** (0.000)	−16.089*** (0.000)	−16.770*** (0.000)	−18.231*** (0.000)
No. of obs.	3,057	1,441	2,491	2,652	1,217	707	997

beneficial governance changes in the interim, making proxy access less desirable. We explore this possibility in the last three columns of Table 4. Specifically, in columns 5–7 we focus on firms that have not made changes in three common mechanisms that shareholders pushed for in these interim years: the ability to act by written consent, the ability to call a special meeting, and a majority-voting standard. Once again, we find that the firms expected to benefit most from proxy access are substantially less likely to have adopted a proxy-access bylaw than either those with average benefits or even those with the least expectation of benefits from proxy access. Therefore, it does not appear to be the case that the low rates of adoption for firms that would have benefited most are explained by the adoption of substitute mechanisms.

Table 5 presents a logistic model of proxy-access adoption that includes firm governance and financial characteristics. We again confirm that proxy access is not

TABLE 5

Adoption of Proxy Access and Firm Characteristics

Table 5 presents a logistic regression of an indicator for whether a firm adopted a proxy-access bylaw over the sample period on indicators for firms with the greatest or least expected benefit of proxy access (based on the firms with top- or bottom-quintile abnormal returns on the stay date), as well as firm characteristics as measured at the start of the sample window. We report the average marginal effect for each variable so that indicator variables (e.g., quintile of expected benefits) may be interpreted as the average effect of belonging to that category. Omitted for exposition are dummy variables for industry. Variable definitions are provided in Appendix B. p-values, reported in parentheses, are calculated with standard errors clustered at the Fama–French 30-industry level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent Variable: Firm Adopted a Proxy Access Bylaw		
Variable	1	2	3
QUINTILE_1 (least benefit from proxy access)	−0.047**	−0.045	−0.026
	(0.025)	(0.174)	(0.249)
QUINTILE_5 (most benefit from proxy access)	−0.107***	−0.184***	−0.020
	(0.000)	(0.000)	(0.601)
DICTATOR		−0.061*	0.034
		(0.095)	(0.247)
BOARD_INDEPENDENCE		0.437***	0.051
		(0.000)	(0.604)
CEO_CHAIR_DUALITY		0.036	0.012
		(0.190)	(0.586)
NEW_DIRECTORS		−0.011	−0.000
		(0.234)	(0.942)
BOARD_TENURE		−0.005**	−0.002
		(0.035)	(0.450)
BOARD_SIZE		0.013*	−0.001
		(0.070)	(0.572)
ROA			−0.002*
			(0.083)
RETURNS (previous 12 months)			−0.033
			(0.388)
SALES_GROWTH			0.014
			(0.696)
SIZE			0.105***
			(0.000)
CASH			−0.057
			(0.256)
LEVERAGE			0.039
			(0.477)
DIVIDEND_PAYER			0.016
			(0.543)
Industry fixed effects	Yes	Yes	Yes
Pseudo-R^2	0.065	0.098	0.353
No. of obs.	2,988	1,324	1,322

more likely to be adopted where it is expected to be most beneficial, among firms in the fifth quintile of abnormal returns to the stay date. The second column of Table 5 demonstrates that proxy access is also less likely to be adopted at firms with characteristics associated with managerial entrenchment, such as those with a high E-index ("dictator" firms), less independent boards, and longer-tenured directors. Proxy access is more likely to be adopted at firms with larger boards, which have been associated with managerial entrenchment but could also erode the benefits of appointing new directors on a large board (Becker et al. (2013)). The third column of Table 5 introduces financial characteristics and demonstrates that adoptions are more likely for large firms with relatively higher leverage and lower cash holdings. The effect of size dominates most of the other correlations, with the exception of a weak relation between poor profits and adoptions of proxy access.

Overall, we find that allowing shareholder proposals for proxy access leads to a significant rate of adoption of proxy-access bylaws but that the adoptions are concentrated among large, already-well-governed firms and not where proxy access is expected to be most beneficial. We next test whether frictions in the shareholder-proposal process contribute to this outcome, beginning with the role of shareholders in proposing and voting on proposals and followed by an analysis of the actions of management.

IV.   Shareholder Actions and Implications

The shareholder-proposal process empowers shareholders to pursue governance changes at the specific firms where there is an opportunity for value enhancement, providing a market mechanism for the optimal tailoring of governance. However, the dispersed nature of shareholders complicates this opportunity because collective-action problems may allow proponent interests to dominate common interests or may require one-size-fits-all approaches in order to facilitate coordination among dispersed shareholders.

A.   Shareholder Submissions of Proposals

We study 338 proxy-access proposal submissions by over 20 different proponents.[18] When studying a single proponent (the NYC comptroller) in Section III.C, we found that the announcement of his proposals generated a 120-bps return at firms where proxy access is expected to be most beneficial. However, we also found that the comptroller targeted many firms that are among the least likely to benefit and that these firms had a −18 bps return to the announcement. Although intriguing, this evidence is limited to one proponent. We therefore take a closer look at the targeting choices of the broader group of proponents.

In Table 6, we estimate a logistic model in which the dependent variable is an indicator of whether a firm received a proxy-access proposal in a given year. We separately estimate a model without any control variables to quantify how the firm's expected benefits from proxy access are associated with being targeted and a model that includes firm governance and financial characteristics. All models include

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[18]An illustrative timeline of the proposal process in firm-event time is provided in the Supplementary Material.

TABLE 6

Determinants of Target Selection

Table 6 presents a logistic regression in which an indicator for whether a company received a proxy-access proposal is regressed on firm characteristics. Columns 1 and 2 include all proponents' targeting decisions, whereas columns 3–5 condition on proponent type, with column 3 focusing on union and pro-labor proponents' targeting decision, column 4 focusing on proponents that are pension funds, and column 5 focusing on proponents who are individual shareholders. For columns 3–5, a firm that was targeted by a particular type of investor not being focused on the targeted indicator is set to 0. We report the average marginal effect for each variable so that indicator variables (e.g., quintile of expected benefits) may be interpreted as the average effect of belonging to that category. The expected benefit quintile is based on the abnormal return on the stay date. ROA, SALES_GROWTH, CASH, and LEVERAGE are winsorized at the 0.5% and 99.5% levels. Returns are the cumulative return over the previous 12 months. Variable definitions are provided in Appendix B. Omitted for exposition are dummy variables for industry and a time trend of the number of years since shareholders have been able to submit proxy-access proposals. p-values, reported in parentheses, are calculated with standard errors clustered at the Fama–French 30-industry level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | Dependent Variable: Firm Received a Proxy-Access Proposal | | | | |
| | | | Proponent Is: | | |
Variable	All	All	Union/Labor	Pension	Individuals
QUINTILE_1 (least benefit from proxy access)	0.001 (0.885)	0.006 (0.301)	−0.008*** (0.009)	0.007* (0.055)	0.001 (0.877)
QUINTILE_5 (most benefit from proxy access)	−0.037*** (0.001)	−0.003 (0.678)	0.002 (0.610)	−0.002 (0.821)	−0.004 (0.485)
DICTATOR		0.003 (0.656)	0.001 (0.721)	0.014* (0.080)	−0.006 (0.145)
BOARD_INDEPENDENCE		−0.022 (0.243)	−0.012* (0.056)	0.000 (0.999)	−0.004 (0.808)
CEO_CHAIR_DUALITY		−0.003 (0.612)	−0.004 (0.155)	0.000 (0.951)	−0.002 (0.630)
NEW_DIRECTORS		0.005 (0.144)	−0.000 (0.774)	0.005* (0.068)	−0.001 (0.847)
BOARD_TENURE		0.001 (0.375)	−0.000 (0.793)	0.001** (0.039)	−0.000 (0.512)
BOARD_SIZE		0.001 (0.495)	0.000 (0.759)	−0.000 (0.862)	0.000 (0.672)
RETURNS (previous 12 months)		−0.011 (0.125)	0.000 (0.934)	−0.006 (0.333)	−0.007 (0.102)
ROA		−0.001 (0.186)	0.000 (0.996)	−0.000 (0.373)	−0.000 (0.512)
SALES_GROWTH		−0.006 (0.528)	−0.004 (0.338)	−0.004 (0.660)	−0.001 (0.912)
SIZE		0.024*** (0.000)	0.003*** (0.001)	0.015*** (0.000)	0.009*** (0.000)
CASH		0.033* (0.097)	0.000 (0.988)	−0.001 (0.952)	0.031*** (0.009)
LEVERAGE		0.027 (0.121)	0.007 (0.267)	−0.003 (0.857)	0.020** (0.016)
DIVIDEND_PAYER		−0.010 (0.215)	0.001 (0.755)	−0.015** (0.014)	0.001 (0.761)
PREVIOUSLY_TARGETED		0.042*** (0.000)	0.004 (0.200)	0.027*** (0.000)	0.005 (0.374)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Pseudo-R^2	0.047	0.322	0.232	0.320	0.294
No. of obs.	6,440	6,440	4,586	6,004	6,215

industry fixed effects. The last three columns present results separately for different types of proponents because certain types of proponents may be more likely to be motivated by special interests (Matsusaka, Ozbas, and Yi (2019)).

Across all specifications of Table 6, few variables are strong predictors of being targeted for proxy access. In column 1, we find that proponents are actually less likely to submit proposals in the firms that are expected to benefit most. Once

we include a full set of controls and consider different proponent types, we find that all proponent types, whether union- or labor-affiliated organizations, pension funds, or individual shareholders, are significantly more likely to target large firms. None of these proponent categories is more likely to target firms with the greatest benefits of proxy access, although somewhat interestingly, union- or labor-affiliated organizations are slightly less likely, and pension funds slightly more likely, to target firms with the least benefits of proxy access.

We find suggestive evidence of proponents' special interests when considering the industries of firms targeted by different proponents. For example, 7 out of the 9 proposals submitted by the United Auto Workers (UAW) Retiree Medical Benefits Trust, the largest nongovernmental payer of retiree health-care benefits, were to companies in the health-care sector. Although this proponent holds a diversified portfolio and could thus submit proposals to firms in many industries, it clearly has a direct interest in health-care-specific issues, such as the pricing of drugs and medical treatments. Similarly, the NYC comptroller's office, which has been outspoken about climate change, overweighted energy firms and disclosed that it gave consideration to concerns about carbon intensity in choosing its targets.

Overall, the pattern of targets highlights a drawback of depending on shareholder proponents to pursue governance changes where they are needed. The small number of shareholders who step up to spearhead proposals probably have a strong interest in intervening at particular firms, and these interests are statistically unrelated to the expected benefits of the proposed change.

B.   Shareholder Votes on Proposals

Shareholder voting is the clearest test of whether the owners of the firm support this new governance mechanism. In Table 7, we regress the total percentage voting support for a proposal on an indicator for whether the firm in question has above-median expected benefits of proxy access. We also include the firm's ownership composition, proxy advisor recommendations, the type of proposal, and other controls. In the first two columns, we consider all proposals, whereas the third and fourth columns are limited to proposals with an ownership requirement of 3% for 3 years ("standard" proposals) to enhance comparability.

We find that overall firm-level voting support for proxy access is not sensitive to the expected benefits of proxy access. In the second and fourth columns of Table 7, we interact institutional ownership categories with the indicator for greater benefits of proxy access. We find that neither holdings by institutions with small stakes (holders of no more than 1% of the firm) nor holdings by those with large stakes (holders of over 3% of the firm) are associated with more support for proposals where the benefits would be greater. In fact, holdings by institutions with 1%–3% stakes are actually associated with *less* support where the benefits would be greater, which may reflect the managerial actions to influence voting outcomes that we explore in detail in Section V.

The lack of a relationship is consistent with Listokin (2009), who finds that voting and market prices aggregate information in different ways. Similarly, in our setting, voting outcomes may be disconnected from market expectations because of a collective-action problem. That is, although the market incorporates

TABLE 7

Vote Outcome and Ownership Composition

Table 7 presents the coefficient estimates of a linear regression in which the percentage voting in support of the proxy access proposal is regressed on an indicator for above-median expected benefits of a proxy-access bylaw (MORE_BENEFITS_ FROM_PROXY_ACCESS), measures of firm-ownership composition, the interaction of the indicator for greater benefits with the institutional-ownership variables, and controls. INSTITUTIONAL_OWNERSHIP_0%_1% is the aggregate ownership for all institutions holding positions between 0% and 1% of the firm's equity (similarly defined for the 1%–3% and >3% variables). In columns 3 and 4, the sample is restricted to shareholder proposals that apply an ownership threshold of 3% for 3 years. Variable definitions are provided in Appendix B. p-values, reported in parentheses, are calculated with standard errors clustered at the Fama–French 30-industry level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent Variable: Percentage Voting in Support of the Proxy-Access Proposal			
Variable	All Proposals		Standard Proposals	
MORE_BENEFITS_FROM_PROXY_ACCESS	−0.434 (0.814)	−2.394 (0.774)	−1.727 (0.365)	0.743 (0.938)
INSIDER_OWNERSHIP	−0.519* (0.067)	−0.515* (0.091)	−0.523* (0.083)	−0.519 (0.105)
INSTITUTIONAL_OWNERSHIP_0%_1%	0.248* (0.095)	0.128 (0.511)	0.296** (0.035)	0.248 (0.215)
INSTITUTIONAL_OWNERSHIP_1%_3%	−0.0863 (0.591)	0.250 (0.168)	−0.0434 (0.787)	0.308* (0.061)
INSTITUTIONAL_OWNERSHIP_>3%	−0.293*** (0.001)	−0.396*** (0.003)	−0.312*** (0.001)	−0.414*** (0.001)
MORE_BENEFITS × INSTITUTIONAL_ OWNERSHIP_0%_1%		0.183 (0.301)		0.0572 (0.795)
MORE_BENEFITS × INSTITUTIONAL_ OWNERSHIP_1%_3%		−0.582* (0.062)		−0.630** (0.034)
MORE_BENEFITS × INSTITUTIONAL_ OWNERSHIP_>3%		0.166 (0.324)		0.165 (0.356)
ISS_SUPPORTS	13.35** (0.028)	14.00** (0.030)	23.68*** (0.000)	24.48*** (0.000)
GL_SUPPORTS	24.15*** (0.000)	23.49*** (0.000)	26.85*** (0.000)	26.26*** (0.000)
STANDARD_PROPOSAL	14.62** (0.012)	14.34** (0.016)		
PREVIOUSLY_TARGETED	1.630 (0.617)	1.544 (0.632)	2.936 (0.450)	2.902 (0.446)
SIZE	−1.920 (0.137)	−2.121 (0.105)	−1.851 (0.179)	−1.988 (0.155)
PENSION	−0.362 (0.899)	−0.423 (0.887)	−0.880 (0.783)	−0.954 (0.772)
UNION	3.413 (0.585)	3.569 (0.597)	2.953 (0.656)	3.417 (0.625)
DICTATOR	3.063 (0.230)	2.753 (0.297)	1.876 (0.493)	1.541 (0.590)
CONSTANT	23.46 (0.146)	27.77* (0.060)	25.24 (0.158)	26.14 (0.113)
No. of obs.	179	179	159	159
Adj. R^2	0.598	0.597	0.414	0.414

information from a large number of participants, it is costly for an individual voting shareholder to analyze the merits of proposals in the context of the unique circumstances of each firm. As documented by Iliev, Kalodimos, and Lowry (2019), there is evidence that few shareholders undertake in-depth firm-specific governance research. This could result in voting choices that are driven by blanket policies and simple heuristics.

Table 7 also demonstrates that investors coalesce behind a fixed set of proxy access terms for all firms, consistent with some voters using the simple heuristic of supporting any proposals with certain terms. In particular, the "standard" proposals

conforming to the ownership requirements of the vacated SEC rule garner significantly higher shareholder support. This result suggests that the costs of coordinating dispersed shareholders resulted in a one-size-fits-all focal point solution.[19]

A further result from Table 7 that is consistent with shareholders' incentives to minimize research costs is the substantial effect of the two leading proxy advisory services, ISS and Glass Lewis (Malenko and Shen (2016)). A "for" recommendation from either leading proxy advisor correlates with much stronger support for a proxy-access proposal.

Table 7 also allows us to examine the role of the heterogeneity of shareholder types. Individual voting shareholders, like shareholder proponents, may have idiosyncratic motivations. We find that a higher level of insider ownership is negatively correlated with support for proxy-access proposals, which is expected given that the incumbent management likely prefers to remain insulated from such mechanisms. Strikingly, though, we also find that the voting behavior of institutions with large stakes diverges substantially from those with smaller stakes. In particular, having more institutional investors that individually hold no more than 1% of a firm is associated with significantly higher support for proxy-access proposals, whereas having more institutional investors that hold more than 3% is associated with significantly lower support.

This result is important, given that blockholders are best positioned to use proxy access to nominate directors, and as discussed previously, we and other researchers have found that the presence of such blockholders is associated with greater benefits from proxy access. However, blockholders already have informal influence with management and might not want to bear the public pressure and cost of being able to nominate directors. Instead, they may negotiate for other concessions in return for voting against a proxy-access proposal.

Although these tests present evidence based on correlations between the overall votes and the shareholder base, they do not provide direct evidence of how individual shareholders vote. Therefore, we next look at voting decisions by fund families required to report their votes on Form N-PX. In Table 8, we use a logistic model to predict the fund-family-level voting support for a proposal. In cases where funds inside a fund family disagree, our measure corresponds to the votes of the majority of the fund-family votes. Our explanatory variables include an indicator for greater expected benefits of proxy access, measures of the fund family's ownership, and characteristics of the proposal and the firm.

The results looking at individual investor voting records in Table 8 confirm the firm-level results in Table 7. No subset of institutional owners is more likely to support proxy access where it is more beneficial. Although voters are not sensitive

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[19]Anecdotal evidence generally supports this coordination-costs hypothesis. For example, both Vanguard and Fidelity initially voted against proposals with a construct of 3% for 3 years. After attracting significant attention and pressure from other institutional shareholders, both changed their policies (Vanguard in 2016 and Fidelity in 2017) to support the emergent standard. Vanguard spokeswoman Arianna Stefanoni Sherlock explained the shift based on "the critical mass of access adoption at the 3 percent ownership level by an increasingly wide range of companies." Additionally, in private discussions with institutional investors and shareholder proponents, we were told that many shareholders had their own ideas about what levels of access would be appropriate at different firms, but that they converged on the levels in the SEC rule as a focal point in the interest of efficiently moving forward.

TABLE 8

Institutional Investor Voting

Table 8 presents a logistic regression in which an indicator for whether the majority of a fund family voted in support of a proxy-access proposal is regressed on fund-family ownership as well as controls. Columns 1 and 3 include firm-meeting dummy variables, and columns 2 and 4 include institution dummy and year variables. We report the average marginal effect for each variable so that indicator variables (e.g., quintile of expected benefits) may be interpreted as the average effect of belonging to that category. Investor votes are computed at the investor-family level, as reported in the Institutional Shareholder Services (ISS) Voting Analytics database. Investor holdings are based on the investor 13F holdings as reported in the Thompson Reuters 13-F data set. All other variable definitions are provided in Appendix B. *p*-values, reported in parentheses, are calculated with standard errors clustered at the Fama–French 30-industry level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent Variable: Majority of a Fund Family Voted in Support of the Proxy Access Proposal			
Variable	1	2	3	4
HOLDINGS_MEDIAN_TO_1%	−0.040*** (0.001)	−0.002 (0.839)		
HOLDINGS_1%_TO_3%	−0.189*** (0.000)	−0.042** (0.042)		
HOLDINGS_>3%	−0.204*** (0.000)	−0.064*** (0.004)		
HOLDINGS			−0.039*** (0.000)	−0.012*** (0.000)
QUINTILE_1 (least benefit from proxy access)		−0.003 (0.761)		−0.002 (0.795)
QUINTILE_5 (most benefit from proxy access)		−0.031 (0.182)		−0.033 (0.143)
INDEXER	0.024** (0.013)		0.016* (0.073)	
ISS_SUPPORTS		0.428*** (0.000)		0.427*** (0.000)
GL_SUPPORTS		0.228*** (0.000)		0.228*** (0.000)
STANDARD_PROPOSAL		0.109* (0.084)		0.111* (0.072)
PREVIOUSLY_TARGETED		0.034*** (0.002)		0.034*** (0.001)
UNION		0.021 (0.422)		0.023 (0.384)
PENSION		0.001 (0.971)		0.001 (0.960)
INSIDER_OWNERSHIP		0.000 (0.876)		0.000 (0.914)
INSTITUTIONAL_OWNERSHIP		−0.001** (0.033)		−0.001** (0.037)
RETURNS (previous 12 months)		0.014 (0.487)		0.013 (0.532)
ROA		−0.003*** (0.008)		−0.003*** (0.008)
SALES_GROWTH		0.059*** (0.000)		0.059*** (0.000)
SIZE		−0.016** (0.011)		−0.016** (0.012)
CASH		−0.033 (0.390)		−0.035 (0.361)
LEVERAGE		0.000 (0.470)		0.000 (0.449)
DIVIDEND_PAYER		0.003 (0.846)		0.003 (0.841)
DICTATOR		−0.015 (0.193)		−0.016 (0.180)
BOARD_INDEPENDENCE		−0.031 (0.300)		−0.031 (0.279)

TABLE 8 (continued)

Institutional Investor Voting

| Variable | Dependent Variable: Majority of a Fund Family Voted in Support of the Proxy Access Proposal | | | |
	1	2	3	4
CEO_CHAIR_DUALITY		−0.004		−0.004
		(0.592)		(0.597)
BOARD_TENURE		−0.001		−0.001
		(0.730)		(0.755)
NEW_DIRECTORS		−0.015***		−0.015***
		(0.001)		(0.001)
BOARD_SIZE		0.001		0.001
		(0.778)		(0.786)
Year fixed effects	No	Yes	No	Yes
Firm-meeting fixed effects	Yes	No	Yes	No
Institution fixed effects	No	Yes	No	Yes
Pseudo-R^2	0.209	0.559	0.208	0.559
No. of obs.	9,419	8,783	9,419	8,783

to the expected benefits of proxy access, and we find limited explanatory power for most firm characteristics, substantial variation is explained by the institution (i.e., voter) fixed effects. In particular, including institution fixed effects allows us to explain more than twice as much of the variation (pseudo-R^2 of 56%) compared with the specifications where we include a full set of dummy variables for each meeting (pseudo-R^2 of 21%). This result supports the idea that many voters may apply a blanket voting policy at the fund-family level, which can lead to one-size-fits-all outcomes. Also, consistent with Table 7 and with Iliev and Lowry (2015), we find in Table 8 that the support of a proxy advisor (i.e., ISS and Glass Lewis) is an important factor in funds' voting decisions. As discussed earlier, this may reflect another simple heuristic used to make voting decisions.
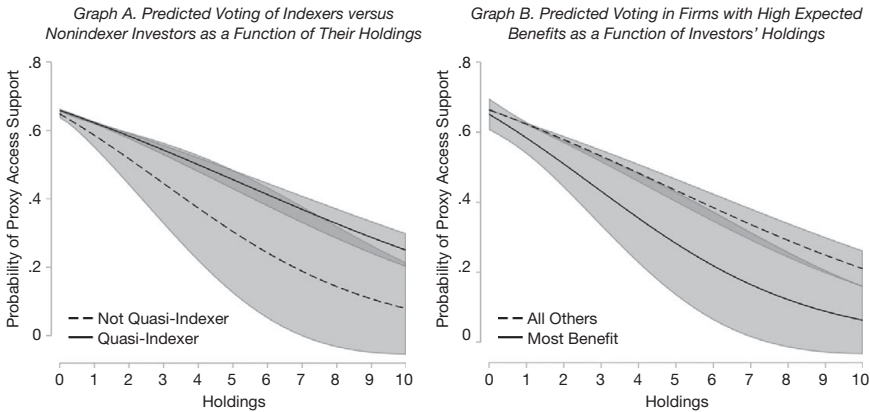
Consistent with Table 7, Table 8 again demonstrates that institutions that hold a large stake in a firm are significantly less likely to support proxy access there. This is true whether we include dummies for different categories of holding sizes (in columns 1 and 2) or use a continuous variable for holding size (in columns 3 and 4). For example, in column 1, fund families that hold greater than 3% of a firm's equity support proxy access at a rate that is 20 percentage points lower than those with below-median holdings, after including meeting-level fixed effects that control for all firm- and meeting-level characteristics.

Even more strikingly, in column 2 of Table 8, we include dummies for each fund family and find that the same institution is, on average, less supportive of proxy access where it has a large stake than where it has a small stake. In particular, within a fund family's portfolio, it is on average approximately 6.4 percentage points less likely to vote in support of proxy access at a firm where it holds greater than 3% of the firm's equity than when it has a below-median stake. Our results are similar in columns 3 and 4, where we instead rely on a continuous measure of the fund's position in the company.

This result is surprising because large institutional owners are uniquely positioned to satisfy the 3-year holding periods and position thresholds. However, the

FIGURE 1

Institutional Investor Voting Interaction Terms

Each graph in Figure 1 is based on a logistic regression across 9,486 institutional investor votes on proxy-access proposals, where we interact investor holdings with two key variables. We include the control variables and fixed effects from column 4 of Table 8. Each graph plots the probability that a fund family supports a proxy-access proposal for different levels of holdings of the firm's equity (from 1% to 10%). Graph A presents the interaction between the investor's holdings and a dummy for an index investor. Graph B presents the interaction between the investor's holdings and whether or not the firm is in the quintile with the greatest expected benefits from proxy access (based on abnormal returns at the stay date). Shaded regions show 95% confidence intervals for the predicted probability of proxy access.

Graph A. Predicted Voting of Indexers versus Nonindexer Investors as a Function of Their Holdings

Graph B. Predicted Voting in Firms with High Expected Benefits as a Function of Investors' Holdings

ability to nominate directors is costly, in particular in an asset management world that is competing on investment fees. Because the benefits from actively identifying, recruiting, and nominating directors will be shared by all investors but borne by the larger investors that will be under pressure to perform these duties, it is understandable that these investors are reluctant to support proxy access.

It is possible that the results around large holders are driven by large passive owners that do not want to bear the cost of advancing director candidates or pressure from other shareholders to make use of a proxy-access bylaw. However, we find that index fund families are actually associated with more support for proxy access and that controlling for passive index funds does not change the relation of holdings with lower voting support. We consider the interaction between passive indexing and the level of holdings in Figure 1. Because interaction terms in logistic regressions cannot be interpreted in a conventional way, we explore these interactions graphically, as suggested by Greene (2010).[20] As demonstrated in Graph A of Figure 1, both passive index funds and other fund families are less likely to support proxy access when they hold a higher level of equity in a firm, although the passive index funds have a consistently higher level of support at all holdings levels. Interestingly, indexers are less sensitive to their holding position, with a much lower decrease in the indexer's propensity to support proxy access as the indexer

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[20]Ai and Norton (2003) and Greene (2010) show that the sign, magnitude, and statistical significance of interaction terms in nonlinear models cannot be interpreted directly. The interaction term in nonlinear regressions is a nonlinear function of both the estimated coefficients and the levels of all explanatory variables. Therefore, Greene (2010) suggests a graphical analysis of predicted outcome over a range of values of the independent variables of interest.

holds more of the company. Our results are consistent with indexers feeling less pressured to take on additional responsibilities as a result of a proxy-access bylaw than an active fund, even when they have a large blockholding.

Finally, in Graph B of Figure 1, we consider how institutions with different holding sizes respond relative to the expected benefits of proxy access. We find that, if anything, the relation of larger holdings with lower support for proxy access is stronger at firms where the expected benefits of proxy access are greatest. This further strengthens the result that large owners are not motivated to use proxy access for improving firm value and also suggests that management may be most likely to negotiate directly with these holders (and try to avoid proxy access at any cost) at the firms where the expected benefits are greatest. In the next section, we therefore explore management's role in the proposal process.

V.   Managerial Opposition

Management has the potential to play a gatekeeper role in the shareholder-proposal process, protecting shareholders by resisting proposals that would be unnecessary or even decrease value. However, they may resist a value-enhancing proposal to protect their own entrenched interests. The 2015 proxy season presented an interesting case study in this regard. On Oct. 23, 2014, Whole Foods Market Inc. requested no-action relief to exclude a proxy-access proposal for the upcoming proxy season on the grounds that management intended to present its own proxy-access proposal. Although the proxy rules allow the exclusion of a shareholder proposal that directly conflicts with a management proposal, in this case, the planned "conflicting" proposal did not provide meaningful access: It would only allow a hypothetical shareholder who owned 9% or more of the company's stock for 5 years to nominate a director. The proponent responded to the proposal by noting, "If the SEC grants a no-action request in this instance, staff will be signaling that boards can exclude proposals by shareowners simply by substituting any proposal on the same general subject, even a proposal that would … have no impact if passed" (see https://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2014/jamesmcritchie120114.pdf).

The Whole Foods request was initially granted on Dec. 1, 2014, and 25 additional companies thereafter mimicked this creative application of the rules. Although this tactic ultimately failed (the SEC retracted relief), management at these 26 firms took a clear, opportunistic action to resist the proposals. Unlike most no-action requests, these were independent of the drafting expertise or choices of the proponent and thus provide rare insight into management's discretion in this process. Interestingly, the firms that are expected to benefit more from proxy access are up to three times more likely to use this defense tactic than others.[21]

Next, we examine broader-based evidence of managerial resistance, first with respect to actions that may affect voting outcomes and then with respect to whether or not a proposal is ultimately implemented.

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[21]Additional details are in the Supplementary Material.

A.   Management Influence on Voting Outcomes

Bach and Metzger (2019) find that management is disproportionately likely to win close votes on shareholder proposals, suggesting that management can influence voting outcomes. We next provide a setting to directly test for managerial influence in shareholder-proposal elections. We construct three measures of management intervention in the vote. First, we collect evidence of outreach based on written materials used by management to engage with shareholders, which firms are required to file publicly (DEFA 14A filings). Although we do not observe outreach through in-person discussions or phone calls by management or their proxy solicitors, we do observe the use of investor presentations explaining management's opposition to proxy access. We also observe targeted mailings of letters to certain shareholders urging a vote against proxy access and more generic letters reminding some shareholders (perhaps those expected to be most favorable to management) to vote. We believe we are the first to collect and categorize this information. Our OUTREACH variable indicates the use of one of these techniques, although we only include the use of a reminder letter when it is out of the norm for that particular firm.[22]

Our second measure is an indicator for the cases in which management preemptively adopted a restrictive form of proxy access prior to the vote (PREEMPTIVE_ADOPTION), such as access available to a shareholder holding, individually (not as a group), 5% of the company for 3 years. Such bylaws are likely adopted with the intention of convincing some voters that the shareholder proposal was not necessary. Finally, for our third measure, we estimate the rate of retail turnout in the vote (RETAIL_TURNOUT). Retail shareholders have low rates of voting participation, but when they do vote, they are known to support management's voting recommendations at very high rates. For example, only 10% of retail shareholders support proxy-access proposals.[23] Thus, a strategy to influence voting outcomes that has recently gained attention is to encourage a higher turnout of retail shareholders when a close vote is expected.[24]

In Table 9, we examine the relationship between these measures of management intervention and the expected benefits of proxy access when the vote is expected to be close. We focus on votes that are expected to be close, allowing us to better differentiate actions that are likely taken to influence voting outcomes from engagement styles that may differ across firms. A proxy-access vote is expected to be close if the firm had at least one close shareholder proposal in the previous 5 years, both proxy advisors have recommended a vote against management, and there was a sign of shareholder discontent at the firm's previous meeting (the firm had at least one shareholder proposal, and shareholder support for at least one management candidate or proposal was less 99%).

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[22]Examples of the text used in these outreach materials are provided in the Supplementary Material.

[23]See "ProxyPulse: 2017 Proxy Season Review," Broadridge Financial Solutions and PwC Governance Insights Center (Sept. 2017), available at https://www.broadridge.com/_assets/pdf/broadridge-2017-proxy-season-review.pdf.

[24]See, for example, Vipal Monga and David Benoit, "Companies Forgot About Mom-and-Pop Investors … Until Now," *Wall Street Journal* (July 19, 2016).

TABLE 9

Managerial Intervention in Voting

Table 9 presents the results of a linear regression of each of three different measures of managerial resistance to proxy-access proposals that were put to a vote on an indicator for above-median expected benefits of a proxy-access bylaw (MORE_BENEFITS), an indicator for whether the vote is expected to be close (EXPECT_CLOSE_VOTE), an interaction term, and company characteristics. The expected benefit of a proxy-access bylaw is based on the abnormal return on the stay date. The measure of a close expected vote is based on the recommendations of proxy advisors and recent voting outcomes for the firm. We measure managerial resistance based on i) shareholder outreach in the form of letters or investor presentations, ii) the preemptive adoption of a limited form of proxy access before the meeting, and iii) the level of retail turnout. Variable definitions are provided in Appendix B. p-values, reported in parentheses, are calculated with robust standard errors clustered at the Fama–French 30-industry level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Measure of Managerial Resistance =	Outreach	Preemptive Adoption	Retail Turnout
MORE_BENEFITS × EXPECT_CLOSE_VOTE	0.197*	0.197**	29.650*
	(0.079)	(0.019)	(0.067)
MORE_BENEFITS_FROM_PROXY_ACCESS	−0.105	−0.042	−11.510
	(0.120)	(0.404)	(0.236)
EXPECT_CLOSE_VOTE	−0.049	−0.006	−13.740
	(0.559)	(0.920)	(0.258)
PREVIOUSLY_TARGETED	−0.019	0.125**	5.735
	(0.788)	(0.020)	(0.582)
DICTATOR	0.037	0.092*	9.809
	(0.622)	(0.093)	(0.355)
SIZE	0.007	−0.027*	3.405
	(0.719)	(0.077)	(0.247)
CONSTANT	0.092	0.233	8.842
	(0.696)	(0.183)	(0.796)
No. of obs.	185	185	176
Adj. R^2	0.028	0.131	0.034

We find that the management at firms with greater (above-median) expected benefits from proxy access is significantly more likely to perform shareholder outreach precisely when the vote on proxy access is expected to be close. In contrast, firms with greater expected benefits of proxy access are not more likely to perform outreach than other firms when the vote is not expected to be close, and firms expected to have fewer benefits from proxy access do not perform more outreach when facing a close vote than otherwise. Thus, it is likely that this result represents the opportunistic use of outreach at firms where proxy access is expected to be more beneficial, rather than a reflection of persistent differences in engagement style or a customary reaction to a close expected vote.

Similarly, we also find that when the vote is expected to be close, management at firms with greater expected benefits of proxy access is significantly more likely to preemptively adopt proxy access with strict terms, and these firms have significantly higher retail turnout. The latter finding is consistent with Lee and Souther (2019), who find that techniques to encourage the participation of retail shareholders (in their case, the use of paper rather than electronic proxy materials) are more likely when contentious items are on the ballot.

Overall, these results suggest that management is more likely to attempt to sway close votes against proxy-access proposals when the firm is expected to benefit more, not less, from proxy access. Hence, management actions are in line with an agency problem where entrenched insiders want to avoid the additional pressure that will come from a functional proxy-access bylaw, even though their firms would benefit the most from such pressure.

B.   Management Discretion in Implementing Proxy-Access Bylaws
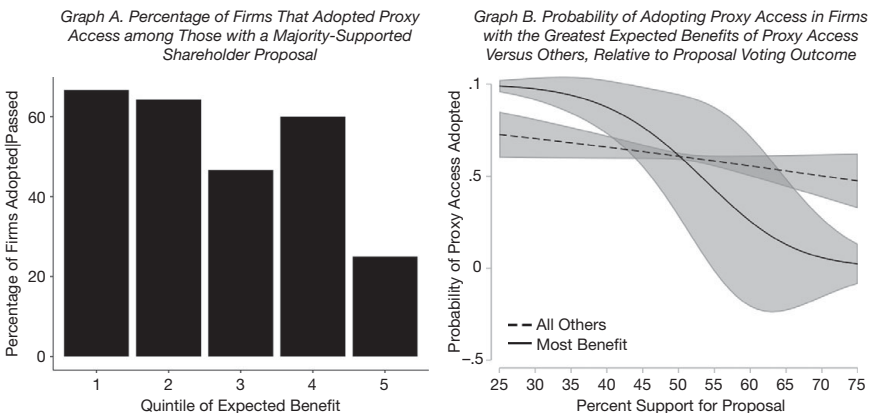
Because shareholder proposals are generally nonbinding, management has discretion as to whether to implement proxy access regardless of the voting outcome on a proxy-access proposal. Thus, we next consider how this discretion has been applied relative to the expected benefits of proxy access and shareholder support for proxy access.

Figure 2 presents two analyses of the decision to implement proxy access. Graph A presents the likelihood that a majority-supported shareholder proposal is followed by the adoption of proxy access, for firms in each quintile of the expected benefits of proxy access. We find that firms with the least benefits of proxy access (quintile 1) are 2.7 times more likely to respond to a majority-voted proposal by adopting proxy access than those with the greatest benefits of proxy access (quintile 5).

Graph B of Figure 2 presents a more detailed view of the interaction between voting support and the expected benefits of proxy access in the implementation decision, based on a logistic regression controlling for firm characteristics and industry effects.[25] We plot the probability of adoption across different levels of shareholder support, for all firms where a shareholder proposal for proxy access came to a vote, divided into those with the greatest expected benefits from proxy access and those with lower expected benefits. We find that at the firms where proxy

FIGURE 2

Implementation of Proxy Access After a Proposal

Graph A of Figure 2 presents the percentage of firms that adopted a proxy-access bylaw among those with a shareholder proposal for proxy access that received more than 50% voting support (a total of 94 firms), for each quintile of expected benefits of proxy access. Graph B compares the probability of adoption for different levels of voting support for those firms expected to benefit the most and the rest of the sample. The predicted probability of adoption is based on a logistic regression across 164 firms that includes the voting support for the proposal, an indicator for high expected benefits, and the interaction between the two, as well as controls for the size of the company, an indicator for having a high E-INDEX, and Fama–French 30-industry dummies. Shaded regions show 95% confidence intervals. In both panels, the expected benefits of proxy access are based on abnormal returns on the stay date.

Graph A. Percentage of Firms That Adopted Proxy Access among Those with a Majority-Supported Shareholder Proposal

Graph B. Probability of Adopting Proxy Access in Firms with the Greatest Expected Benefits of Proxy Access Versus Others, Relative to Proposal Voting Outcome

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[25]As discussed earlier, we present the interaction graphically following the recommendation of Greene (2010), given the nature of interaction terms in nonlinear regressions.

access would be most beneficial, management is actually less likely to adopt proxy access when more shareholders support it.

These results suggest that managers at the firms most likely to benefit from proxy access are particularly less likely to be compelled by shareholder voting support to adopt proxy access. Therefore, the shareholder pursuit of governance changes through the proposal process faces the most difficulty where it would be the most value-enhancing.

VI.   Conclusion

We document more than 300 shareholder proposals and over 250 adoptions of proxy access and provide new evidence on the effectiveness of the shareholder-proposal process. By exploiting key recent developments, we are able to identify variation in the benefits of proxy access and evaluate the degree to which share-holder proposals for proxy access are able to deliver targeted changes where they are most valuable.

We find that proposals do lead to the widespread adoption of proxy access, but the firms that would benefit most from proxy access are not more likely to implement it. We present direct evidence of frictions and conflicts that limit the effectiveness of the proposal process in delivering change where it would be most beneficial. First, although individual shareholders appear to act rationally in their own interests, collective-action problems prevent them from internalizing the variation in the benefits of proxy access across firms and result in one-size-fits-all submission and voting outcomes. Second, management tends to resist proposals at firms that stand to benefit more from proxy access, implying that agency problems may make it difficult for shareholder proposals to deliver change where it is most needed.

Appendix A. Event-Return Measures

The abnormal return on the stay date (AB_RETURN_ON_STAY_DATE) is the abnormal returns to the SEC announcement on Oct. 4, 2010, that it was staying both the new rule mandating proxy access at minimum terms of access and the amendments allowing shareholder proposals about proxy access (Becker et al. (2013), Cohn et al. (2016)). Analyses of the stay date exclude firms with a public float of less than $75 million because the rules were already to be delayed for such "smaller reporting companies."

The abnormal return to the Dodd announcement (SEN_DODD_ANNOUNCEMENT_AB_RETURN) is the combined abnormal returns on June 16 and 17, 2010, given the proposal late in the afternoon on June 16 by Senator Dodd to require proxy access at a 5% ownership threshold, versus the 1% threshold for large companies then in consideration (Cohn et al. (2016)). Analyses of this event are restricted to firms with market capitalization of greater than $700 million, given that the primary effect was on such large firms.

The intraday return on the stay date (INTRADAY_RETURN_ON_STAY_DATE) is the intraday return in the 40-minute period surrounding the SEC announcement of the stay at 12:21 p.m. on Oct. 4, 2010 (Becker et al. (2013)).

Analyses of the stay date exclude firms with a public float of less than $75 million because the rules were already to be delayed for such "smaller reporting companies."

The abnormal return on the additional events index (ADDITIONAL_ EVENTS_AB_RETURN) is the combined abnormal returns to a series of 18 events related to proxy access from 2006 through 2010 identified by Larcker et al. (2011) and Akyol et al. (2012a), (2012b), including an event also studied by Campbell et al. (2012) and Stratmann and Verret (2012). Returns to events deemed to decrease the likelihood of federal proxy access regulation are multiplied by –1.

The following events are predicted to increase the likelihood of federal proxy-access regulation: a U.S. court of appeals ruling against a firm that excluded a shareholder proposal for proxy access (Sept. 5, 2006), the SEC's announcement of a roundtable to discuss proxy access (Apr. 24, 2007), the SEC's publishing of two alternative proposed rules either allowing shareholder proposals for proxy access or clarifying that they can be excluded (July 27, 2007), a speech by SEC commissioner Elisse Walter on proxy access (Feb. 18, 2009), a speech by SEC chair Mary Schapiro disclosing the SEC's consideration of proxy access (Apr. 6, 2009), the SEC's announcement that it would vote on a proposed rule (May 12, 2009), the release of a Bloomberg article detailing the content of the proposed rule (May 14, 2009), Senator Charles Schumer's introduction of a bill relating to proxy access in the U.S. Senate (May 19, 2009), the SEC's vote in favor of the proposed rule mandating proxy access (May 20, 2009), the SEC's publishing of the proposed rule (June 10, 2009), the SEC's reopening of the comment period for this rule (Dec. 14, 2009), and the approval of the final proxy-access rule by the SEC (Aug. 25, 2010). The following events are predicted to decrease the likelihood of federal proxy-access regulation: the SEC's vote to adopt the final rule allowing the exclusion of shareholder proposals for proxy access (Nov. 28, 2007), the SEC's publishing of this final rule (Dec. 6, 2007), the introduction of a bill that would enable voluntary adoption of proxy-access bylaws into the Delaware House of Representatives (Mar. 10, 2009), the Delaware House passing this bill (Mar. 18, 2009), the Delaware Senate passing this bill (Apr. 8, 2009), the SEC reopening the comment period on its proposed rule mandating proxy access (Dec. 14, 2009), and the U.S. Chamber of Commerce and Business Roundtable filing a legal challenge to the adopted proxy-access rule (Sept. 29, 2010).

Abnormal returns $\gamma_{i.e}$ for each firm (i) and event (e) are estimated using the Canadian S&P/TSX Composite Index as a benchmark for the market:

$$r_{i.t} = \alpha_i + \beta_i r_t^{\text{TSX}} + \sum_{e=1}^{E} \gamma_{i.e} D_e + \varepsilon_{i.t},$$

where r_t^{TSX} is the return on the Canadian S&P/TSX Composite Index, and D_e is an indicator for the particular event, which in this instance is the stay date (from CRSP).

Appendix B. Variable Definitions

AB_RETURN_ON_STAY_DATE: Abnormal market returns to the SEC announcement on Oct. 4, 2010. See Appendix A for details.

BOARD_AGE: Average age of all directors who serve on the board. *Source:* ISS.

BOARD_INDEPENDENCE: The percentage of the board of directors qualifying as independent. *Source:* ISS.

BOARD_SIZE: The number of members of the board of directors. *Source:* ISS.

BOARD_TENURE: Average time on the board of all directors who serve on the board. *Source:* ISS.

CASH: CHE/AT. *Source:* Compustat.

CEO_CHAIR_DUALITY: An indicator for whether the chair and the CEO are held by the same person. *Source:* ISS.

CLASSIFIED_BOARD: An indicator for whether the board has a classified or staggered structure. *Source:* ISS.

DICTATOR: E_INDEX that is 3 or greater. *Source:* ISS.

DIVIDEND_PAYER: Equals 1 if DVPSX_F > 0, and 0 otherwise. *Source:* Compustat.

E_INDEX: Entrenchment index proposed by Bebchuk, Cohen, and Ferrell (2009). *Source*: ISS.

GL_SUPPORTS: An indicator for whether Glass Lewis recommends a vote for a shareholder proposal. *Source:* Proxy Insight.

GOLDEN_PARACHUTE: An indicator for the presence of a golden parachute. *Source:* ISS.

INDEXER: An indicator variable for whether the proponent is considered a Quasi-Indexer according to the classification of Bushee (2001) (see https://accounting-faculty.wharton.upenn.edu/bushee/).

INSIDER_OWNERSHIP: The aggregate percentage of holdings of all insiders in a given year (SHROWN_EXCL_OPTS_PCT). *Source:* Execucomp.

INSIDER_OWNERSHIP: The total percentage of equity owned by executives (SHROWN_TOT_PCT). *Source*: Execucomp.

INSTITUTIONAL_OWNERSHIP: The percentage of shares held by institutional owners that file 13-Fs, measured in the quarter preceding the targeting or voting outcome. *Source:* Thompson Reuters 13-F.

ISS_SUPPORTS: An indicator for whether the ISS recommends a vote for a shareholder proposal. *Source:* ISS.

LEVERAGE: LT/AT.

MAJORITY_VOTING: An indicator for the presence of a majority-voting standard. *Source:* ISS.

MARKET_CAP: PRCC_F × CSHO. *Source:* Compustat.

MARKET_TO_BOOK: (PRCC_F × CSHO)/(CEQ + TXDB). *Source:* Compustat.

NEW_DIRECTORS: Number of new directors added to the board in the preceding year. *Source:* ISS.

NONCASH_COMPENSATION: The sum of stock awards, option awards, and nonequity incentive compensation divided by total reported compensation. *Source:* Execucomp.

OUTREACH: An indicator equal to 1 if management sent letters to certain shareholders, sent abnormal voting reminder letters, or prepared slide decks against proxy access, and 0 otherwise. We only include reminder letters when the company has not otherwise sent reminder letters in recent years because some companies regularly use such letters in order to ensure they meet quorum or other requirements. *Source:* DEF 14A or DEFA14A.

OUTSIDE_BOARDS: Average number of outside public boards of all directors sitting on the board. *Source:* ISS.

PENSION: An indicator for whether the proponent is affiliated with a pension fund. *Source:* Manual collection.

POISON_PILL: An indicator for the presence of a poison pill. *Source:* ISS.

PREEMPTIVE_ADOPTION: An indicator equal to 1 if management adopted a proxy-access bylaw with more stringent ownership requirements prior to the shareholder proxy-access proposal being voted upon. *Source:* DEF 14A.

PREVIOUSLY_TARGETED: An indicator for whether the firm was previously targeted for proxy access. *Source*: DEF 14A.

RETAIL_TURNOUT: The number of shares voted that are not deemed to be associated with insiders or institutional investors, divided by the estimated retail shareholdings (estimated shares outstanding minus insider holdings minus institutional holdings), multiplied by 100. Estimated shares outstanding are imputed based on insider share and insider percentage of ownership. Insider holdings are as of the last fiscal year-end; institutional holdings are as of the last calendar quarter-end before the vote. Insiders are assumed to vote all of their shares; institutions are assumed to vote 90% of their shares based on general market statistics.[26] *Source:* ISS, Execucomp, Thomson Reuters 13F.

SALES_GROWTH: $SALE_t$/ $SALE_{t-1}$. *Source:* Compustat.

SIZE: $\log(PRCC\_F \times CSHO)$. *Source:* Compustat.

STANDARD_PROPOSAL: An indicator for whether the shareholder proposal requires a nominator to hold 3% of the firm for 3 years. *Source:* DEF 14A.

UNION: An indicator for whether the proponent is affiliated with a union. *Source:* Manual collection.

Supplementary Material

To view supplementary material for this article, please visit http://dx.doi.org/10.1017/S0022109020000484.

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[26]See, for example, "ProxyPulse: 2017 Proxy Season Review," Broadridge Financial Solutions and PwC Governance Insights Center (Sept. 2017), https://www.broadridge.com/_assets/pdf/broadridge-2017-proxy-season-review.pdf.

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