Shareholder Activism and CEO Pay

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Abstract: We study a sample of 134 vote-no campaigns and 1,198 non-binding shareholder proposals related to executive pay between 1997 and 2007. While union pension funds are the most frequent sponsor of these initiatives, relative to other proponents they are not more likely to target unionized firms or firms with labor-related negotiations and disputes. Activists target firms with high CEO pay, whether excessive or not, while voting support is higher in firms with excess CEO pay. Proposals that try to micromanage level or structure of CEO pay receive little or no voting support. Instead, shareholders favor proposals related to the pay setting process (e.g., subject certain compensation items to shareholder approval). These proposals are also more likely to be implemented. Firms with excess CEO pay targeted by vote-no campaigns experience a $7.3 million reduction in total CEO pay. In firms targeted by proposals sponsored by institutional proponents and calling for greater link between pay and performance, the reduction in CEO pay is $2.3 million. By shedding light on the effectiveness of monitoring mechanisms currently available to shareholders, our findings contribute to the debate on the proposed adoption of a "say on pay" shareholder vote on executive pay.

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1. Introduction

We examine the determinants and consequences of compensation-related shareholder activism. In recent years CEO pay has become the subject of unprecedented scrutiny, due to its alleged role in the accounting scandals of 2000-2002 and revelations of option backdating (Heron and Lie 2007). Concerns with executive pay have intensified as the recent financial crisis unfolded, with pay packages blamed for encouraging excessive risk-taking and contributing to the collapse of the financial sector (Bhagat and Romano 2009).

The ensuing reform debate has focused on a proposal to mandate an annual advisory shareholder vote on the executive compensation report, a "say on pay" vote, following U.K. and other countries (Cai and Walkling 2009; Ferri and Maber 2009). While the merits (or lack thereof) of "say on pay" are hotly debated, we know little about the effectiveness of alternative mechanisms currently available to shareholders to publicly express their dissatisfaction with and influence executive pay at US firms. Using data from the early 1990s, prior studies conclude that compensation-related shareholder proposals submitted under SEC Rule 14a-8 have no impact on CEO pay.[1] However, there have been numerous changes in compensation-related shareholder activism since the 1990s. In particular, after 2002 union pension funds have replaced individual shareholders as the dominant proponent and introduced new types of proposals calling for enhanced shareholder voting rights on CEO pay, more transparent reporting and a tighter link between pay and performance. As a result, the frequency of and voting support for compensation-related shareholder proposals have increased dramatically (Gillan and Starks 2007). In addition, vote-no campaigns geared to obtain changes in executive pay became more

[1] Johnson and Shackell (1997) and Thomas and Martin (1999) analyze, respectively, 169 and 168 compensation-related proposals submitted between 1992 and 1995 and between 1993 and 1997 and find no effect on CEO pay. Most of the pay-related proposals in their sample are sponsored by individual shareholders and call for lower CEO pay, increased compensation disclosure, and independence of the compensation committee.

frequent. In some high-profile cases (e.g., Home Depot, Pfizer), these campaigns contributed to the ouster of CEO and board members. These developments call for a re-examination of the effectiveness of compensation-related activism.

Using a comprehensive sample of 1,332 shareholder activism events related to executive pay over the 1997-2007 period (134 vote-no campaigns and 1,198 shareholder proposals), we first study the *determinants of the targeting decision*. After controlling for other firm characteristics, we find that activists target firms with higher levels of CEO total pay. For example, moving from the 1st to the 3rd quartile of the pay distribution increases the probability of being targeted by about 9% (from 29.9% to 38.4%). To examine whether activists are sophisticated in their targeting criteria, we split CEO total pay in a predicted component based on economic determinants and a residual component (proxy for "excess" CEO pay) and find that both are positively associated with the probability of being targeted. This result holds across different proponents (institutional vs. individual investors), types of activism (shareholder proposals vs. vote-no campaigns) and time periods (1997-2002 vs. 2003-2007). Hence, on average, activists target firms with high CEO pay, whether excessive or not, inconsistent with a sophisticated approach—perhaps because many activists regard high levels of CEO pay per se as "excessive" from a social equity standpoint.

Given their predominant role in our sample, we also examine union pension funds' targeting criteria vis-à-vis those employed by other proponents, to identify any bias induced by their dual role as shareholders and employee representatives. We find that, relative to other proponents, union pension funds are *not* more likely to target unionized firms. Also, they are not more likely to target unionized firms with a higher percentage of unionized employees or

involved in renegotiating their collective bargaining agreements or in labor-related disputes. Hence, we find no evidence of union-related motives in union pension funds' targeting criteria.

Next, we examine the *determinants of the voting outcome* for compensation-related shareholder proposals to infer the criteria voting shareholders use to support or oppose changes to compensation policies. We find that proposals aimed at affecting the pay setting *process* (e.g., proposals requesting shareholder approval of certain compensation items)—which we label *Rules of the Game* proposals—receive the highest voting support, often resulting in majority votes. Support for proposals aimed at influencing the *output* of the pay setting process (e.g., proposals to use performance-based vesting conditions in equity grants)—which we label *Pay Design* proposals—is lower, but has been increasing in recent years. Proposals directed at shaping the *objective* of the pay setting process (e.g., proposals to link executive pay to social criteria or to abolish incentive pay)—labeled *Pay Philosophy* proposals and mostly filed by individuals and religious funds—have consistently received little support. We also find that voting support for compensation proposals is higher in firms with excess CEO pay but not in firms with high predicted CEO pay—in contrast to the targeting results. Analysis of the determinants of the voting recommendation by the most influential proxy advisory firm (RiskMetrics) yields similar results. In sum, shareholder votes and proxy advisor recommendations seem to reflect a sophisticated understanding of CEO pay levels and an ability to "filter out" the lack of sophistication or the social equity objectives of activists, contrary to claims that the voting process is not a sufficient mechanism to prevent minority shareholders from pursuing their private agendas (Anabtawi and Stout, 2008). Along the same lines, we find lower voting support and less favorable proxy advisor recommendations for union-sponsored proposals at firms where there are employees affiliated with the same union.

Finally, we examine the *consequences* of compensation-related activism. We show that, similar to other shareholder proposals (Ertimur, Ferri and Stubben 2010), the rate of implementation for pay-related proposals is low (5.3%) but increases substantially when the proposal receives a majority vote (32.2%). We confirm this result in a multivariate setting. Then, we examine the overall effect on CEO pay and find a decrease of excess CEO pay in firms targeted by vote-no campaigns. This decrease is driven by firms with excess CEO pay before the campaign and amounts to a $7.3 million reduction (corresponding to a 38% decrease) in CEO total pay. As for shareholder proposals, we find evidence of a moderating effect on CEO pay—a $2.3 million reduction—only in the case of *Pay Design* proposals submitted by institutional proponents at firms with excess CEO pay before the proposal was submitted. These results hold after controlling for mean reversion in CEO pay and for other forms of activism and monitoring potentially taking place at the same time (hedge fund activism, CalPERS' campaigns, level and concentration of institutional ownership).

From a policy perspective, our findings provide support for an advisory say on pay vote. First, there is no indication that special interest groups pushing for radical changes or trying to micromanage executive pay have hijacked shareholder votes—a concern expressed by critics of say on pay. By and large, shareholders have judiciously used their voting power to have a say on the pay *process* rather than on pay itself by selectively supporting proposals giving themselves approval power on extraordinary compensation items (e.g., large golden parachutes), whilst rejecting proposals dictating the level or structure of pay. Second, stronger voting support for compensation-related proposals in firms with excess CEO pay suggests that advisory say on pay votes can capture the quality of CEO pay practices, contrary to claims that shareholders lack the required specific knowledge (Bainbridge 2008). Third, and perhaps most importantly, vote-no

campaigns are generally more effective than shareholder proposals in curbing excess CEO pay. This finding speaks favorably for a say on pay mechanism to the extent that say on pay shares the advantages of vote–no campaigns over shareholder proposals, but at a lower cost.[2]

Our study makes several contributions to the literature on shareholder activism. First, we provide evidence on the increased effectiveness of low-cost activism tools—shareholder proposals and vote-no campaigns (Del Guercio, Seery and Woidtke 2008; Cai, Garner and Walkling 2009; Ertimur et al. 2010). Most studies have focused on the effects of "activism via large ownership," of which hedge fund activism is the most recent manifestation (e.g., Brav, Jiang, Partnoy and Thomas 2008; Klein and Zur 2009a). Understanding the effectiveness of low-cost activism tools is important since acquiring large ownership stakes is usually not possible for highly diversified investors (e.g., public pension funds, union pension funds) and is often prohibitively costly in large firms. Second, we add to the limited body of research on unions' motives as shareholder activists (Agrawal 2008; Prevost, Rao and Williams 2009) and on the role of proxy voting services (Alexander, Chen, Seppi and Spatt 2009). Third, we empirically examine whether voting shareholders, in aggregate, can "filter out" activist initiatives that may be motivated by objectives other than shareholder value maximization—e.g., social equity considerations, special interests. Thus, our findings are also relevant to the policy debate about empowering shareholders and reforming proxy voting rules (Bebchuk 2005; Bainbridge 2006;

[2] Similar to a vote-no campaign, a say on pay vote *i*) directly questions directors' performance (and, thus, may affect their reputation), *ii*) enables shareholders to express their general dissatisfaction with CEO pay rather than with a single issue, and *iii*) may force a broad dialogue between investors and boards on all aspects of CEO pay, before and after the annual meeting, without putting activists in the difficult position to micromanage specific aspects of CEO pay through 500-word "yes or no" proposals. Unlike a vote-no campaign, a say on pay vote channels shareholders' dissatisfaction outside the context of a director election allowing shareholders to press for changes in executive pay while retaining valuable directors. Hence, an annual say on pay vote is likely to allow greater activism by investors concerned with CEO pay but reluctant to compromise their relation with boards by engaging in confrontational vote-no campaigns.

SEC 2007; Anabtawi and Stout, 2008). Finally, our study extends a growing literature on the effects of alternative monitoring mechanisms on executive pay.[3]

The paper proceeds as follows. Section 2 discusses the institutional background and related literature. Section 3 describes the sample. Then, we present our findings on determinants of targeting decision (Section 4), determinants of voting outcome (Section 5), and consequences of compensation-related activism (Section 6), followed by concluding remarks in Section 7.

2. Institutional Background and Related Literature

2.1 Shareholder Proposals

Under Rule 14a-8 of the Securities Exchange Act of 1934, any shareholder continuously holding shares worth $2,000 (or 1% of the market value of equity) for at least one year is allowed to include one (and only one) proposal with a 500-word supporting statement in the proxy distributed by the company for its annual meeting. These proposals request a vote in favor or against a particular issue from all shareholders and must be submitted at least 120 days before the proxy is mailed to the shareholders. The company may ask the Securities and Exchange Commission (SEC) to exclude a proposal if it violates certain conditions.[4] Alternatively, the company may persuade the proponent to withdraw the proposal by agreeing to it (or to other

[3] Previous studies have examined the role of institutional ownership (Hartzell and Starks 2003; Almazan, Hartzell and Starks 2005, Dikolli, Kulp and Sedatole 2009), hedge fund activism (Brav et al. 2008; Becht, Franks, Mayer and Rossi 2009), press coverage (Core, Guay and Larcker 2008), board independence (Chhaochharia and Grinstein 2009), pay disclosures (Grinstein, Yehuda and Weinbaum 2009) and mandatory expensing of stock options (Brown and Lee 2007).

[4] Rule 14a-8(i) stipulates that firms may request the exclusion of proposals that are not a proper action for shareholders under the company's state law, proposals that address ordinary business matters, proposals that would result in the violation of state or federal laws, proposals related to a personal claim or grievance, proposals that are materially false or misleading, proposals of limited relevance (e.g.,, related to operations accounting for less than 5% of the company's total assets), proposals that the company has no authority to implement, proposals related to an election for membership on the company's board of directors, and proposals that request specific amounts of cash and stock dividends. A proposal may also be excluded if it is essentially similar to another proposal already included in the proxy, if it is already substantially implemented by the company, or if it conflicts with one of the management proposals to be submitted to shareholders at the same meeting. Finally, the company may request an exclusion of proposals already submitted in the past that received less than a certain percentage of votes in favor (3% if presented once, 6% if presented twice, 10% if presented three times). See http://www.sec.gov/interps/legal/cfslb14.htm.

concessions). Proposals that are neither excluded nor withdrawn are included in the proxy—together with a statement by the board explaining its opposition—and voted upon at the annual meeting by all shareholders of record as of a given date indicated in the proxy materials.

Two reasons for shareholder proposal exclusion are particularly relevant for our study. First, proposals addressing "ordinary business" matters may be excluded. Since 1992, the SEC has become more liberal in the interpretation of this provision, allowing proposals on executive pay, which was originally deemed as "ordinary business". Second, proposals may be excluded if considered improper under the state laws. Generally, proposals that would be binding on the company are regarded as improper, reflecting states' aversion to limit a board's ability to exercise business judgment and its fiduciary role. As a result, almost all shareholder proposals are written in the form of a *non-binding* recommendation to the board.[5]

Studies from the 1980s and 1990s conclude that shareholder proposals are ineffective in eliciting change and improving performance at target firms (Black 1998; Karpoff 2001; Romano 2001; Gillan and Starks 2007). However, in the post-Enron period there is growing evidence that shareholder proposals impact governance practices. For example, the presence of a shareholder proposal increases the likelihood that a firm will de-classify its board (Guo, Kruse and Nohel 2008), remove a poison pill (Akyol and Carroll 2006) and expense stock options (Ferri and Sandino 2009). Also, boards have become significantly more responsive to shareholder proposals winning majority votes (Thomas and Cotter 2007; Ertimur et al. 2010).

2.2 Vote-No Campaigns

Vote-no campaigns are organized efforts by shareholders to convince other shareholders to withhold their vote from the election of one or more directors at the targeted firms' annual

[5] The vote is binding if the proposal calls for a bylaw change, which is the case for only one of the proposals analyzed in this study (a proposal requesting shareholder approval of option repricings).

meeting (Grundfest 1993; Del Guercio et al. 2008). Vote-no campaigns *i*) are organized through press releases, letters to shareholders and internet communications, *ii*) may name a subset of the directors up for election or target the entire slate, and *iii*) may raise specific issues or express overall dissatisfaction with the board. Typically, directors on the firm's board slate run unopposed and a mere plurality of votes is sufficient to be elected. While the recent trend toward majority voting has given vote-no campaigns more "teeth" (Cai, Garner and Walkling 2007; Sjostrom and Sang Kim 2007), cases where directors are not elected due to a failure to win a majority vote remain rare. Hence, vote-no campaigns are largely symbolic events—similar to nonbinding shareholder proposals. Nevertheless, a large enough number of votes withheld communicates widespread dissatisfaction with the incumbent board and may act as a catalyst for change. Consistent with this argument, Del Guercio et al. (2008) find operating performance improvements and abnormal disciplinary CEO turnover at firms targeted by vote-no campaigns.

3. Sample Selection and Characteristics of Compensation-Related Shareholder Activism

3.1 Sample Selection and Classification of Shareholder Proposals

Our sample consists of 1,332 shareholder activism events related to executive pay at firms in the Standard & Poor's (S&P) 1500 index over the 1997-2007 period. These events include 1,198 shareholder proposals and 134 vote-no campaigns.

We obtain the sample of 1,198 compensation-related shareholder proposals from RiskMetrics, which collects data on shareholder proposals and their voting results for S&P 1500 firms. We read the proposals from the proxy statements and classify them into 95 distinct proposal types. We then aggregate proposal types in progressively broader groups, ultimately identifying three key categories—*Rules of the Game*, *Pay Design* and *Pay Philosophy* (see Appendix 1 for a more detailed breakdown and Appendix 2 for examples of each category).

Rules of the Game proposals aim at affecting the pay setting *process*, such as proposals calling for greater independence of the compensation committee (Independence), better disclosure of executive pay (Disclosure), more transparent reporting of executive pay in financial statements (Reporting), shareholder approval of all or specific components of executive compensation (Shareholder Approval). *Pay Design* proposals aim at influencing the *output* of the pay setting process, such as proposals to include performance-based vesting conditions in equity grants. *Pay Philosophy* proposals aim at shaping the *objective* of the pay setting process such as proposals to link CEO pay to social criteria, cap the CEO-to-worker-pay ratio or abolish incentive pay.[6] Finally, we also categorize the proposals into five groups based on their proponent—*Individuals*, *Union Pension Funds*, *Public Pensions*, *Religious Organizations* and *Other Shareholder Groups* (investment advisors, investment management firms and mutual funds).

As for the vote-no campaigns, we identify 356 publicly announced vote-no campaigns through a keyword search in Factiva and Lexis Nexis and the reports published by proxy voting agencies (e.g., RiskMetrics, Georgeson). We then code as compensation-related 134 campaigns that explicitly mention executive pay as one of their reasons, whether they target only compensation committee members or all directors up for election. Most of these campaigns criticize CEO pay as "excessive" with respect to performance or to the pay levels of peer firms. Some campaigns refer to a particular practice, such as option backdating (see Appendix 3).

[6] The classification is not always obvious. Consider two examples. The first is a set of proposals for a "commonsense compensation plan" launched in 2004 by a union pension fund, the United Brotherhood of Carpenters and Joiners of America. These proposals (see Appendix 2) called for a cap on salary, bonus, restricted stock grants (no more than $1 million each) and severance payments (one time salary and bonus). While they implicitly dictate a certain pay design (bonus and stock grants up to 100% of salary; no use of stock options), we classify them as *Pay Philosophy* because they essentially call for a cap on the level of CEO pay and set limits to the role of incentive pay. The second example is a set of proposals to introduce performance-based vesting conditions in equity grants. While we classify these proposals as *Pay Design*—in that they specifically call for the use of a specific feature in equity grants—, they tend to be "principle-based" in nature (and, thus, similar in spirit to *Rules of the Game* proposals) in that they do not advocate specific performance measures or targets, but call instead for a general principle—vesting should be linked to performance criteria.

3.2 Frequency and Composition of Compensation-Related Shareholder Activism

Figure 1 illustrates an increase in the number of and voting support for compensation-related shareholder proposals over time. There are approximately 66 proposals per year in the 1997-2002 period (with, on average, 16.2% votes in favor) compared to about 160 proposals per year in the 2003-2007 period (28.9% votes in favor). 17.7% of all compensation proposals won a majority vote in 2003-2007, versus only 1.8% in 1997-2002. By comparison, Johnson and Shackell (1997) report an average of 42 compensation-related proposals per year between 1992 and 1995, with an average voting support of 13% and no cases of majority votes. Figure 1 also shows that compensation proposals have become a greater fraction of all governance proposals over time (34% in 2003-2007 versus 24% in 1997-2002) and in 2007, for the first time, have received greater voting support.

Table 1 Panel A presents the frequency of and voting support for compensation-related shareholder proposals by proposal type and proponent identity. *Rules of the Game* proposals are the most frequent and enjoy the highest voting support, particularly after 2002 (nearly all majority votes are from this category). *Pay Design* proposals have almost tripled in frequency and doubled in voting support after 2002, making them the second most frequent and most supported category, while *Pay Philosophy* proposals have been roughly stable in terms of frequency and (extremely low) voting support.

The key insight from Panel A is that shareholders tend to support "principle-based" proposals such as *Rules of the Game* proposals over proposals aimed at micromanaging executive pay by dictating its design or level. Three pieces of evidence in Appendix 1 provide further support for this inference. First, within *Rules of the Game* proposals, those requesting shareholder approval for extraordinary elements of pay (e.g., golden parachutes) or for the

overall compensation policy (say on pay proposals) have received substantially larger support than proposals requesting shareholder approval of ordinary pay elements (e.g., bonuses)—underlining shareholders' reluctance to be involved in routine aspects of CEO pay. Second, the most successful *Pay Design* proposals—proposals to include performance-based vesting criteria in equity plans—are "principle-based" in nature, in that they do not dictate the specific performance criteria. Finally, the most visible attempt to micro-manage CEO pay—the "commonsense pay" proposals submitted by a union fund at 26 firms in 2004 (for details see footnote 6 and example in Appendix 2)—has failed to win support (only 8% votes in favor).

This evidence also has implications for the debate on the adoption of say on pay. It does not appear that shareholder votes have been "hijacked" by special interest investors pushing for radical changes or trying to micromanage CEO pay—one of the concerns expressed by critics of say on pay. By and large, shareholders have judiciously used their voting power to have a say on the pay process (rather than on pay itself) and selectively supported "principle-based" proposals.

Panel A also shows a marked increase in activism by *Union Pension Funds*, who filed 61% of the proposals between 2003 and 2007 (97 per year), versus only 23% between 1997 and 2002 (15 per year), making them the most frequent proponent (48%) over the sample period, followed by *Individuals* (36%). Proposals filed by *Union Pension Funds* also receive larger voting support, particularly in the 2003-2007 period.

Panel B displays a breakdown of proposal types by proponent identity. Almost 90% of the proposals filed by *Union Pension Funds* deal with either *Rules of the Game* or *Pay Design*, and include a number of new initiatives, such as proposals to expense stock options or to adopt say on pay. In contrast, most "extreme" proposals (e.g., eliminate incentive pay—*Pay*

Philosophy category) are submitted by *Individuals.* *Religious Organizations* have mostly submitted proposals to link CEO pay to social criteria or cap the CEO-to-worker pay ratio.

Figure 2 presents the frequency of compensation-related vote-no campaigns. Most campaigns occurred in recent years, with a spike in 2006 (37 campaigns). The percentage of votes withheld from directors in these firms averages about 20%, representing a substantial level of shareholder dissatisfaction (the percentage of votes withheld across all firms is about 5%; see Cai et al. 2009; Fischer, Gramlich, Miller and White 2009). Similar to Del Guercio et al. (2008), most vote-no campaigns in our sample are promoted by public pension funds (33), union pension funds (29) and other investment groups (71), including investment groups, mutual fund managers, hedge funds (only four) and proxy voting firms (see Table 1 Panel B).

4. Determinants of the Targeting Decision

4.1 Research Design

To examine the determinants of the targeting decision, we first collapse the 1,332 compensation-related events into 951 firm-year observations (427 distinct firms, 71% of which are in the S&P 500).[7] Then, in order to construct a control sample, for each targeted firm-year observation, we select three firms from the S&P 1500 that are *i*) in the same Fama-French industry, *ii*) not targeted by compensation-related shareholder activism, and *iii*) closest in size and book-to-market value to the target firm.[8] We drop duplicate control firms that match to more than one targeted firm in a given year. The final sample includes 821 (1,405) firm-year

[7] Note that a firm may be targeted by more than one compensation-related shareholder proposal in a given year. For example, in 2007 Apple Computer was targeted by four proposals dealing with various compensation-related issues Also, a firm targeted by a compensation-related shareholder proposal may also be targeted by a compensation-related vote no campaign. This was the case for Apple Computer during the 2004 proxy season.

[8] In particular, for each targeted firm, we retain the three control firms with the smallest deviation score from the targeted firm in terms of size (market capitalization) and book-to-market. Following, Huang and Stoll (1996), we compute the deviation score as: Deviation = $[(Size_T - Size_C)/(Size_T+Size_C)]^2 + [(BM_T - BM_C)/(BM_T+BM_C)]^2$ where subscripts 'T' and 'C' represent targeted and potential control firms.

observations for the targeted (control) sample with non-missing variables.[9] We combine these samples and estimate the following pooled firm-year level logistic regression with standard errors clustered by firm:

$$Pr(Targeted_t) = \alpha_0 + \alpha_1 CEO\ Total\ Pay_{t-1} + \beta\ Control\ Variables_{t-1} + \varepsilon \quad (1)$$

The dependent variable, $Targeted_t$, is an indicator variable equal to one if the firm is targeted by a compensation-related shareholder proposal and/or vote-no campaign at the year *t* annual meeting and zero otherwise. As a starting point, our variable of interest is *CEO Total* Pay_{t-1}—the CEO's total compensation for year *t-1* (the most recent fiscal year ending before the shareholder meeting). $\alpha_1 > 0$ would suggest that shareholders target firms with higher CEO pay. In subsequent tests, we replace *CEO Total* Pay_{t-1} with other compensation-related variables.

The control variables capture other characteristics found to be associated with the likelihood of being targeted by shareholder proposals or vote-no campaigns (Karpoff 2001; Thomas and Cotter 2007; Del Guercio et al. 2008): size (*Market Capitalization*$_{t-1}$), performance (*Return on Assets*$_{t-1}$ and *Abnormal Returns*$_{t-1}$), ownership structure (*% of Institutional Ownership*$_{t-1}$ and *% of Executive Ownership*$_{t-1}$), board characteristics (*CEO Chairman*$_{t-1}$, *Board Size*$_{t-1}$, *% of Independent Directors*$_{t-1}$ and *Ownership by Independent Directors*$_{t-1}$*>=1%*) and a shareholder rights index developed by Bebchuk, Cohen and Ferrell (2009) (*Entrenchment Index*$_{t-1}$).

4.2 Results

Table 2 provides univariate tests of differences between targeted and control firms. Consistent with prior studies (Karpoff, Malatesta and Walkling 1996; Del Guercio et al. 2008; Ertimur et al. 2010), targeted firms are larger and have worse performance (particularly in terms

[9] In untabulated tests, we repeat our analyses using the entire S&P 1500 (with industry and year fixed effects). The results are qualitatively similar. Notably, the pseudo R-square in the logit regressions is substantially larger (around 30%) due to the greater explanatory power of firm size when smaller firms are included in the control sample.

of past stock performance). The evidence on the univariate relation between targeting and governance is mixed, depending on the variables analyzed (targeted firms have lower ownership by institutions and executives, higher frequency of CEO-Chair duality but higher entrenchment index). Most relevant to our study, targeted firms have higher total CEO pay.

Table 3, Panel A, Model (1) presents the determinants of the targeting decision in a multivariate setting, based on Equation (1). The results show that compensation-related activism is directed at firms with higher levels of CEO pay (the coefficient of *CEO Total Pay* is positive and significant). In terms of economic significance, the predicted probability of being targeted increases from 29.9% to 38.4% when we move from the 1st quartile ($2.9 million) to the 3rd quartile ($12.3 million) of the *CEO Total Pay* distribution (while keeping the other variables at the mean).[10] In untabulated tests we find that the coefficient of *CEO Total Pay* is positive in both the 1997-2002 and 2003-2007 periods, but its effect is significantly stronger in the latter period, consistent with greater investor concerns with executive pay in the post-Enron period.

As for the control variables, consistent with prior studies, we find that larger and poorly performing firms are more likely to be targeted by compensation-related activism. In addition, the likelihood of being targeted is higher for firms with a greater percentage of independent directors, perhaps because activists expect such boards to be more responsive.[11]

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[10] The results are similar if we replace *CEO Total Pay* with its average over the previous three years, or with the aggregate pay of top five executives. They are also similar if we re-define *CEO Total Pay* to include the dollar proceeds from option exercises instead of the value of the option grants, following Core et al. (2008). We also perform two tests to explore the role of CEO compensation vis-à-vis the compensation of the other top executives. First, we include in Equation (1), in addition to *CEO Total Pay*, a variable measuring the average total pay of non-CEO executives. The variable is not associated with the targeting decision (note, though, that its correlation with *CEO Total Pay* is 0.64, p-value<0.01). Second, we replace *CEO Total Pay* with the ratio of *CEO Total Pay* to the aggregate compensation of the top-five executive team. Bebchuk, Cremers and Peyer (2008) define this variable as a proxy for CEO "centrality" and show that it is correlated with lower profitability and a greater tendency to reward the CEO for luck. While this variable has a significant positive association with the probability of being targeted, the relation becomes insignificant when we also include *CEO Total Pay* in Equation (1).

[11] The coefficient of *Entrenchment Index* is negative and significant. There is an explanation for this apparently counterintuitive result. The *Entrenchment Index* captures provisions that limit shareholder voting power and protect the firm from hostile takeovers (Bebchuk et al. 2009). Firms with high *Entrenchment Index* are more likely to be

In Model (2), we examine whether activists target firms based on the structure of CEO pay, by replacing *CEO Total Pay* with its two main components—*CEO Cash Pay* (salary plus bonus) and *CEO Equity Pay* (the value of annual grants of equity awards). The coefficients of both are positive and significant. In untabulated tests, we also find that while the coefficient of *CEO Cash Pay* is positive and significant in both the 1997-2002 and the 2003-2007 periods (with no change over time), the coefficient of *CEO Equity Pay* is positive and significant only in the 2003–2007 period and shows a significant increase over time, reflecting activists' concerns with the negative effects of equity pay after the accounting scandals of 2001-2002 (Bergstresser and Philippon 2006; Burns and Kedia 2006; Efendi, Srivastava, and Swanson 2007).

Next, we examine the degree of "sophistication" and "sensationalism" employed by activists in choosing target firms. Following Core et al. (2008), we perform two tests. First, in Model (3) we split *CEO Total Pay* into *CEO Predicted Total Pay* and *CEO Residual Total Pay*. *CEO Predicted Total Pay* aims to capture the level of "expected" CEO total pay given its economic determinants,[12] while *CEO Residual Total Pay* (the difference between *CEO Total Pay* and *CEO Predicted Total Pay*) aims to capture the "excessive" portion of CEO pay.[13] Second, in

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targeted by shareholder proposals that focus on these provisions than by proposals that deal with CEO compensation (recall from Section 2 that each shareholder can submit only one proposal at the annual meeting). In fact, when we drop control firms targeted by other governance-related proposals and re-estimate Equation (1), the coefficient of *Entrenchment Index* becomes insignificant (untabulated) while the other coefficients remain essentially unchanged.

[12] Similar to Core et al. (2008), we compute *CEO Predicted Total Pay* by taking the exponent of the predicted value for each firm from a regression of the natural logarithm of total CEO compensation on proxies for economic determinants of CEO pay. In particular, we estimate the following annual cross-sectional regressions for all firms in the ExecuComp database: $ln(CEO\ Total\ Pay_t) = \alpha_0 + \alpha_1\, ln(CEO\ Tenure_t) + \alpha_2\, ln(Sales_{t-1}) + \alpha_3\, S\&P500_{t-1} + \alpha_4\, Book\text{-}to\text{-}Market_{t-1} + \alpha_5\, Stock\ Returns_t + \alpha_6\, Stock\ Returns_{t-1} + \alpha_7\, ROA_t + \alpha_8\, ROA_{t-1} + Industry\ Fixed\ Effects + \varepsilon$ where $CEO\ Tenure_t$ is the number of years the CEO has been at his current position as of year *t*, $Sales_{t-1}$ is the company sales during year *t-1*, $S\&P500_{t-1}$ is an indicator variable that is equal to one if the firm is in the Standard & Poor's 500 Index in year *t-1*, $Book\text{-}to\text{-}Market_{t-1}$ is the book market of equity scaled by market value of equity at the end of year *t-1*, $Stock\ Returns_t$ *(Stock* $Returns_{t-1}$*)* is the company's unadjusted stock return for year *t* (*t-1*), ROA_t (ROA_{t-1}) is income before extraordinary items scaled by average assets during year *t* (*t-1*).

[13] We exclude *Market Capitalization, Return on Assets* and *Abnormal Returns* from Model (3) because variables capturing the same underlying constructs (size and performance) are used to estimate *CEO Predicted Pay* (see previous footnote). When we include these variables in Model (3), the coefficients of *CEO Predicted Pay* and *CEO Residual Pay* remain positive and significant at, respectively, 0.13 (p-value<0.01) and 0.05 (p-value<0.01).

Model (4), we augment Equation (1) with *CEO Exercised Options*, an indicator variable equal to one if the CEO exercised any options in year *t-1*. A positive coefficient *only* on *CEO Residual Total Pay* would suggest shareholder sophistication in selecting target firms, while a positive coefficient on *CEO Predicted Total Pay* (regardless of the coefficient of *CEO Residual Total Pay*) and/or *CEO Exercised Options* would suggest lack of sophistication and sensationalism.[14]

The results show that the coefficients of both *CEO Predicted Total Pay* and *CEO Residual Total Pay* are significantly positive (Model 3), while the coefficient of *CEO Exercised Options* is significantly *negative* (Model 4)—perhaps because option exercises (which usually occur after a 3-5 year vesting schedule) proxy for positive long-term stock performance not fully captured by the *Abnormal Returns* variable (recall that activists are less likely to target well performing firms).[15] These findings also hold when we split the sample in the 1997-2002 and the 2003-2007 periods (untabulated results) and suggest that, on average, activists target firms with high CEO Pay, whether excessive or not, inconsistent with a sophisticated approach.

To examine whether the degree of sophistication differs across activists, we repeat our analysis by proponent identity for firms targeted by shareholder proposals. Specifically, we estimate Equation (1) separately for firms targeted by institutional proponents (*Union Pension Funds*, *Public Pensions* and *Other Shareholder Groups*)—presumably more sophisticated—and for firms targeted only by other proponents (*Individuals* and *Religious Organizations*), building

[14] The focus on option exercises is viewed as sensationalistic because option exercises reflect realized pay for past performance rather than ex ante compensation opportunity (Holstrom and Kaplan 2003). Core et al. (2008) analyze compensation-related press coverage over the 1994-2002 period and find that negative coverage is higher for firms with "excessive" CEO pay (suggesting a sophisticated approach and consistent with an information role of the press) but also for firms with high CEO option exercises (suggesting some degree of sensationalism and consistent with an entertainment role played by the press), while the "predicted" level of CEO pay does not seem to play a role.

[15] Results are similar when we re-define *CEO Total Pay* to include the dollar proceeds from option exercises instead of the value of the option grants (Core et al. 2008) and re-estimate *CEO Predicted Total Pay* and *CEO Residual Total Pay*. We also estimate a specification with a continuous variable capturing the proceeds from option exercises (defined only for firms with CEO option exercises greater than zero during the year) as well as a specification with both the indicator variable and the continuous variable. The general tenor of the results does not change: the likelihood of targeting is not positively associated with occurrence or size of option exercises.

two separate control samples for each group of firms (using the same criteria described in Section 4.1). In addition, we perform a within-sample logit analysis to directly examine whether firms targeted by institutional proponents differ from those targeted only by other proponents. Panel B presents the results (we omit the control variables for ease of exposition). Contrary to our expectations, firms targeted by institutional proponents exhibit higher residual *and* predicted pay relative to both their control sample and to firms targeted only by other proponents.

Finally, in untabulated tests, we explore whether the degree of sophistication differs across types of activism and find instead that both firms targeted by shareholder proposals and firms targeted by vote-no campaigns are characterized by higher CEO pay—both predicted and residual—relative to their respective control samples.[16]

Collectively, it appears that, over time, and across types of proponents and activism tools, activists target firms with high CEO Pay, whether excessive or not, inconsistent with a sophisticated approach. At the same time, activists do not seem to focus on option exercises, inconsistent with a pure sensationalistic approach. A potential explanation for these findings is that many activists regard high levels of CEO pay per se as "excessive" from a social equity standpoint, even if justifiable based on economic determinants.[17]

4.3 Evidence on Union Pension Funds' Motives

Union pension funds are the dominant proponent in our sample (Table 1 Panel A). While unions' governance-related activism first emerged in the 1990s, it has greatly intensified after their pension funds experienced significant losses as a result of the governance scandals in 2001-

[16] We also find that firms targeted by vote-no campaigns have higher levels of CEO compensation, in terms of total pay (both predicted and residual), relative to firms targeted by shareholder proposals, suggesting that investors resort to vote-no campaigns—a more confrontational form of activism—in the most egregious cases.

[17] Damon Silvers, associate general counsel of the AFL-CIO, the largest federation of labor unions, noted: "Our view is that the level of executive pay matters. This is where we differ from many other investors. It matters because at some point it is just a waste of assets. It matters in terms of the health of the firm because it is very difficult to inspire loyalty or sacrifice on the part of the majority of employees when executives are having rewards lavished on them. And it matters because it is bad for society" (Ferri and Weber, 2009).

2002. Union funds are generally well diversified (Schwab and Thomas 1998), holding small equity stakes in individual firms and thus with limited ability to influence board decisions. Union pension funds view activism as a way to start a dialogue with boards and become more involved in those strategic corporate decisions that affect the value of the funds (Schwab and Thomas 1998; Ferri and Weber 2009). However, this increased activism has resulted in significant controversy due to their dual role as shareholders (the union pension fund) and representatives of labor in collective bargaining negotiations (the unions). Cases where this potential conflict of interest became apparent (e.g., the governance campaign of AFL-CIO at Safeway during labor negotiations) have led critics to argue that union pension funds' activism aims at furthering the interests of union members rather than increasing shareholder value, hence casting doubts on recent SEC proposals that would empower minority shareholders (Anabtawi and Stout 2008).

The empirical evidence on the motives of union funds' activism is limited. Agrawal (2008) focuses on proxy votes cast by some union funds on director elections and finds that these votes reflect union worker interests rather than shareholder value considerations alone. In contrast, Prevost et al. (2009) find neither a negative stock market reaction to union-sponsored proposals nor evidence of greater benefits for workers (e.g. higher labor costs) in response to unions' shareholder activism between 1988 and 2002, inconsistent with the conflict of interest hypothesis. Thomas and Martin (1998) conjecture that, if other shareholders perceived the union's dual role as detrimental to their interests, union-sponsored proposals would receive lower voting support—the opposite of what they report using data from the 1994 proxy season. However, none of these studies directly examine the targeting criteria employed by union pension funds in carrying out their activism initiatives.

We extend this literature by examining whether firms targeted by union pension funds are more likely to be unionized relative to other target firms. To do so, we re-estimate Equation (1) within the sample of targeted firms with two modifications: *i*) we re-define the dependent variable as equal to one (zero) if the firm is targeted by a union pension fund (other proponent); *ii*) we include an indicator variable (*Unionized*) that is equal to one for firms with unionized employees as an additional independent variable (see Appendix 4 for details). Table 3 Panel C (Column 1) shows that firms targeted by union pension funds are not more likely to be unionized than firms targeted by other activists, inconsistent with the conflicts of interests hypothesis.

Next, we examine whether unionized firms targeted by union pension funds differ from unionized firms targeted by other activists along characteristics that proxy for potential conflicts of interest. In particular, we conjecture that if union pension funds use shareholder proposals and vote-no campaigns as levers to negotiate with firms as employees' representatives or to retaliate against firms for their positions on labor issues, they would target unionized firms with higher *% of Unionized Employees* (more "material" to the unions' interests), firms involved in some labor-related dispute (*Dispute with Union*s), and/or firms currently renegotiating their collective bargaining agreements (*Negotiations with Unions*) (see Appendix 4 for variable definitions and data sources). However, the results (Columns 2 – 4 of Table 3 Panel C) show that unionized firms targeted by union pension funds and those targeted by other proponents do not differ in any of these dimensions. Combined with our earlier tests, we conclude that in our sample there is no (obvious) evidence of union-related motives in union pension funds' targeting criteria, suggesting that concerns with the dual role of union pension funds may have been overstated.

5. Determinants of Voting Outcome for Compensation-Related Shareholder Proposals

5.1 Research Design

In Section 4, we investigated the criteria used by shareholder activists in targeting firms. In this section, we examine the criteria used by all shareholders when casting their votes on compensation-related proposals. For this purpose, we examine the determinants of voting outcome for our sample of 1,198 compensation-related shareholder proposals using the following OLS regression with standard errors clustered by firm:

$$\%\ Votes\ For_t = \alpha_0 + \alpha_1\ CEO\ Total\ Pay_{t-1} + \beta\ Control\ Variables_{t-1} + \varepsilon \quad (2)$$

% Votes For$_t$ is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against).[18] Our initial focus is whether *CEO Total Pay*$_{t-1}$ affects the voting outcome. We then replace *CEO Total Pay*$_{t-1}$ with other pay-related variables.

To capture the degree of shareholder dissatisfaction with the firm's compensation and governance policies, we include the number of other compensation-related shareholder proposals voted upon at the same annual meeting *(# of Other Comp-Related Proposals*$_t$), and three indicator variables denoting whether at the same annual meeting the firm was targeted by: *i*) a compensation-related vote-no campaign (*Comp-Related Vote-No Campaign*$_t$), *ii*) a (non-compensation) governance-related vote-no campaign (*Other Vote-No Campaign*$_t$), *iii*) one or more (non-compensation) governance-related shareholder proposals (*Other Proposal*$_t$).

Based on the evidence in Table 1 and in other studies (Gillan and Starks 2000; Ertimur et al. 2010), we also control for the *2003-2007 Period*, for proposal type (*Rules of the Game*$_t$, *Pay Design*$_t$) and proponent identity (*Institutional Proponent*$_t$), as well as for size, performance, ownership structure, board independence and an index of shareholder rights.

[18] The results are unchanged when we re-compute *% Votes For*$_t$ as percentage of all votes cast, including abstention votes. Because the dependent variable is a percentage, following Bethel and Gillan (2002) in robustness tests we also use its logit transformation, i.e. *Votes For*$_t$= Log [(*% Votes For*$_t$ / (1 - *% Votes For*$_t$)], with similar findings.

To account for selection bias, in untabulated tests we also employ a two-step Heckman model where the first step is the probability of being targeted by a compensation-related shareholder proposal and the second step is the OLS regression in Eq. (2), with the inverse Mill's ratio (obtained from the first-step probit regression) included among the control variables in Eq. (2).[19] Our inferences are unchanged and the coefficient of the inverse Mill's ratio is not significant, reducing concerns with selection bias.

5.2 Results

Table 4, Panel A shows a positive and significant association between *CEO Total Pay* and the percentage of votes in favor of compensation-related proposals (Model 1). In addition, *CEO Residual Total Pay* is positively associated with the votes in favor of the proposal, while the coefficients of *CEO Predicted Total Pay* and *CEO Exercised Options* are not significant (Model 3 and 4). In untabulated tests, we find that the significant coefficients of *CEO Total Pay* and *CEO Residual Total Pay* are driven by the 2003-2007 period.

These findings have two implications. First, while activists target firms based on both predicted and excess CEO pay, voting shareholders support compensation changes only at firms with excess CEO pay, suggesting that, on average, shareholder votes reflect a sophisticated understanding of CEO pay figures.[20] This speaks favorably about the potential ability of advisory say on pay votes to capture the quality of CEO pay practices, contrary to claims that shareholders lack the required specific knowledge or the incentives to acquire it (Bainbridge 2008). Combined

[19] Our set of determinants for the first step is based on Table 3, plus an indicator variable for S&P 500 firms. In the Heckman two-step procedure an exclusion restriction is required to generate credible estimates. In other words, there needs to be at least one variable significantly affecting the likelihood of being targeted but not the voting outcome. An indicator variable for S&P 500 firms is an ideal candidate. More than 70% of our sample proposals are submitted at S&P 500 firms, and the corresponding indicator is significant in the targeting regression (p-value=0.042), even after controlling for size. However, there is no difference in mean and median voting outcome between proposals submitted at S&P 500 firms and non-S&P 500 firms.

[20] In a similar vein, Carter and Zamora (2009) document a higher percentage of votes cast against the remuneration report in U.K. firms with excess CEO pay; Cai et al. (2009) find a higher percentage of votes withheld from compensation committee members up for re-election in firms with excess CEO pay.

with the evidence on voting patterns by type of proposal (Section 3.2), this result also suggests that shareholder votes may be an effective mechanism in preventing minority shareholders from pursuing their private agendas, contrary to claims in the literature (Anabtawi and Stout, 2008). Second, while proposal type remains the key factor in voting decisions, shareholders take firm-specific characteristics into account (e.g., CEO pay)—consistent with the increased use of firm-specific (rather than universal) recommendations by proxy voting firms (Borrus 2004).

With respect to the other variables, Panel A shows that voting support is positively related to the *# of Other Comp-Related Proposals* and is higher for proposals voted upon in the *2003 - 2007 Period*, for *Rules of the Game* and *Pay Design* proposals, and for proposals submitted by an *Institutional Proponent* (as in Gillan and Starks 2000). As in prior studies (e.g., Gordon and Pound 1993; Ertimur et al. 2010), voting support is lower among larger firms (possibly due to the higher cost of collective action in these firms and the greater resources they invest in campaigning against the proposal); higher in firms with weaker monitoring mechanisms (higher *Entrenchment Index* and lower *% of Independent Directors*); and lower in firms with higher *% of Executives' Ownership* (unsurprisingly, executives cast their shares against the proposal—if they had not opposed it, the proposal would not be up for a vote in the first place).

Previous studies show that voting recommendations by influential proxy voting services have a significant effect on shareholder votes (e.g., Bethel and Gillan 2002; Cai et al. 2009). In our sample, votes in favor of proposals receiving a "for" recommendation from RiskMetrics (52% of the proposals) are, on average, 42.9%, versus only 11.7% for proposals receiving an "against" recommendation (data available for about 75% of the sample). The value and information content of these recommendations, however, are less clear (Choi, Fisch and Kahan 2009) and critics caution against the growing influence of proxy voting firms (Gordon 2009).

To shed light on the role of proxy voting services' recommendations in the context of compensation proposals we perform two tests. First, we conduct a logit analysis where we replace the dependent variable in Equation (2) with an indicator variable equal to one if RiskMetrics recommends to vote "For" the proposal (*RiskMetrics=For*). The results presented in Panel B are generally similar to Panel A, suggesting that similar factors affect RiskMetrics recommendations and shareholder votes.[21] Second, we repeat the analysis in Panel A after adding the residual from the logit regression in Panel B (*Residual RiskMetrics Recommendation "For"*) as an additional determinant. Our purpose is to understand whether RiskMetrics recommendations influence the voting outcome above and beyond the effect of other factors known to affect both recommendations and voting outcome. Panel C shows that the coefficient of the residual is positive and significant (the adjusted R^2 increases from 49% to 73%), consistent with a substantial incremental impact of RiskMetrics recommendations on voting outcome.[22]

5.3 The Effect of Union Pension Funds' Potential Conflicts of Interest

Do proponents' perceived conflicts of interest affect the decisions of other voting shareholders and proxy voting services? To examine this question, we focus on proposals sponsored by union pension funds and investigate whether voting support and RiskMetrics recommendations depend on unionized status and other union-related characteristics of targeted

[21] The most striking difference is the *positive* and significant association between *% of Executive Ownership* and the likelihood of a "For" recommendation (Panel B), in contrast to the *negative* and significant association with the percentage of votes for (Panel A). The difference is driven by the fact that, in Panel A, the *% of Executive Ownership*$_{t-1}$ mechanically captures the proportion of votes cast by executives (opposing the proposal), while in Panel B it reflects other shareholders' assessment of executive ownership in forming their voting decision. It is also noteworthy that governance variables (board independence, entrenchment index) affect the percentage of votes cast in favor of compensation proposals but do not affect RiskMetrics recommendations and that RiskMetrics is more likely to support compensation proposals in firms with higher CEO equity pay (Model 2).

[22] In untabulated tests, we also include the indicator variable *RiskMetrics=For* directly in Panel A as an additional determinant. Not surprisingly (given the results in Panel B), some of the variables lose significance, although a number of them (e.g., the type of proposal and proponents, governance variables, number of other compensation proposals) remain significant. The coefficient of *RiskMetrics=For* is positive and highly significant and implies a 25% voting premium for compensation-proposals supported by RiskMetrics—a figure close to the estimate of 14%-21% in Bethel and Gillan (2002) and to the 20-30% indicated by practitioners (Choi et al. 2009).

firms. For this purpose, we modify Model 1 of Table 4, Panels A and B, by splitting the proposals sponsored by institutional proponents into three mutually exclusive groups: proposals presented by *i*) union pension funds at unionized firms, *ii*) union pension funds at non-unionized firms, and *iii*) other institutional proponents. As shown in the first columns of Panel D (voting outcome) and Panel E (RiskMetrics recommendations), voting support and RiskMetrics recommendations do *not* differ depending on whether the firm targeted by the union-sponsored proposal is unionized or not (the coefficients of *Union Pension Fund Proponent x Unionized* and *Union Pension Fund Proponent x Not Unionized* are not significantly different from each other).

Next, we examine the effect of a number of union-related characteristics. For the subset of union-sponsored proposals presented at unionized firms, we interact *Union Pension Fund Proponent* with indicator variables denoting, respectively: *i*) high versus low levels of unionization, *ii*) the existence or lack thereof of disputes with unions, *iii*) the existence or lack thereof of negotiations with unions (variables defined in Appendix 4). Again, as shown in columns 2 – 4 of Panel D and Panel E, voting support for and RiskMetrics recommendations on union-sponsored proposals at unionized firms do *not* seem to depend on union-related characteristics that may reflect a hidden agenda of the proponent.

Finally, we investigate whether voting outcome and RiskMetrics recommendations differ when the target firms' employees are affiliated with the same union sponsoring the proposal (indicator variable *Dual Role*; see Appendix 4 for details). In these cases, the potential for conflicts of interest seems to be the most severe, increasing the likelihood that other shareholders and proxy voting firms will be suspicious of the union pension funds' motives. For the subset of unionized firms, we re-estimate Equation (2) after replacing *Institutional Proponent* with three indicator variables: *Union Pension Fund Proponent x Dual Role, Union Pension Fund*

Proponent x Not Dual Role and *Other Institutional Proponent*. The results show that voting support and RiskMetrics support for union-sponsored proposals is significantly lower when the union proponents have a "dual" role (last columns of Panels D and E, respectively).

Overall, our analyses suggest that union-sponsored proposals suffer a penalty in terms of support from other shareholders and proxy voting services when the target firms' employees are affiliated to the union whose pension fund is sponsoring the proposal. Instead, voting shareholders and proxy voting firms do not seem concerned about cases where union pension funds target firms with employees affiliated to other unions or firms with labor-related disputes but without a direct involvement of the union sponsoring the proposal.

6. Consequences of Compensation-Related Shareholder Activism

In this section, we study how firms respond to compensation-related shareholder activism. We first provide direct evidence on whether firms implement shareholder proposals. Then, we examine whether shareholder activism affects the level of CEO pay. While not all proposals and vote-no campaigns explicitly call for a reduction in CEO pay, they often imply that pay levels are excessive.[23] Even when they do not, they may act as a catalyst for change by triggering more scrutiny of CEO pay. Also, the dialogue with proponents may expand beyond the specific issue raised by the proposal (Del Guercio and Hawkins 1999).[24]

6.1 Implementation of Compensation-Related Shareholder Proposals

For each of the 1,198 compensation-related proposals, we read the subsequent year's proxy statement and code as "implemented" any proposal for which the board has taken a

[23] For example, proposals to adopt performance-based vesting conditions in equity awards may imply that the payouts under the firm's current equity grant policies are currently too generous (for a given level of performance). Proposals requesting shareholder approval for golden parachutes or supplemental executive retirement plans (SERPs) may be a reaction to large payments made by firms in the past.

[24] Another approach is to examine the market reaction around compensation-related proposals. However, an event study around shareholder proposals is hard to design and interpret, since the announcement date cannot be uniquely identified or occurs in conjunction with other value relevant announcements (Gillan and Starks 2007). Prior studies find little market reaction around potential dates of interest (Karpoff et al. 1996; Thomas and Cotter 2007).

significant step toward full implementation (see Appendix 5 for examples). We choose a one-year horizon to increase the likelihood that the implementation is in response to the proposal.

Table 5 Panel A shows that only 64 proposals are implemented (59 in the 2003-2007 period), corresponding to a 5.3% implementation rate. Most implementations are for *Rules of the Game* proposals and none are for *Pay Philosophy* proposals. For proposals receiving a majority vote, the implementation rate is significantly higher at 32.2%, confirming earlier evidence that boards' responsiveness to shareholder pressure depends on the voting outcome.[25]

These figures may under-state the degree of boards' responsiveness to the proposals because firms may "partially" implement a proposal by adopting only some of its aspects (see Appendix 5).[26] We are able to identify 34 such implementations, mostly cases where the proposal does not win a majority vote. If these "partial" implementation cases are included, the rate of implementation increases from 5.3% to 8.3% for the full sample and from 32.2% to 40.3% for the sample of majority vote proposals. Overall, the rate of success remains lower than for other forms of activism, such as hedge fund activism. [27]

In Panel B, we examine the determinants of the implementation decision using a logit model where the dependent variable is equal to one if the proposal is fully implemented (Model

[25] Ertimur et al. (2010) find that the implementation rate of governance-related shareholder proposals between 1997 and 2004 is 7.6% but rises to 31.1% for proposals winning a majority vote. Del Guercio et al. (2008) document that the rate of adoption of specific shareholder requests sometimes contained in vote-no campaigns increases from 22% for the overall sample to 36% for the sub-sample with the highest percentage of votes withheld (>20%).

[26] On the other hand, these figures may over-state the impact of shareholder proposals on firms' actions to the extent that their adoption may be costless or de facto non-binding to the board. For example, adopting a proposal requesting shareholder approval for future golden parachutes greater than 2.99 times salary and bonus may not be immediately binding to a firm currently below the 2.99 cap or to a firm above the 2.99 cap but with no immediate plan to renegotiate its severance agreements or enter into new ones. In addition, tax rules already make it costly for firms to exceed the 2.99 limit.

[27] Klein and Zur (2009a) find that hedge fund activists achieve their goals (fully or partially) in about 60% of the cases. Similarly, Brav et al. (2008) document that hedge fund activists achieve their main stated goals in 40.6% of the cases and gain major concessions from their targets in 25.8% of the cases. They also document lower full success rates (20.4%) and higher partial success rates (44.9%) when those goals are related to changes in executive compensation. Becht et al. (2008) find that the success rate of the Hermes UK Focus Fund ranges between 44% and 100% depending on the stated objective.

1) or fully or partially implemented (Model 2). The independent variables capture voting outcome, proposal type, proponent identity, firm size and performance, governance and time period. The analysis confirms in a multivariate setting that the likelihood of implementation is higher for proposals receiving a larger percentage of votes in favor and proposals receiving a majority vote, consistent with findings in Thomas and Cotter (2007) and Ertimur et al. (2010) for a broader set of proposals over the period up to 2004. Proposals are less likely to be implemented in firms with higher executive ownership. In Model (2), it also appears that responsiveness to shareholder proposals increases with board independence.

6.2 Effect of Compensation-Related Activism on CEO Pay

6.2.1 Research Design

To estimate the impact of shareholder activism on CEO compensation, similar to Core et al. (2008)—who examine the impact of negative press coverage on CEO compensation—we estimate the following OLS regression, with standard errors clustered by firm:

$$Change\ in\ CEO\ \%\ Residual\ Pay_{t+1} = \alpha_0 + \alpha_1\ Targeted_t + \alpha_2\ Controls_t + \varepsilon \quad (3)$$

The dependent variable, *Change in CEO % Residual Pay*$_{t+1}$, is the difference between *CEO % Residual Pay*$_{t+1}$ and *CEO % Residual Pay*$_{t-1}$. *CEO % Residual Pay*$_{t+1(t-1)}$ is defined as the natural logarithm of *CEO Total Pay*$_{t+1(t-1)}$ less the natural logarithm of *CEO Predicted Pay*$_{t+1(t-1)}$. Therefore, *Change in CEO % Residual Pay*$_{t+1}$, represents the change in percentage "excess" CEO pay between years *t-1* and *t+1*. We focus on excess pay in order ensure that changes in compensation are not driven by changes in firm characteristics over the same period.

As a starting point, the independent variable of interest in Equation (4) is *Targeted*$_t$ (as defined in Section 4.1). A negative coefficient on *Targeted*$_t$ would suggest a decrease in excess CEO pay subsequent to a compensation-related activism event. We control for the possibility of

mean reversion in CEO compensation by including the pre-targeting level of excess CEO pay (*CEO % Residual Pay$_{t-1}$*), as in Core et al. (2008). Also, we control for the potential effect of CEO turnover (indicator variable *CEO's Last Year in Office$_{t-1}$*) and (non-compensation) governance-related vote-no campaigns and shareholder proposal (indicator variables *Other Vote-No Campaign$_t$* and *Other Proposal$_t$*) and include year fixed effects.

6.2.2 Results

Table 6 Panel A presents the results from the estimation of Equation (3). On average, we find no relation between compensation-related shareholder activism and future changes in excess CEO pay—the coefficient of *Targeted* in Model (1) is not significant. There is strong evidence of mean reversion in excess CEO pay—the coefficient of *CEO % Residual Pay* is negative and significant—as in Core et al. (2008). To account for potential differences in the effect of various forms of compensation-related activism, in Model (2) we replace *Targeted* with two separate indicator variables, for vote-no campaigns (*Vote-No*) and shareholder proposals (*Proposal*). The coefficient of *Vote-No* is negative, but not significant (p-value=0.12).

One possibility for the lack of significance is that not all targeted firms are characterized by excess CEO pay. In other words, if activism is "efficient," it should have an impact only (or mostly) on firms with excess CEO pay. To examine this possibility, in Model (3) we interact *Vote-No* with two indicator variables denoting whether residual CEO pay is positive (*CEO % Residual Pay$_{t-1}$>0*) or negative (*CEO % Residual Pay$_{t-1}$*<0).[28] We find a negative and significant association between vote-no campaigns and subsequent change in percentage excess CEO pay in firms with excess CEO pay in year *t-1*. The coefficient of *Vote-No$_t$* x *CEO % Residual Pay$_{t-1}$>0*

[28] We also interact these two indicator variables with *Proposal$_t$*, *Other Vote-No Campaign$_t$* and *Other Proposal$_t$*. None of the coefficients are significant. We report the more parsimonious specification for ease of exposition.

translates to a $7.3 million reduction in total CEO pay.[29] Since the median CEO pay for this subset of firms is $19.3 million, the result implies a 38% decrease in CEO total pay.[30]

Related to our finding, Cai et al. (2009) report a decrease in excess CEO pay among firms with *i*) excess CEO pay and *ii*) a high percentage of votes withheld from a compensation committee member. To control for this effect, we create two indicator variables denoting whether more than 15% of votes are withheld from a compensation committee member (*Votes Withheld from Comp Comm$_t$ > 15%*) or a non-compensation committee member (*Votes Withheld from Non-Comp Comm$_t$ > 15%)*—these data are available only for the 2003-2007 period. Then, we interact them with the indicator variables for excess CEO pay (*CEO % Residual Pay$_{t-1}$>0* and *CEO % Residual Pay$_{t-1}$<0*). As shown in Model (4), the four additional variables are not significant and *Vote-No x CEO % Residual Pay$_{t-1}$> 0* remains significant, suggesting that our finding is driven by the publicity associated with a vote-no campaign rather than from the percentage of votes withheld at the annual meeting.[31]

Across all tests in Panel A, the coefficient of *Proposal* is not significant. In Panel B we examine the possibility that the effect of the proposals depends on proponent identity and/or

[29] We obtain this estimate as follows. The predicted value of *Change in CEO % Residual Pay$_{t+1}$* is -0.5203 when we set *Vote-No$_t$ x CEO % Residual Pay$_{t-1}$> 0* to one, *Vote-No$_t$ x CEO % Residual Pay$_{t-1}$< 0* to zero and all other variables to their median values. The median value for the ratio of *CEO Total Pay$_{t-1}$* to *CEO Predicted Pay$_{t-1}$* for firms with *Vote-No$_t$ x CEO % Residual Pay$_{t-1}$> 0* equal to one is 2.11. It follows that the predicted median ratio of *CEO Total Pay* to *CEO Predicted Pay* in year *t+1* is 1.26 (=$e^{-0.5203}$ x 2.11). Since the median *CEO Predicted Pay$_{t-1}$* for firms with *Vote-No$_t$ x CEO % Residual Pay$_{t-1}$> 0* equal to one is $8.6 million, the reduction in the ratio translates to roughly $7.3 million reduction in total CEO compensation in year *t+1* [= (2.11 – 1.26) x $8.6 million]. In essence, we find that in these firms CEO pay was 2.11 times the level justified by economic determinants before the vote-no campaign, and only 1.26 times after the vote no campaign.

[30] Ferri and Sandino (2009) report a $2.3 million reduction in CEO pay in firms where a proposal to expense stock options was approved and Brav et al. (2008) document a $1 million decline in CEO pay in firms targeted by hedge funds activists (a significant amount considering that these firms are considerably smaller than S&P 500 firms).

[31] The interaction term *Votes Withheld from Comp Comm$_t$ > 15 % x CEO % Residual Pay$_{t-1}$ > 0* remains insignificant even when we: *i*) use a 10% or 20% threshold instead of 15%; *ii*) exclude our vote-no campaigns indicator variables; or *iii*) focus on the compensation committee chair. The lack of significance is inconsistent with the findings in Cai et al. (2009) and may reflect various differences in research design (sample period, control variables used in estimation of excess CEO pay, measurement of the votes withheld variable). Nonetheless, for our research question—the effect of compensation-related initiatives that activists take ahead of the annual meeting, such as submitting proposals and staging vote-no campaigns—it is important to confirm that our findings hold after controlling for the effect of votes withheld from compensation committee members at the annual meeting.

proposal type. We categorize proposals into six groups, according to whether the proponent is an *Institutional Proponent* or *Other Proponent* and whether the proposals belong to the *Rules of the Game, Pay Design* or *Pay Philosophy* categories. The six indicators take the value of one if the firm was targeted by at least one proposal belonging to the corresponding proponent-proposal combination. To allow for substitution or complementarity between implementing a proposal and reducing CEO pay, we include two indicator variables (*Implemented, Not Implemented*) denoting whether or not the firm implemented any proposal. Finally, to control for the effect of voting support on implementation decisions, we include two indicator variables (*High Votes For, Low Votes For*) denoting whether or not the firm was targeted by at least one proposal receiving high support (i.e. more than 38% votes for, the top quartile of the distribution).

The results in Model (1) show that, among the six combinations, only firms targeted by *Pay Design* proposals sponsored by *Institutional Proponents* experience a significant decrease in excess CEO pay. In terms of economic significance, the coefficient of *Pay Design by Institutional Proponent* translates to a $2.3 million reduction in total CEO pay (a 29% decrease from the median CEO pay in this sub-sample of firms). Similar to vote-no campaigns in Panel A, we find that the result is driven by firms with excess CEO pay (Model 2), suggesting again that pay-related activism, when effective, seems to be effective where most needed.

Note that 90% (75%) of the vote-no campaigns (*Pay Design* proposals) occurred after 2002 (see Figure 1 and Table 1, Panel A). In fact, unreported tests show that the above results are entirely driven by the 2003-2007 period, consistent with evidence of increased effectiveness of activism in the post-Enron period (Thomas and Cotter 2007; Ertimur et al. 2010).

Overall, our analyses suggest that vote-no campaigns are generally more effective than shareholder proposals in moderating excess CEO pay at targeted firms. This finding extends the

previous evidence on the greater monitoring effectiveness of vote-no campaigns (Del Guercio et al. 2008) to CEO pay practices—generally resistant to outside pressures–and is consistent with the argument that directors are more likely to respond to vote-no campaigns because of reputation concerns (Grundfest 1993). We also suggest an additional explanation. The indeterminate nature of vote-no campaigns—which channel shareholders' dissatisfaction about any aspect of executive pay—is better suited to generate a broad, behind-the-scene dialogue on executive compensation than shareholder proposals, which, by definition, must be directed at a specific problem and propose a solution. Attempts to micro-manage CEO pay through detailed, prescriptive proposals in a 500-word supporting statement tend to result in impractical and cumbersome recommendations, often in contrast with accounting and tax rules or in violation of existing agreements. In contrast, shareholder proposals appear to be most effective—in terms of gathering voting support and causing firms to respond—when they push for guiding principles regarding the pay setting process (e.g., *Rules of the Game* proposals) or certain aspects of pay design (e.g., greater use of performance criteria in equity plans). In this role, shareholder proposals may be a useful tool to promote market-wide adoption of certain practices and policy reforms (e.g., option expensing, say on pay; Cai and Walkling 2009; Ferri and Sandino 2009).

6.3 Alternative explanations: additional tests

Studies examining the effect of monitoring mechanisms on firm outcomes are subject to endogeneity concerns (e.g., arising from correlated omitted variables, selection of independent variables based on unobserved or unobservable factors), which require caution in interpreting associations as evidence of causality. Specifically, there are two concerns in our setting. The first is that targeted firms may experience the documented changes in excess CEO pay because of other forms of activism and monitoring. In our analysis, we control for the presence of other

(non-compensation related) shareholder proposals and vote-no campaigns—a proxy for overall scrutiny of governance practices, which in turn may have a spillover effect on compensation practices. However, targeted firms may also be targets of hedge fund activism (Brav et al. 2008; Klein and Zur 2009a) or CalPERS' initiatives (e.g. Smith 1996; Del Guercio and Hawkins 1999; Barber 2007). Besides, the literature shows that concentrated institutional ownership helps curb excess CEO pay (e.g. Hartzell and Starks 2003). Hence, we may be incorrectly ascribing to compensation-related activism the effect of other monitoring mechanisms.

To address this concern, in unreported tests, we re-run the analysis in Table 6 after controlling for: (*i*) inclusion of the firm in the annual CalPERS Focus List; (*ii*) percentage of institutional ownership, (*iii*) percentage of cumulative ownership by institutional blockholders (i.e., institutions holding more than 5% of the equity); (*iv*) percentage of institutional ownership by investment style (i.e., dedicated, transient and quasi-indexer classification based on Bushee, 1998). Our inferences remain unchanged. As for hedge fund activism, we find that none of the compensation-related shareholder proposals and only four of the vote-no campaigns in our sample were sponsored by activist hedge funds.[32] Moreover, none of the firms targeted by vote-no campaigns and only four of the firms targeted by shareholder proposals were also the targets of hedge fund activism. Excluding vote-no campaigns sponsored by activist hedge funds and firms also targeted by hedge fund activism does not affect our results. Finally, to the extent that any other monitoring mechanism would likely be triggered by excess CEO pay, our control for the pre-targeting level of excess CEO pay may capture the effect of these other mechanisms.

[32] We thank April Klein and Emanuel Zur for sharing with us their dataset on hedge fund activism. In line with other hedge fund studies, Klein and Zur (2009b) define as activism event any case where a hedge fund files a Schedule 13D form with the SEC reporting the purchase of more than 5% of equity of a publicly traded firm with the intent of influencing the firm's management at the time of the purchase (or reserving the right to do so at a later date). For the definition of what constitutes a hedge fund, see details in Klein and Zur (2009b).

The second concern in our setting is that the change in excess CEO pay subsequent to targeting may be due to the characteristics of the firms being targeted, rather than the targeting event itself. To address this possibility, we perform two tests (unreported). First, we adopt a propensity score matched pair research design (e.g., Rosenbaum and Rubin 1983; Hellmann, Lindsey and Puri 2008). That is, we match each targeted firm to a control firm with a similar probability of being targeted (based on the yearly estimation of Equation (1) for firms in the S&P 1500) and re-run the analysis in Table 6 using this new control sample. Second, following Core et al. (2008), we replace the "targeted" indicator variables in Table 6 with their "unexpected" component (residual from a regression of the likelihood of being targeted). Both approaches aim at separating the effect of the targeting event from the effect of the firm characteristics leading to the targeting event—though they do not mitigate concerns arising from unobservable differences between targeted and non-targeted firms. Our results and inferences remain unchanged.

The above tests, combined with the evidence on firms' responses to shareholder proposals (Appendix 5) and the fact that the reduction in excess CEO pay only occurs in certain subsets of vote-no campaigns and shareholder proposals, give us some comfort that we are primarily capturing the effects of compensation-related activism. Nonetheless, we remain cautious about interpreting our findings as evidence of causality.

7. Conclusion

In this study we examine the effectiveness of low-cost activism tools currently available to shareholders to influence CEO pay at US firms. Using a comprehensive sample of 1,198 shareholder proposals and 134 vote-no campaigns related to CEO pay over the 1997-2007 period, we document a significant increase in the frequency of compensation-related activism after 2002, largely due to greater activism by union pension funds. We find no evidence of

union-related motives in union pension funds' activism. Our results show that activists target firms with higher levels of CEO total pay, whether excessive or not, inconsistent with a sophisticated approach. Instead, voting support is higher only in firms with excess CEO pay, reflecting a more sophisticated understanding of CEO pay figures. Voting support is also higher for proposals dealing with the pay setting process, while there is little support for proposals trying to micromanage structure or level of pay.

Finally, with respect to the consequences of compensation-related activism, we document a $7.3 million reduction in CEO total pay (corresponding to a 38% decrease) for firms with excess CEO pay targeted by vote-no campaigns. As for shareholder proposals, we find evidence of a moderating effect on CEO pay—a $2.3 million reduction—only in firms with excess CEO pay targeted by proposals sponsored by institutional proponents and calling for a better link between pay and performance. Our findings contribute to the literature on shareholder activism and CEO pay and may inform the policy debate on the adoption of a say on pay shareholder vote on executive pay.

Appendix 1 Compensation-Related Shareholder Proposals over 1997 – 2007: Frequency and Percentage of Votes in Favor

"Rules of the Game" Proposals	1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		1997-2007	
	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%
Shareholder Approval	15	26%	15	23%	13	30%	8	34%	13	34%	22	37%	29	45%	31	44%	37	35%	33	43%	58	43%	274	39%
Approval "Ordinary Pay"	5	13%	4	9%	0	-	0	-	0	-	0	-	3	18%	2	9%	14	8%	3	10%	2	13%	33	10%
Perf.-Based Compensation	2	8%	1	10%	0	-	0	-	0	-	0	-	1	38%	1	10%	13	9%	0	-	0	-	18	10%
Others - Approval Ord. Pay	3	17%	3	9%	0	-	0	-	0	-	0	-	2	7%	1	7%	1	4%	3	10%	2	13%	15	10%
Approval "Extraordinary Pay"	10	32%	11	27%	13	30%	8	34%	13	34%	22	37%	26	48%	29	47%	23	51%	24	48%	15	52%	194	42%
Golden Parachutes	4	35%	4	26%	10	27%	6	33%	12	33%	19	35%	18	57%	22	52%	20	53%	18	50%	12	54%	145	45%
SERPs	0	-	0	-	0	-	0	-	0	-	0	-	4	21%	5	37%	3	36%	6	42%	3	42%	21	36%
Option Repricings	0	-	2	37%	1	54%	0	-	1	47%	2	41%	1	33%	0	-	0	-	0	-	0	-	7	41%
Other - Approval Extr. Pay	6	30%	5	25%	2	30%	2	37%	0	-	1	57%	3	38%	2	14%	0	-	0	-	0	-	21	31%
"Say on Pay"	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	6	41%	41	42%	47	42%
Reporting	0	-	0	-	0	-	0	-	2	17%	6	29%	74	46%	34	53%	11	58%	1	43%	1	43%	129	47%
Expensing Stock Options	0	-	0	-	0	-	0	-	0	-	2	29%	71	46%	33	53%	10	60%	0	-	0	-	116	49%
No Pension Income in Bonuses	0	-	0	-	0	-	0	-	2	17%	4	29%	3	49%	1	38%	1	38%	1	43%	1	43%	13	35%
Disclosure	8	8%	9	6%	7	11%	5	10%	7	11%	2	10%	5	17%	5	13%	5	13%	9	28%	4	10%	66	13%
Disclosure - Comp Details	8	8%	9	6%	7	11%	5	10%	2	9%	2	10%	5	17%	5	13%	4	12%	9	28%	4	10%	60	13%
Exec Pay beyond Top 5	8	8%	9	6%	7	11%	5	10%	2	9%	2	10%	4	11%	3	15%	3	10%	6	20%	4	10%	53	10%
Other	0	-	0	-	0	-	0	-	0	-	0	-	1	41%	2	11%	1	18%	3	42%	0	-	7	29%
Disclosure - Comp Policy	0	-	0	-	0	-	0	-	5	11%	0	-	0	-	0	-	1	16%	0	-	0	-	6	12%
Perf. Targets/Weights	0	-	0	-	0	-	0	-	3	12%	0	-	0	-	0	-	0	-	0	-	0	-	3	12%
Target Dilution	0	-	0	-	0	-	0	-	2	9%	0	-	0	-	0	-	1	16%	0	-	0	-	3	12%
Independence	2	8%	9	20%	6	19%	4	25%	4	32%	9	26%	3	21%	2	14%	2	8%	1	42%	6	30%	48	23%
Stricter Indep Comp Committee	1	7%	6	21%	2	25%	0	-	2	42%	2	43%	0		1	16%	0	-	1	42%	1	52%	16	29%
Stricter Indep Key Committees	0	-	2	23%	3	19%	3	27%	2	23%	7	21%	3	21%	1	11%	2	8%	0	-	0	-	23	21%
Other	1	10%	1	5%	1	8%	1	19%	0	-	0	-	0	-	0	-	0	-	0	-	5	26%	9	19%
Other	1	14%	0	-	0	-	1	11%	0	-	0	-	1	7%	1	22%	5	26%	10	23%	8	25%	27	23%
Recoup Pay after Restatements	0	-	0	-	0	-	0	-	0	-	0	-	0	-	1	22%	4	31%	10	23%	8	25%	23	29%
Lower Pay in Case of Litigation	1	14%	0	-	0	-	1	11%	0	-	0	-	1	7%	0	-	1	5%	0	-	0	-	4	9%
Total - "Rules of the Game" Proposals	26	18%	33	17%	26	22%	18	24%	26	26%	39	32%	112	43%	73	45%	60	36%	54	37%	77	39%	544	35%

"Pay Design" Proposals	1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		1997-2007	
	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%
Link Pay to Performance	10	15%	4	11%	8	16%	3	15%	12	23%	6	24%	62	16%	35	20%	36	30%	27	33%	55	32%	258	24%
Use Perf-based Stock Options	0	-	0	-	4	26%	2	19%	5	25%	4	20%	3	32%	4	42%	18	35%	10	37%	17	32%	67	32%
Use Perf-based Restricted Stock	0	-	0	-	0	-	0	-	0	-	0	-	0	-	25	15%	17	25%	1	53%	7	40%	50	23%
Use Indexed Stock Options	0	-	0	-	0	-	0	-	3	27%	0	-	57	15%	1	32%	0	-	1	7%	0	-	62	16%
Use RPE-based incentive plans	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	14	33%	30	30%	44	31%
Link Pay to Perf. - Others	10	15%	4	11%	4	5%	1	6%	4	19%	2	31%	2	14%	5	22%	1	19%	1	9%	1	20%	35	15%
Features of Stock Options	2	11%	1	9%	3	14%	2	9%	1	6%	0	-	4	14%	8	22%	4	31%	2	35%	9	27%	36	21%
Holding Req. after Exercise	0	-	0	-	0	-	1	7%	0	-	0	-	3	17%	8	22%	4	31%	2	35%	6	22%	24	23%
Restrict Exerc. Price, etc.	2	11%	1	9%	3	14%	1	11%	1	6%	0	-	1	3%	0	-	0	-	0	-	3	37%	12	17%
Encourage Directors' Ownership	17	11%	3	13%	1	13%	5	10%	3	15%	2	7%	0	-	0	-	3	5%	0	-	1	29%	35	11%
Total - "Pay Design" Proposals	29	12%	8	11%	12	15%	10	11%	16	21%	8	19%	66	16%	43	20%	43	28%	29	33%	65	31%	329	22%

"Pay Philosophy" Proposals	1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		1997-2007	
	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%
Link Exec Pay to Social Criteria	10	7%	11	6%	11	5%	16	9%	15	10%	10	10%	6	14%	14	9%	8	9%	8	9%	7	9%	116	9%
Eliminate Options/Incentive Pay	9	10%	2	14%	10	7%	8	8%	5	9%	4	13%	12	9%	18	9%	6	6%	7	5%	5	5%	86	8%
Cap CEO/Worker Pay Ratio	3	11%	2	9%	8	8%	3	11%	0	-	0	-	11	12%	5	7%	14	8%	0	-	0	-	46	9%
"Commonsense" Pay Plan	0	-	0	-	0	-	0	-	0	-	0	-	0	-	26	8%	3	14%	0	-	0	-	29	9%
Other Restrictions on Pay Level	2	9%	2	9%	9	9%	2	12%	3	10%	1	13%	3	11%	2	16%	2	11%	4	7%	18	21%	48	14%
Total "Pay Philosophy" Proposals	24	9%	17	8%	38	7%	29	9%	23	10%	15	11%	32	11%	65	9%	33	9%	19	7%	30	16%	325	9%

	1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		1997-2007	
	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%
Total - All Pay Proposals	79	13%	58	14%	76	14%	57	14%	65	19%	62	25%	210	30%	181	26%	136	27%	102	30%	172	32%	1198	25%

Appendix 1 presents the frequency and voting support of compensation-related shareholder proposals between 1997 and 2007.
N = Number of proposals voted upon.
V% = Percentage of votes cast in favor of the proposal (excluding abstentions).

Appendix 2: Excerpts of Selected Compensation-Related Shareholder Proposals

Rules of the Game Proposals

Shareholder Approval of Future Large Severance Payments (Golden Parachutes)
"The Trowel Trades S&P 500 Index Fund …owner of approximately 36,800 shares of the Company's common stock, has given notice of its intention to present the following resolution...that the shareholders of Cendant Corporation ("the Company") urge the Board of Directors to seek shareholder approval of future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executives' base salary plus bonus. "Future severance agreements" include employment agreements containing severance provisions, retirement agreements and agreements renewing, modifying or extending existing such agreements. "Benefits" include lump-sum cash payments and the estimated present value of periodic retirement payments, fringe benefits, perquisites and consulting fees to be paid to the executive…" *Cendant, Proxy Statement, 03/02/2005*

"…Shareholders request that our Board of Directors seek shareholder approval for future golden parachutes for senior executives. This applies to benefits exceeding 200% of the sum of the executive's base salary plus bonus…At Honeywell I believe there is reason for special concern on windfall pay for executives. Honeywell Chairman David Cote's $65 million total pay in 2002 ranked 3rd in a study of best-paid executives by research firm Equilar…The 17 shareholder proposals voted on this topic in 2003 achieved an impressive 54% average supporting vote based on yes and no votes cast. …Institutional investors recommend companies seek shareholder approval for golden parachutes. For instance the California Public Employees Retirement System (CalPERS) said, "shareholder proposals requesting submission of golden parachutes to shareholder vote will always be supported." Also, the Council of Institutional Investors www.cii.org supports shareholder approval if the golden parachute exceeds 200% of a senior executive's annual base salary…" *Honeywell International, Proxy Statement, 03/15/2004*

Recoup Pay After Restatements
"… request the board of directors to adopt a policy whereby, in the event of a restatement of financial results, the board will review all bonuses and any other awards that were made to senior executives on the basis of having met or exceeded specific performance targets during the period of the restatement and will recoup for the benefit of the Company all such bonuses or awards to the extent that the specified performance targets were not achieved…In October 2003 the Company announced that it had inflated revenues in the fiscal year ending March 31, 2000 because of an accounting practice whereby the Company reported revenues from contracts before they had been signed. Bonuses for senior executives that year had been based on the extent to which income exceeded goals. Sanjay Kumar, then the president and chief operating officer, received a bonus of 80,000 shares and $3.2 million, based on the Company's supposedly superior performance in 2000…It thus appears that Computer Associates awarded generous bonus compensation even though the Company had failed to meet the requisite performance goals… The board of directors has made no public statement about whether it has sought to recoup funds that were paid to senior executives under the erroneous assumption that performance targets for 2000 had been exceeded…" *Computer Associates, Proxy Statement, 07/29/2004*

No Pension Income in Bonuses
"… urge the Personnel and Compensation Committee to adopt and implement a policy that net pension income not be included in calculating net income for purposes of determining the amount of incentive compensation senior executives receive…excluding pension income from the formula by which incentive compensation is determined will ensure that senior executives are rewarded for their success in managing Delta's business rather than for changes in the financial statements that are unrelated to operating performance and generated primarily by accounting assumptions…" *Delta Airlines, Proxy Statement, 03/25/2003*

Pay Design Proposals

Use Performance-based Stock Options

"…the shareholders urge the Compensation Committee to adopt a policy that a significant portion of future stock option grants to senior executives shall be performance-based. …From 2000 through 2002, Intel CEO Craig Barrett was awarded options to buy 1,268,696 shares of Intel stock. Such grants can result in substantial compensation for only modest gains in share price…even if Intel underperformed its competitors during that period…We believe that Intel's use of standard stock options to compensate its senior executives has the potential to reward mediocre company performance, and we accordingly urge the Committee to use performance-based options.… Investors and market observers including Warren Buffett, Alan Greenspan and Al Rappaport criticize standard options on the ground that they inappropriately reward mediocre or poor performance…Leading companies such as Avery Dennison, Capital One, Mattel and Union Pacific have adopted performance-based plans. According to Avery Dennison's most recent proxy statement, its approach, which postpones vesting until nine years and nine months after grant unless performance targets are met, "is designed to promote the creation of stockholder value over the long-term since the full benefit of the compensation package cannot be realized unless stock price appreciation occurs over a number of years"…" *Intel, Proxy Statement, 03/31/2004*

Use RPE-based Incentive Plans

"… request that the Board of Director's Executive Compensation Committee establish a pay-for-superior-performance standard in the executive compensation plan ('Plan'), by incorporating the following principles into the Plan: 1) The annual incentive component of the Company's Plan should utilize financial performance criteria that can be benchmarked against peer group performance, and provide that no annual bonus be awarded based on financial performance criteria unless the Company exceeds the median or mean performance of a disclosed group of peer companies on the selected financial criteria; 2) the long-term equity compensation component of the Company's Plan should utilize financial and/or stock price performance criteria that can be benchmarked against peer group performance, and any options, restricted shares, or other equity compensation used should be structured so that compensation is received only when Company performance exceeds the median or mean performance of the peer group companies on the selected financial and stock price performance criteria; 3) plan disclosure should allow shareholders to monitor the correlation between pay and performance established in the Plan…

…We believe the failure to tie executive compensation to superior corporate performance has fueled the escalation of executive compensation... Two common and related executive compensation practices have combined to produce pay-for-average-performance and escalating executive compensation. First, senior executive total compensation levels are targeted at peer group median levels. Second, the performance criteria and benchmarks in the incentive compensation portions of the plans, which typically deliver the vast majority of total compensation, are calibrated to deliver a significant portion of the targeted amount. The formula combines generous total compensation targets with less than demanding performance criteria and benchmarks…" *Avon Products, Proxy Statement, 03/31/2006*

Holding Requirement after Option Exercises

"…urge the Executive Compensation Committee to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs during their employment…The Committee should define "significant" (and provide for exceptions in extraordinary circumstances) by taking into account the needs and constraints of Adobe and its senior executives; however, the stockholders recommend that the Committee not adopt a percentage lower than 75% of net after tax shares. The policy should address the permissibility of transactions such as hedging transactions which are not sales but reduce the risk of loss to the executive... Equity-based compensation makes up a substantial portion of senior executive compensation at Adobe …Unfortunately, Adobe's generous equity compensation programs have not translated into meaningful levels of stock ownership …" *Adobe Systems, Proxy Statement 04/28/2004*

Pay Philosophy Proposals

Cap CEO/Worker Pay Ratio
"…that shareholders urge the Board to address the issue of runaway remuneration of CEOs and the widening gap between highest and lowest paid workers by:
1) Establishing a cap on CEO compensation expressed as a multiple of pay of the lowest paid worker at General Electric;
2) Preparing a report for shareholders explaining the determinations used in order to determine the appropriate cap…" *General Electric, Proxy Statement, 03/12/1999*

Link Executive Pay to Social Criteria
"…shareholders request that the Board voluntarily create a formula linking future executive compensation packages with achievement of specific decreases in teen consumption of our company's brands, using the terms of the now-defunct "settlement" as a guide. The formula should penalize executives when the company is not found in compliance with the goals determined and reward them for meeting these goals…" *Altria Group, Proxy Statement, 03/10/2000*

Commonsense Pay Plan
"…that the shareholders of Motorola, Inc. ("Company") request that the Company's Board of Directors and its Executive Compensation Committee replace the current system of compensation for senior executives with the following "Commonsense Executive Compensation" program including the following features:
(1) Salary—The CEO's salary should be targeted at the mean of salaries paid at peer group companies, not to exceed $1,000,000 annually. No senior executive should be paid more than the CEO.
(2) Annual Bonus—The annual bonus paid to senior executives should be based on well-defined quantitative (financial) and qualitative (non-financial) performance measures. The maximum level of annual bonus should be a percentage of the executive's salary level, capped at 100% of salary.
(3) Long-Term Equity Compensation—Long-Term equity compensation to senior executives should be in the form of restricted shares, not stock options. The restricted share program should utilize justifiable performance criteria and challenging performance benchmarks. It should contain a vesting requirement of at least three years. Executives should be required to hold all shares awarded under the program for the duration of their employment. The value of the restricted share grant should not exceed $1,000,000 on the date of grant.
(4) Severance—The maximum severance payment to a senior executive should be no more than one year's salary and bonus.
(5) Disclosure—Key components of the executive compensation plan should be outlined in the Compensation Committee's report to shareholders, with variances from the Commonsense program explained in detail…" *Motorola, Proxy Statement, 03/12/2004*

Eliminate Options/Incentive Pay
"…Management and Directors are requested to consider discontinuing all rights, options, SAR's, and severance payments to the 5 top Management after expiration of existing plans or commitments. This does not apply to plans for lesser Managers or employees whom are offered reasonable options or bonuses. REASONING: Moderation is needed in corporate remuneration. Any person can live very lavishly on $500,000.00 per year. Over-paying Management has been ongoing and increasing for years…" *Eastman Kodak, Proxy Statement, 04/05/2004*

Appendix 3: Examples of Vote-No Campaigns

"CalPERS to Vote Against Steris Corporation Compensation Committee
The California Public Employees' Retirement System (CalPERS) announced today that it will vote against two compensation committee members at Ohio-based STERIS Corporation in protest of the "outrageous" contract being awarded to the Company's departing Chief Executive Officer and Chairman Bill R. Sanford… "The employment contract bestowed to Sanford is clearly outrageous and lacks proper oversight by the Company's board of directors," said Dan Szente, Chief Investment Officer for CalPERS."Millions of shareowners' dollars and special rights are being granted at a time when the company's performance is terrible." *Business Wire, 07/20/2000*

"*Calpers Targets Four Directors of Three Companies On Stock-Option Backdating*
The $245 billion California Public Employees Retirement System has said that it would oppose the reelection of board members who led compensation committees at McAfee Inc. (NYSE: MFE), Monster Worldwide Inc. (NASDAQ: MNST) and Affiliated Computer Services Inc. (NYSE: ACS) due to probes into stock-option backdating…Calpers adopted a program in December to withhold votes from former compensation committee chairs at companies where top officers have departed amid option backdating scandals…", *FinancialWire, 05/29/2007*
"*Stilwell Seeks Withhold Vote for Prudential Bancorp Directors*
A group including Stilwell Value Partners I L.P. on Tuesday filed a proxy statement with the Securities and Exchange Commission asking shareholders to withhold their votes for Prudential Bancorp Inc. (PBIP) of Pennsylvania's two director nominees. Joseph Stilwell, a New York-based private investor, said in a letter attached to Tuesday's proxy that Prudential Bancorp has ignored his group's offer to lend its expertise and offer of ideas on ways to maximize shareholder value…The Stilwell group beneficially owned a 9.7% stake in Prudential Bancorp, or 1,163,800 shares, as of Oct. 4, 2006, according to an amended Schedule 13D filed Oct. 5, 2006, with the SEC…The Stilwell group also blames Prudential Bancorp's management and directors for trying to award themselves millions of dollars in stock options and grants without putting the stock plans to a shareholder vote, according to the SEC filing…"
Dow Jones Corporate Filings Alert, 01/09/2007

"Lawndale Cap Sends Letter to Mace Security
Lawndale Capital Management LLC … sent a letter to Mace Security International Inc. (MACE) informing the company that it intends to withhold its vote for all director nominees at Mace's annual meeting scheduled for Dec. 8. According to an amended Schedule 13D filed with the Securities and Exchange Commission, Lawndale Capital holds a 7.4% stake in Mace Security...In the letter, sent to Mace on Monday, Lawndale Capital also requested that Mace's board take several steps to improve the company's corporate governance…In Tuesday's filing, Lawndale said it believes that these steps are necessary to "protect and preserve long term shareholder value" at Mace in light of the "excessive" compensation awarded to Mace's chief executive…As reported, Lawndale Capital previously said it had "concerns" regarding certain aspects of the compensation agreement with Mace's chairman and CEO, Louis D. Paolino Jr., as well as criteria used by the compensation committee in determining performance bonus payments." *Dow Jones Newswires*, 11/28/2006

"AFSCME Employees Pension Plan Releases a List of "No Vote" Companies for 2005 Annual Meetings
Home Depot - … Despite the share price trailing its peers during that period, pay has been very generous. In 2004, Chairman and CEO Robert Nardelli received compensation in excess of $28 million including nearly $14 million in restricted stock, a reported 19 percent increase from 2003…Due to a lack of pay for performance, we will withhold votes from compensation committee members Bonnie Hill, Richard Brown, John Clendenin, Claudio Gonzalez, Lawrence Johnston, and Roger Penske.

Honeywell - In 2004, Chairman CEO David M. Cote saw his pay increase 38 percent, to $17.4 million, from $12.6 million in 2003 — even though net income declined 3 percent, and Honeywell shares trailed their peers for the year…Based on failure to pay for performance, we will withhold votes from Management Development and Compensation Committee Chairman John Stafford.

Cendant - Chairman and CEO Henry Silverman… received in excess of $100 million over the last five years despite sideways market performance…Due to a history of excessive pay by the Compensation Committee, we are withholding votes from Compensation Committee Chairman Robert Smith.

Colgate-Palmolive - … Due to this disconnect between pay and performance, we will withhold votes from compensation committee members Jill Conway, Ellen Hancock, Ronald Ferguson, David Johnson, Richard Kogan, and Delano Lewis.

Qwest - …the stock performance has been flat for the past year. And yet Chairman and CEO Richard Notebaert received an increased bonus of $2,970,000 for 2004. The Qwest Board has a checkered compensation history. In naming the worst boards of 2002, Business Week included Qwest, noting "the compensation committee — described as 'comatose' by one expert — awarded ex-CEO Joseph Nacchio an $88 million pay package in 2001, one of the worst years in the company's history." Because of the continuing disconnect between pay and performance, we will withhold votes from director nominee Craig Slater for recent service on Qwest's Compensation Committee in addition to his service on the committee in 2001 and 2002.

Proxy Advisor ISS Recommends Against Toll Brothers' Director
NEW YORK (Dow Jones)--…Institutional Shareholder Services is recommending investors withhold votes from the chairman of the board's compensation committee due to concerns about pay for Chairman and Chief Executive Robert I. Toll. "The bar set for Mr. Toll's bonus program is too low, which enabled him to receive annual guaranteed bonus payout despite mediocre or lack luster company performance," the Rockville, Md., proxy advisor said in a report to investors Friday. Meanwhile, two union investors have initiated separate "vote-no" campaigns against the Toll Brothers' director, Carl B. Marbach, for what they feel has been excessive pay for performance. Last month, the construction workers unions Laborers' International and Amalgamated Bank sent letters to shareholders urging them to withhold votes for Marbach…This year, Marbach is the only member of the board's two-member compensation committee up for election …ISS noted that while Toll's 2006 total pay had been reduced by almost 37% from the previous year, he received $24 million in 2006 compared with median total pay of $13 million for other CEOs. Also, one-year total shareholder returns were -22% at Toll Brothers compared to the average of -14% among other homebuilders, the report said. Proxy Governance Inc., a proxy advisory firm in Vienna, Va., also recommended shareholders withhold votes from the committee chair after finding that Toll's average three-year compensation is 564% above the median paid to CEOs at peer companies. Not all advisors are recommending the same way, however. San Francisco proxy advisory firm Glass Lewis & Co. is recommending that shareholders vote for Marbach, but gave the company's pay-for-performance practices a grade of D." *Dow Jones Newswires*, 03/05/2007

"*Oracle execs overpaid, governance group says*.
SAN FRANCISCO (MarketWatch) -- Oracle Corp. shareholders should withhold votes for certain of the software giant's compensation committee members at its annual meeting next month, because they have allowed executives to be paid far more than their peers, a proxy advisory firm said Friday. Proxy Governance Inc. said in a statement that "compensation paid to [Oracle]'s executives is out of line compared to peers and with respect to our pay-for-performance model…" *MarketWatch.com, 10/12/2007*.

Appendix 4: Union-Related Characteristics: Data Sources and Variable Definitions

Unionized is an indicator variable equal to one for firms with unionized employees. Following Agrawal (2008) and Prevost, Rao and Williams (2009), we rely on two data sources for firms' unionization status: (*i*) the "Employees" section of 10-Ks for the most recent fiscal year ending before the annual meeting date and (*ii*) F-7 notices filed by unions with the U.S. Department of Federal Mediation and Conciliatory Services (FMCS), a division of the U.S. Department of Labor, over the four-year period surrounding the activism event. *Unionized* is equal to one for firms with unionized employees based on the 10-K or F-7 forms, and zero otherwise.[33] 59% of the observations are coded as *Unionized* (similar to the figure for the 1988-2002 period reported in Prevost et al. 2009).

% of Unionized Employees is the percentage of firm employees affiliated with a union. We use information from the "Employees" section of the 10-K and the "total bargaining unit size" (aggregated at the firm-year level) reported in the F-7 forms filed with the FMCS. We are able to obtain this data for 1,111 of the 1,296 unionized firm-year observations in our sample. The mean (median) percentage of unionized employees for this sample is 17% (8%).

Negotiations with Unions is an indicator variable that is equal to one if either of these conditions are met: (*i*) there is a F-7 notice filed during the 18 months preceding the annual meeting date, suggesting a likely renegotiation of the collective bargaining agreement around the time of the activism event; (*ii*) the "Employees" section of the 10-K (for the most recent fiscal year ending before the meeting date) states that a collective bargaining agreement expired during the year (and was not renewed) or is going to expire during the next fiscal year. The indicator is equal to one for 64% of the observations, suggesting that most firms negotiate collective bargaining agreement with different unions at different locations in different times and, thus, most firms are engaged in such negotiations almost every year.

*Dispute with Union*s is an indicator variable that is equal to one if there is a dispute between firm managers and labor unions that result in Unfair Labor Practice charges filed with the US National Labor Relations Board (NLRB) during the fiscal year preceding the annual meeting. Following Agrawal (2008), we focused on charges filed by labor unions against firms in violation of Section 8(a)(5) of the National Labor Relations Act (NLRA) which stipulates that an employer cannot "refuse to bargain collectively with the representatives of his employees" and on charges filed by firms against labor unions under Section 8(b)(1)(A) of the NLRB accusing labor unions of engaging in illegal unionization practices. The indicator is equal to one for 36% of the observations.

Dual Role is a proposal-level indicator variable that is equal to one if at least some of the employees of the target firm are affiliated with the same union whose pension fund is sponsoring the proposal. In our sample, there are 449 firm-year observations with at least one union pension fund sponsored proposal, of which 264 involve unionized firms. Using the information in the F-7 filing and in the 10-K, we were able to code *Dual Role* for 215 of these 264 firm-year observations. *Dual Role* is equal to one in 58 of these 215 cases, that is, in 27% of the cases (in line with the 1988-2002 data in Prevost et. al 2009).

[33] This definition assumes that lack of information about unionized status in the 10-K and lack of F-7 filings means no unionized employees. We also try an alternative definition where the indicator is equal to zero only if the 10-K explicitly reports no unionized employees (resulting in the indicator being defined only for 1,653 of the 2,226 observations), with similar results in our tests.

Appendix 5: Examples of Implementation of Compensation-Related Shareholder Proposals

Examples of "Full" Implementation of Proposal

Proposal Requesting Shareholder Approval of Future Large Severance Payments (Golden Parachutes)
"On February 15, 2006, the PG&E Corporation Board of Directors adopted a policy requiring shareholder approval of executive severance payments provided in connection with a change in control of PG&E Corporation, to the extent that those payments exceed 2.99 times the sum of a covered officer's base salary and target annual bonus. This policy responds to a shareholder proposal that was approved by shareholders at the 2005 annual meeting." *PG&E, Proxy Statement, 03/13/2007*

"In January 2005, the Board adopted a policy to seek shareholder approval for any future severance agreement with any senior executive officer of the Company when any such agreement would result in specified benefits provided to the officer in excess of 2.99 times his or her salary and bonus. The policy resulted from Board discussions that began following the April 2004 annual shareholders' meeting, at which a majority of the shareholders who cast votes (although not a majority of the shares outstanding) approved a resolution requesting that the Board consider such a policy."*American Electric Power*, *Proxy Statement, 03/02/2005*

Proposal Requesting an Advisory Shareholder Vote on Executive Pay ("Say on Pay")
"During 2007 the Committee asked management to discuss Verizon's executive compensation programs and certain potential program design changes with large institutional investors. After taking into account these discussions, the opinions of shareholders as reflected in the votes on compensation-related proposals presented at the 2007 annual meeting and developments in executive compensation […]upon the Committee's recommendation… the Board amended the Company's Corporate Governance Guidelines to initiate an annual shareholders' advisory vote regarding executive compensation, beginning at the 2009 annual meeting." *Verizon Communications*, *Proxy Statement, 03/17/2008*

Proposal Requesting Shareholder Approval of SERPs (Supplemental Executive Retirement Plans)
"In response to a proposal approved by stockholders at last year's Annual Meeting, the Board adopted the following policy on December 6, 2006: The Company, after the Effective Date of this Policy, will not, without seeking stockholder approval, agree with any Senior Executive: To provide, under any one or more defined benefit Retirement Plans of the Company, an annual benefit that will exceed one hundred percent (100%) of the Senior Executive's Final Average Salary; or [t]o grant service credit or vesting credit (or accelerate vesting) under any defined benefit Retirement Plan for any period of time that the Senior Executive was not actually employed by the Company…for purposes of determining the Senior Executive's retirement benefits." *Ryland Group, Proxy Statement, 03/19/2007*

Proposal Requesting Exclusion of Pension Effects from Executive Pay Formulas (voted in 2002)
"…The Committee has clarified its practices for determining incentive compensation and decided to exclude, beginning in 2003, the net impact of pension and post-retirement benefits on the Corporation's operating results…"*Verizon Communications, Proxy Statement, 03/14/2003*

Proposal Requesting the Expensing of Stock Options (voted in 2003)
"…On February 18, 2004, the Company announced that it will begin expensing stock options" *Eastman Kodak, 10-K, 03/15/2004*

Proposal to Adopt Minimum Ownership Requirements for Directors
"…After receiving the proposal, the Board undertook to implement a guideline that […]incorporates the basic substance of the proposal, namely that Directors should…purchase and maintain a predefined number of shares of the Company's stock."" *Storage Technology, Proxy Statement, 04/08/1997*

Examples of "Partial" Implementation of Proposal

Proposal Requesting Shareholder Approval of Future Large Severance Payments
"…in response to a shareholder proposal urging the Board to seek shareholder approval for future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executive's base salary plus bonus, the Board adopted limits on future severance and change-in-control agreements for senior executives. The principal provisions of these policies are as follows: i) limitations on cash severance for senior executives to two times base salary and bonus at the time of termination and on payments in a change-of-control situation to 2.99 times base salary and bonus; and ii) limitations on post-employment benefits to outplacement services and transitional health benefits, with no provisions for consulting contracts, airplane usage, offices or other perquisites." *Tyco International, Proxy Statement, 01/28/2004*

Proposal Requesting Shareholder Approval of Future Large Severance Payments
"…Last year, the Company's Board did not oppose the shareholder proposal that urged the Board to agree to seek shareholder approval for future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executive's base salary plus bonus. After the proposal was approved by 50.2% of the shares entitled to vote, the Board stated that it was its intention to seek shareholder approval of such severance agreements where doing so would not prevent it from taking action it deems to be in the best interest of the Company." *Massey Energy, Proxy Statement, 04/12/2004*

Proposal to Use Performance-based Equity Awards (voted in 2004)
"[In the proposed 2005 Long Term Incentive Plan]…the Committee intends to increase the portion of awards that will vest solely on the basis of performance targets. The most senior executive group of approximately 100 executives will receive 50% of the value of their awards in the form of performance share units subject to three-year performance targets…Under the Prior Plan, approximately 25% of the value of regular cycle awards were subject to performance based vesting." *United Technologies, Proxy Statement, 02/25/2005*

Proposal to Recoup Pay After Restatements (voted in 2006)
"Upon the recommendation of the Management Compensation and Development Committee, your Board adopted a policy in October 2006 that accomplishes the underlying goals raised by the proposal, without mechanically recouping bonuses in inequitable circumstances. In particular, the policy provides…that the Company will, to the extent permitted by governing law, require reimbursement of any bonus paid to certain specified officers after April 1, 2007 where: a) the payment was predicated upon the achievement of certain financial results that were subsequently the subject of a restatement, b) in the Board's view the specified officer engaged in fraud or intentional misconduct that caused or partially caused the need for the restatement, and c) a lower payment would have been made to the specified officer based upon the restated financial results…" *Allegheny Energy, Proxy Statement, 03/19/2007*

"At the 2007 Annual Meeting of Stockholders, a stockholder proposal […] to adopt a policy to recoup all unearned incentive bonuses […] in the event corresponding performance targets were later determined not to have been achieved received the affirmative vote of 52.56% of the shares present in person or represented by proxy and entitled to vote thereon and 38.29% of shares outstanding. In keeping with the philosophy of the Company to remain attentive and responsive to stockholder requests, at its September 2007 meeting, …the Board adopted [the following] policy …if the Board determines that a senior executive has engaged in fraud or willful misconduct that caused or otherwise contributed to the need for a material restatement of our financial results, the Board […] will seek recoupment from that senior executive of any portion of such performance-based compensation as it deems appropriate after a review of all relevant facts and circumstances." *Wyeth, Proxy Statement, 03/14/2008*

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Figure 1 Frequency of Compensation-Related Shareholder Proposals over Time

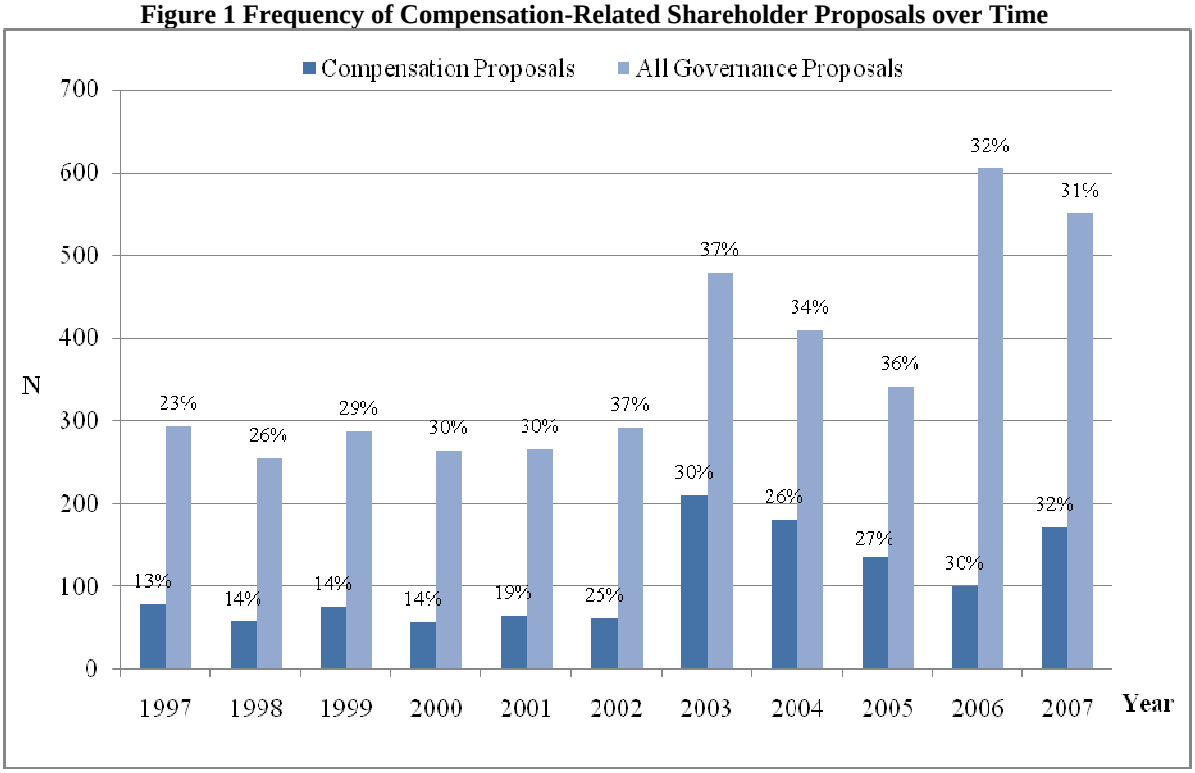

Figure 1 presents the frequency of compensation-related shareholder proposals and all governance-related proposals between 1997 and 2007. At the top of each bar we report average voting support for proposals in percentages.

Figure 2 Frequency of Compensation-Related Vote-No Campaigns over Time

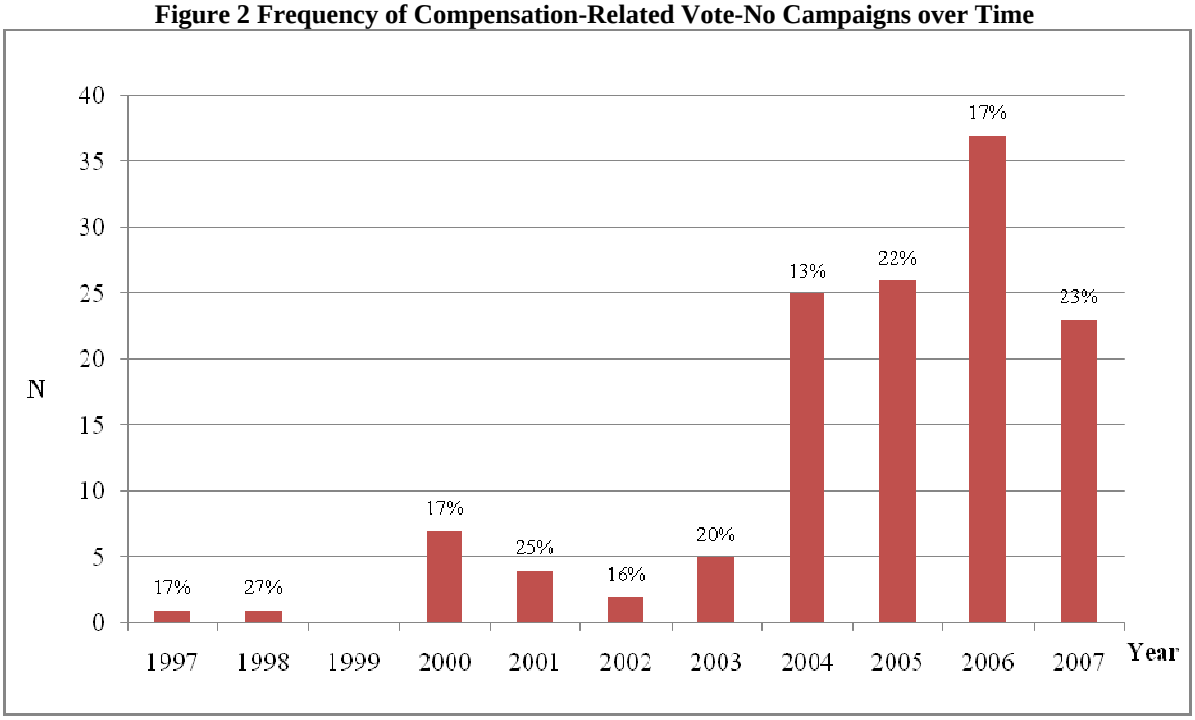

Figure 2 presents the frequency of compensation-related vote-no campaigns between years 1997 and 2007. At the top of each bar we report the yearly average of the percentage of votes withheld at the firm-level (as firm-level measure we use the maximum across directors if more than one director is targeted).

Table 1 Distribution of Compensation-Related Shareholder Proposals and Vote-No Campaigns

Panel A Shareholder Proposals - Frequency and Voting Support by Period, Proposal Type and Proponent Identity

	Entire Sample Period				1997-2002 Period				2003-2007 Period			
			Majority Vote Proposals[a]				Majority Vote Proposals[a]				Majority Vote Proposals[a]	
	N	Votes For %	N	%	N	Votes For %	N	%	N	Votes For %	N	%
All Proposals	**1,198**	**24.7%**	**149**	**12.4%**	**397**	**16.2%**	**7**	**1.8%**	**801**	**28.9%**	**142**	**17.7%**
By Proposal Type												
Rules of the Game	**544**	**35.3%**	**139**	**25.6%**	**168**	**23.6%**	**6**	**3.6%**	**376**	**40.5%**	**133**	**35.4%**
Shareholder Approval	274	38.5%	75	27.4%	86	30.6%	6	7.0%	188	42.1%	69	36.7%
Reporting	129	47.4%	62	48.1%	8	26.1%	0	0.0%	121	48.8%	62	51.2%
Disclosure	66	12.5%	0	0.0%	38	8.6%	0	0.0%	28	17.8%	0	0.0%
Independence	48	23.1%	1	2.1%	34	22.8%	0	0.0%	14	23.7%	1	7.1%
Other	27	22.7%	1	3.7%	2	12.5%	0	0.0%	25	23.6%	1	4.0%
Pay Design	**329**	**22.3%**	**9**	**2.7%**	**83**	**14.7%**	**1**	**1.2%**	**246**	**24.9%**	**8**	**3.3%**
Link Pay to Performance	258	24.0%	9	3.5%	43	18.2%	1	2.3%	215	25.1%	8	3.7%
Other	71	16.2%	0	0.0%	40	11.0%	0	0.0%	31	22.9%	0	0.0%
Pay Philosophy	**325**	**9.4%**	**1**	**0.3%**	**146**	**8.6%**	**0**	**0.0%**	**179**	**10.1%**	**1**	**0.6%**
Link Exec Pay to Social Criteria	116	8.5%	0	0.0%	73	7.9%	0	0.0%	43	9.5%	0	0.0%
Eliminate Options/Incentive Pay	86	8.2%	0	0.0%	38	9.0%	0	0.0%	48	7.5%	0	0.0%
Cap CEO/Worker Pay Ratio	46	9.1%	0	0.0%	16	9.1%	0	0.0%	30	9.2%	0	0.0%
"Commonsense" Pay Plan	29	8.8%	0	0.0%	0	-	-	-	29	8.8%	0	0.0%
Other Restrictions on Pay Level	48	14.3%	1	2.1%	19	9.8%	0	0.0%	29	17.2%	1	3.4%
By Proponent												
Union Pension Funds	578	32.2%	118	20.4%	93	22.8%	2	2.2%	485	34.0%	116	23.9%
Individual	437	18.2%	21	4.8%	215	14.4%	2	0.9%	222	21.9%	19	8.6%
Religious Organizations	79	12.5%	3	3.8%	32	7.2%	0	0.0%	47	16.1%	3	6.4%
Public Pensions	20	30.9%	3	15.0%	11	31.1%	2	18.2%	9	30.7%	1	11.1%
Not Disclosed[b]	8	20.2%	0	0.0%	1	7.7%	0	0.0%	7	22.3%	0	0.0%
Other Shareholder Groups	76	16.2%	4	5.3%	45	14.2%	1	2.2%	31	19.0%	3	9.7%

Panel B Breakdown of the Frequency of Shareholder Proposals and Vote-No Campaigns by Proponent Identity

	Proponent						
	Union Pension Funds	*Individual*	*Religious Organizations*	*Public Pensions*	*Not Disclosed*[b]	*Other Shr. Groups*	**Total**
Proposal Type							
Rules of the Game	**295**	**211**	**13**	**8**	**2**	**15**	**544**
Shareholder Approval	153	89	13	6	1	12	274
Reporting	106	19	0	1	0	3	129
Disclosure	8	58	0	0	0	0	66
Independence	25	22	0	1	0	0	48
Other	3	23	0	0	1	0	27
Pay Design	**211**	**93**	**0**	**9**	**3**	**13**	**329**
Link Pay to Performance	187	55	0	9	3	4	258
Other	24	38	0	0	0	9	71
Pay Philosophy	**72**	**133**	**66**	**3**	**3**	**48**	**325**
Link Exec Pay to Social Criteria	18	16	42	2	0	38	116
Eliminate Options/Incentive Pay	5	79	1	0	1	0	86
Cap CEO/Worker Pay Ratio	4	10	21	0	1	10	46
"Commonsense" Pay Plan	27	1	0	1	0	0	29
Other Restrictions on Pay Level	18	27	2	0	1	0	48
Total	**578**	**437**	**79**	**20**	**8**	**76**	**1,198**
Vote-No Campaigns[c]	**29**	**4**	**0**	**33**	**0**	**71**	**137**

Table 1 Panel A displays the frequency of and voting support for the 1,198 compensation-related shareholder proposals in our sample by time period, proposal type and proponent identity. Panel B presents a breakdown of shareholder proposals and vote-no campaigns by proponent identity.
a: N denotes the number of proposals that obtained a majority vote and % denotes the percentage of proposals that obtained a majority vote as a fraction of all proposals voted upon. Note that while 149 proposals obtained a majority vote (percentage of votes cast in favor higher than percentage of votes cast against) over the sample period, only 112 of these proposals were formally approved. A proposal receiving a majority vote may fail to be formally approved if state laws or the company's articles of incorporation require a majority (or super-majority) of all votes cast including abstention votes or of all shares outstanding.
b: While firms have to disclose the identity of the proponent to any shareholder requesting it, they are not required to include this information in the proxy.
c: The total number of vote-no campaigns adds to 137 (instead of 134) because three campaigns are jointly promoted by different shareholders.

Table 2 Descriptive Statistics

	All Firms N = 2,226			*Targeted Firms* N = 821		*Control Firms* N = 1,405		*Targeted vs. Control Firms*			
Variable	**Mean**	**Std. Dev.**	**Median**	**Mean**	**Median**	**Mean**	**Median**	**Mean (t-test)**		**Median (Wilcoxon)**	
								Difference	t-statistic	Difference	z-statistic
CEO Total Pay $_{t-1}$ (in millions)	9.794	12.846	6.280	13.565	8.682	7.591	5.435	5.973	10.86 ***	3.247	9.61 ***
Market Capitalization $_{t-1}$ (in millions)	23,528	37,309	9,395	34,271	12,959	17,251	7,725	17,020	10.64 ***	5,233.72	9.28 ***
Return on Assets $_{t-1}$	0.052	0.059	0.045	0.047	0.038	0.055	0.049	-0.008	-3.19 ***	-0.011	-4.17 ***
Abnormal Returns $_{t-1}$	0.097	0.512	0.038	0.038	-0.008	0.131	0.061	-0.093	-4.17 ***	-0.069	-4.63 ***
% of Institutional Ownership $_{t-1}$	0.642	0.179	0.656	0.629	0.634	0.650	0.667	-0.021	-2.71 ***	-0.033	-3.21 ***
% of Executive Ownership $_{t-1}$	0.020	0.056	0.003	0.014	0.002	0.024	0.003	-0.009	-3.74 ***	-0.001	-6.71 ***
CEO Chairman $_{t-1}$	0.709	0.454	1.000	0.741	1.000	0.691	1.000	0.049	2.48 ***	-	-
Board Size $_{t-1}$	11.035	2.661	11.000	11.289	11.000	10.887	11.000	0.402	3.44 ***	0.000	4.03 ***
% of Independent Directors $_{t-1}$	0.839	0.087	0.867	0.849	0.875	0.833	0.857	0.016	4.14 ***	0.018	4.19 ***
Ownership by Independent Directors $_{t-1}$ *>= 1%*	0.226	0.419	0.000	0.210	0.000	0.236	0.000	-0.027	-1.46	-	-
Entrenchment Index $_{t-1}$	2.128	1.312	2.000	1.938	2.000	2.238	2.000	-0.301	-5.24 ***	0.000	-5.29 ***

Table 2 presents the descriptive statistics. *CEO Total Pay*$_{t-1}$ is the CEO's total compensation for year *t-1* (the most recent fiscal year ending before the shareholder meeting), including salary, bonus, value of equity grants (restricted stock and stock options), long-term incentive payouts, and other annual compensation such as perquisites, severance payments, 401K contributions, and insurance premiums. *Market Capitalization*$_{t-1}$ is the market value of equity as of the end of year *t-1*. *Return on Assets*$_{t-1}$ is income before extraordinary items scaled by average total assets for year *t-1*. *Abnormal Returns*$_{t-1}$ is the size-adjusted buy-and-hold returns for the 24 months preceding the end of year *t-1*. *% of Institutional Ownership*$_{t-1}$ is the percentage of shares held by institutional owners as of the end of year *t-1* based on 13F forms filed with the SEC. *% of Executive Ownership*$_{t-1}$ is the percentage of shares held by the top 5 executives at the end of year *t-1*. *CEO Chairman*$_{t-1}$ is an indicator variable that is equal to one if the CEO of the company is also the chair of the board of directors as of the year *t* annual meeting, and zero otherwise. *Board Size*$_{t-1}$ is the number of directors on the board as of the year *t* annual meeting. *% of Independent Directors*$_{t-1}$ is the percentage of directors classified as independent by RiskMetrics as of the year *t* annual meeting. *Ownership by Independent Directors*$_{t-1}$*>=1%* is an indicator variable equal to one if independent directors own more than 1% of firm's equity as of the year *t* annual meeting. *Entrenchment Index*$_{t-1}$ counts how many of the following provisions are in place at the firm as of the year *t* annual meeting: chartered board, poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk et al. 2009).
Data sources: CRSP (stock returns), Compustat (financial statement data), ExecuComp (CEO pay), Thomson Reuters (institutional ownership) and RiskMetrics (directors and governance data).

Table 3 Determinants of the Targeting Decision

Panel A Analysis for Full Sample of Targeted Firms

	Model (1)		Model (2)		Model (3)		Model (4)	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	-2.90	-3.61 ***	-2.89	-3.62 ***	-1.41	-1.97 **	-2.90	-3.59 ***
CEO Total Pay $_{t-1}$	0.04	4.85 ***					0.04	4.89 ***
CEO Cash Pay $_{t-1}$			0.09	4.30 ***				
CEO Equity Pay $_{t-1}$			0.03	3.47 ***				
CEO Predicted Total Pay $_{t-1}$					0.12	6.45 ***		
CEO Residual Total Pay $_{t-1}$					0.04	4.37 ***		
CEO Exercised Options $_{t-1}$							-0.27	-2.44 **
ln(Market Capitalization $_{t-1}$*)*	0.20	3.23 ***	0.20	3.22 ***			0.21	3.37 ***
Return on Assets $_{t-1}$	-2.92	-2.58 ***	-2.93	-2.61 ***			-2.72	-2.40 **
Abnormal Returns $_{t-1}$	-0.51	-4.62 ***	-0.51	-4.62 ***			-0.49	-4.41 ***
% of Institutional Ownership $_{t-1}$	-0.55	-1.42	-0.54	-1.39	-0.91	-2.30 **	-0.51	-1.32
% of Executive Ownership $_{t-1}$	-2.21	-1.47	-2.36	-1.57	-2.66	-1.76 *	-2.46	-1.63
CEO Chairman $_{t-1}$	0.17	1.35	0.15	1.20	0.18	1.44	0.18	1.42
Board Size $_{t-1}$	-0.04	-1.58	-0.04	-1.73 *	-0.04	-1.56	-0.04	-1.45
% of Independent Directors $_{t-1}$	1.55	2.02 **	1.57	2.04 **	1.37	1.76 *	1.48	1.93 *
Ownership by Independent Directors $_{t-1}$ *> =1%*	0.03	0.22	0.02	0.13	0.03	0.17	0.02	0.15
Entrenchment Index $_{t-1}$	-0.13	-2.14 **	-0.13	-2.15 **	-0.12	-1.97 **	-0.12	-2.10 **
N	2,226		2,226		2,194		2,226	
N(Targeted = 1)	821		821		806		821	
Pseudo R^2	8.26%		8.42%		7.35%		8.53%	

Panel B Analysis by Type of Proponent: Institutional Proponents versus Other Proponents

	Model (1)		Model (2)		Model (3)		Model (4)	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Shareholder Proposals by Institutional Proponents vs. Matches								
CEO Total Pay $_{t-1}$	0.04	4.17 ***					0.04	4.19 ***
CEO Cash Pay $_{t-1}$			0.05	2.75 ***				
CEO Equity Pay $_{t-1}$			0.03	3.23 ***				
CEO Predicted Total Pay $_{t-1}$					0.11	5.40 ***		
CEO Residual Total Pay $_{t-1}$					0.04	3.90 ***		
CEO Exercised Options $_{t-1}$							-0.23	-1.78 *
Controls	Included		Included		Included		Included	
N	1,447		1,447		1,429		1,447	
N(Targeted by Institutional Proponent= 1)	507		507		499		507	
Pseudo R^2	6.74%		6.83%		5.79%		6.94%	
Shareholder Proposals by Other Proponents vs. Matches								
CEO Total Pay $_{t-1}$	0.03	2.26 **					0.03	2.36 **
CEO Cash Pay $_{t-1}$			0.1	2.88 ***				
CEO Equity Pay $_{t-1}$			0.01	1.39				
CEO Predicted Total Pay $_{t-1}$					0.1	3.96 ***		
CEO Residual Total Pay $_{t-1}$					0.01	0.85		
CEO Exercised Options $_{t-1}$							-0.32	-1.61
Controls	Included		Included		Included		Included	
N	853		853		841		853	
N(Targeted by Other Proponent= 1)	279		279		273		279	
Pseudo R^2	12.00%		12.40%		10.10%		12.30%	
Institutional Proponents vs. Other Proponents								
CEO Total Pay $_{t-1}$	0.01	1.25					0.01	1.25 ***
CEO Cash Pay $_{t-1}$			0.01	0.96				
CEO Equity Pay $_{t-1}$			0.01	1.09				
CEO Predicted Total Pay $_{t-1}$					0.04	1.94 *		
CEO Residual Total Pay $_{t-1}$					0.03	1.85 *		
CEO Exercised Options $_{t-1}$							0.12	0.61
Controls	Included		Included		Included		Included	
N	768		768		754		768	
N(Targeted by Institutional Proponent= 1)	507		507		499		507	
Pseudo R^2	8.13%		8.21%		7.53%		8.18%	

Panel C Analysis of Union Pension Funds' Motives

	All Targeted Firms		Targeted Firms with Unionized Employees					
	Unionized Status		*% of Unionized Employees*		*Dispute with Unions*		*Negotiations with Unions*	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	-2.91	-2.08 **	-0.43	-0.20	-1.76	-0.88	-1.86	-0.93
CEO Total Pay $_{t-1}$	0.00	0.26	0.00	-0.74	0.00	-0.43	0.00	-0.54
ln(Market Capitalization $_{t-1}$*)*	0.26	2.61 ***	-0.02	-0.15	0.05	0.41	0.08	0.60
Return on Assets $_{t-1}$	0.19	0.10	0.87	0.33	1.25	0.51	1.25	0.52
Abnormal Returns $_{t-1}$	0.31	1.64	0.41	1.44	0.32	1.26	0.31	1.25
% of Institutional Ownership $_{t-1}$	2.72	4.41 ***	2.12	2.53 **	2.78	3.19 ***	2.70	3.13 ***
% of Executive Ownership $_{t-1}$	5.97	1.76 *	0.21	0.05	1.80	0.43	1.47	0.35
CEO Chairman $_{t-1}$	-0.39	-1.99 **	-0.17	-0.64	-0.23	-0.88	-0.20	-0.79
Board Size $_{t-1}$	-0.10	-2.30 **	-0.01	-0.20	0.00	-0.06	-0.01	-0.09
% of Independent Directors $_{t-1}$	-0.43	-0.29	-1.18	-0.57	-1.43	-0.72	-1.37	-0.69
Ownership by Independent Directors $_{t-1}$ *> =1%*	0.84	3.04 ***	0.80	2.15 **	0.82	2.29 **	0.83	2.37 **
Entrenchment Index $_{t-1}$	0.40	3.83 ***	0.42	2.83 ***	0.46	3.16 ***	0.46	3.21 ***
Unionized $_{t-1}$	-0.22	-0.97						
% of Unionized Employees $_{t-1}$			-0.67	-0.90				
Dispute with Unions $_{t-1}$					0.25	0.90		
Negotiations with Unions $_{t-1}$							-0.01	-0.03
N	768		424		480		480	
N(Targeted by Union Pension Fund = 1)	449		233		264		264	
Pseudo R^2	10.10%		9.48%		9.49%		9.27%	

Table 3 presents the analysis of the characteristics of the targeted firms using a logistic regression.

In Panel A the dependent variable, $Targeted_t$, is an indicator variable that is equal to one if the firm is targeted by a compensation-related shareholder proposal or vote-no campaign in year *t*. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year.

In Panel B, in the top section: the dependent variable, *Targeted by Institutional Proponent$_t$,* is an indicator variable that is equal to one if the firm is targeted by institutional proponents (*Union Pension Funds*, *Public Pensions* and *Other Shareholder Groups* in Table 1, Panel A) in year *t*. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year (excluding firms targeted by compensation-related activism). In the middle section: the dependent variable, *Targeted by Other Proponent$_t$,* is an indicator variable that is equal to one if the firm is targeted only by other proponents (*Individuals* and *Religious Organizations* in Table 1, Panel A) in year *t*. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year (excluding firms targeted by compensation-related activism). In the bottom section: the dependent variable, *Targeted by Institutional Proponent$_t$*, is an indicator variable that is equal to one if the firm is targeted by institutional proponents in year *t*, and zero if the firm is targeted only by other proponents.

In Panel C the dependent variable, *Targeted by Union Pension Fund$_t$,* is an indicator variable that is equal to one (zero) if the firm is targeted by a compensation-related shareholder proposal sponsored by a union pension fund (other institutional proponent) in year *t*. The sample is restricted to all targeted firms in the first column and to targeted firms with unionized employees in columns 2 – 4.

Independent variables in Panels A-D are defined as follows (control variables are included but not reported in Panels B-D for ease of exposition): *CEO Total Pay$_{t-1}$* is the CEO's total compensation for year *t-1* (the most recent fiscal year ending before the shareholder meeting), including salary, bonus, value of equity grants (restricted stock and stock options), long-term incentive payouts, and other annual compensation such as perquisites, severance payments, 401K contributions, and insurance premiums. *CEO Cash Pay$_{t-1}$* is the sum of salary, bonus and other cash pay for *i* year *t-1*. *CEO Equity Pay$_{t-1}$* is the value of equity grants (restricted stock and stock options). *CEO Predicted Total Pay$_{t-1}$* is the exponent of the predicted value from a regression of the natural logarithm of total CEO compensation on proxies for economic determinants of CEO compensation (see Section 4.2). *CEO Residual Total Pay$_{t-1}$* is *CEO Total Pay$_{t-1}$* less *CEO Predicted Total Pay$_{t-1}$*. *CEO Exercised Options$_{t-1}$* is an indicator variable that is equal to one if the total value realized from options exercised by the CEO during year *t-1* is greater than zero. *Market Capitalization$_{t-1}$* is market value of equity as of the end of year *t-1*. *Return on Assets$_{t-1}$* is income before extraordinary items scaled by average total assets for year *t-1*. *Abnormal Returns$_{t-1}$* is the size adjusted buy-and-hold returns for the 24 months preceding end of year *t-1*. *% of Institutional Ownership$_{t-1}$* is the percentage of shares held by institutional owners as of the end of year *t-1* based on 13F forms filed with the SEC. *% of Executive Ownership$_{t-1}$* is the percentage of shares held by the top 5 executives at the end of year *t-1*. *CEO Chairman$_{t-1}$* is an indicator variable that is equal to one if the CEO of the company is also the chair of the board of directors as of the year *t* annual meeting, and zero otherwise. *Board Size$_{t-1}$* is the number of directors on the board as of the year *t* annual meeting. *% of Independent Directors$_{t-1}$* is the percentage of directors classified as independent by RiskMetrics as of the year *t* annual meeting. *Ownership by Independent Directors$_{t-1}$>=1%* is an indicator variable equal to one if independent directors own more than 1% equity as of the year *t* annual meeting. *Entrenchment Index$_{t-1}$* counts how many of the following provisions are in place at the firm as of the year *t* annual meeting: chartered board, poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk et al. 2009). *Unionized*$_{t-1}$ is an indicator variable that is equal to one for firms with unionized employees based on information from the 10-K and F-7 notices at the end of year *t-1*, and zero otherwise. *% of Unionized Employees$_{t-1}$* is the percentage of unionized employees at unionized firms at the end of year *t-1*, *Negotiations with Unions$_{t-1}$* is an indicator variable that is equal to one if either of these conditions are met: (i) there is a F-7 notice filed during the 18 months preceding the annual meeting date, suggesting a likely renegotiation of the collective bargaining agreement around the time of the activism event; (ii) the "Employees" section of the 10-K (for the most recent fiscal year ending before the meeting date) states that a collective bargaining agreement expired during the year (and was not renewed) or is going to expire during the next fiscal year. *Dispute with Unions$_{t-1}$* is an indicator variable that is equal to one if there is a dispute between firm managers and labor unions that result in Unfair Labor Practice charges filed with the US National Labor Relations Board (NLRB) during the fiscal year preceding the annual meeting.

***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering [Rogers (1993)].

Table 4 Voting Outcome of Compensation-Related Shareholder Proposals

Panel A Determinants of % of Votes Cast in Favor of Compensation Proposals

	Model (1)		Model (2)		Model (3)		Model (4)	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	0.0561	1.04	0.0531	0.98	-0.0294	-0.93	0.0499	0.93
CEO Total Pay $_{t-1}$	0.0003	1.93 *					0.0004	2.05 **
CEO Cash Pay $_{t-1}$			0.0003	0.80				
CEO Equity Pay $_{t-1}$			0.0003	1.05				
CEO Predicted Total Pay $_{t-1}$					-0.0018	-1.49		
CEO Residual Total Pay $_{t-1}$					0.0011	1.73 *		
CEO Exercised Options $_{t-1}$							-0.0114	-1.30
# of Other Comp-Related Proposals $_{t}$	0.0127	2.24 **	0.0128	2.15 **	0.0133	2.20 **	0.0123	2.18 **
Comp-Related Vote-No Campaign $_{t}$	0.0132	0.78	0.0138	0.81	0.0128	0.75	0.0121	0.72
Other Proposal $_{t}$	0.0028	0.28	0.0027	0.27	-0.0012	-0.12	0.0024	0.24
Other Vote-No Campaign $_{t}$	0.0193	1.22	0.0185	1.17	0.0168	1.09	0.0225	1.41
Institutional Proponent $_{t}$	0.0784	5.96 ***	0.0785	5.92 ***	0.0825	6.09 ***	0.0785	5.99 ***
Rules of the Game $_{t}$	0.2310	20.44 ***	0.2310	20.36 ***	0.2301	20.20 ***	0.2309	20.34 ***
Pay Design $_{t}$	0.0781	6.71 ***	0.0780	6.68 ***	0.0760	6.50 ***	0.0780	6.71 ***
2003 - 2007 Period	0.0776	7.25 ***	0.0773	7.20 ***	0.0821	7.42 ***	0.0774	7.31 ***
% of Institutional Ownership $_{t-1}$	0.0552	1.44	0.0558	1.45	0.0569	1.49	0.0580	1.50
% of Executive Ownership $_{t-1}$	-0.2278	-2.17 **	-0.2288	-2.17 **	-0.1801	-1.63	-0.2367	-2.24 **
% of Independent Directors $_{t-1}$	-0.0245	-2.07 **	-0.0245	-2.02 **	-0.0229	-1.85 *	-0.0253	-2.13 **
Entrenchment Index $_{t-1}$	0.0143	3.14 ***	0.0142	3.13 ***	0.0148	3.28 ***	0.0143	3.15 ***
ln(Market Capitalization $_{t-1}$*)*	-0.0102	-2.46 **	-0.0097	-2.35 **			-0.0091	-2.21 **
Return on Assets $_{t-1}$	0.0443	0.45	0.0427	0.43			0.0460	0.46
Abnormal Returns $_{t-1}$	0.0121	1.25	0.0122	1.25			0.0136	1.42
N	1,062		1,062		1,040		1,062	
Adjusted R^2	49.28%		49.24%		49.96%		49.36%	

Panel B Determinants of Likelihood of RiskMetrics Recommendations "For" Compensation Proposals

	Model (1)		Model (2)		Model (3)		Model (4)	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	-6.8853	-4.77 ***	-6.9687	-4.85 ***	-6.3916	-7.14 ***	-7.0238	-4.99 ***
CEO Total Pay $_{t-1}$	0.0115	2.34 **					0.0120	2.45 **
CEO Cash Pay $_{t-1}$			-0.0040	-0.56				
CEO Equity Pay $_{t-1}$			0.0158	2.11 **				
CEO Predicted Total Pay $_{t-1}$					0.0349	1.13		
CEO Residual Total Pay $_{t-1}$					0.0495	3.29 ***		
CEO Exercised Options $_{t-1}$							-0.2069	-1.00
# of Other Comp-Related Proposals $_{t}$	0.0273	0.22	0.0504	0.41	0.0297	0.23	0.0172	0.14
Comp-Related Vote-No Campaign $_{t}$	0.0597	0.18	0.0280	0.08	-0.0184	-0.05	0.0387	0.12
Other Proposal $_{t}$	0.1875	0.82	0.2057	0.91	0.1665	0.75	0.1674	0.75
Other Vote-No Campaign $_{t}$	0.4024	1.04	0.3804	0.98	0.5617	1.46	0.4706	1.21
Institutional Proponent $_{t}$	1.6640	5.15 ***	1.6549	5.13 ***	1.7934	5.40 ***	1.6622	5.19 ***
Rules of the Game $_{t}$	3.6283	10.18 ***	3.6502	10.26 ***	3.6410	10.28 ***	3.6378	10.27 ***
Pay Design $_{t}$	2.1771	5.14 ***	2.1970	5.21 ***	2.1678	5.20 ***	2.1853	5.15 ***
2003 - 2007 Period	1.3182	3.76 ***	1.3180	3.80 ***	1.4942	4.64 ***	1.3289	3.88 ***
% of Institutional Ownership $_{t-1}$	1.6581	2.26 **	1.6696	2.30 **	1.4846	2.09 **	1.7014	2.35 **
% of Executive Ownership $_{t-1}$	9.6939	2.36 **	9.9827	2.40 **	10.0882	2.37 **	9.7514	2.34 **
% of Independent Directors $_{t-1}$	0.2904	1.12	0.3216	1.27	0.3741	1.34	0.2750	1.07
Entrenchment Index $_{t-1}$	-0.0289	-0.34	-0.0303	-0.36	-0.0575	-0.68	-0.0287	-0.34
ln(Market Capitalization $_{t-1}$)	0.0844	0.79	0.0920	0.87			0.1047	0.99
Return on Assets $_{t-1}$	1.3086	0.79	1.4218	0.88			1.3930	0.84
Abnormal Returns $_{t-1}$	-0.0341	-0.14	-0.0530	-0.22			-0.0134	-0.06
N	823		823		812		823	
Pseudo R^2	32.62%		32.66%		33.77%		32.72%	

Panel C Determinants of % of Votes Cast in Favor of Compensation Proposals – Effect of RiskMetrics Recommendations

	Model (1)		Model (2)		Model (3)		Model (4)	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	0.0001	0.00	-0.0035	-0.07	-0.0574	-1.94 *	-0.0074	-0.14
CEO Total Pay $_{t-1}$	0.0003	2.13 **					0.0004	2.32 **
CEO Cash Pay $_{t-1}$			0.0001	0.44				
CEO Equity Pay $_{t-1}$			0.0003	1.16				
CEO Predicted Total Pay $_{t-1}$					-0.0011	-1.03		
CEO Residual Total Pay $_{t-1}$					0.0015	2.72 ***		
CEO Exercised Options $_{t-1}$							-0.0126	-1.74 *
Residual RiskMetrics Recommendation	0.2504	21.55 ***	0.2506	21.73 ***	0.2509	21.32 ***	0.2502	21.54 ***
# of Other Comp-Related Proposals $_{t}$	0.0113	2.44 **	0.0116	2.36 **	0.0128	2.61 ***	0.0107	2.31 **
Comp-Related Vote-No Campaign $_{t}$	0.0210	1.59	0.0212	1.55	0.0183	1.34	0.0202	1.52
Other Proposal $_{t}$	-0.0001	-0.01	0.0001	0.01	-0.0039	-0.46	-0.0013	-0.15
Other Vote-No Campaign $_{t}$	0.0238	1.56	0.0228	1.51	0.0230	1.59	0.0274	1.77 *
Institutional Proponent $_{t}$	0.0866	8.14 ***	0.0867	8.19 ***	0.0900	8.16 ***	0.0864	8.08 ***
Rules of the Game $_{t}$	0.2682	27.00 ***	0.2682	27.21 ***	0.2667	25.89 ***	0.2684	26.81 ***
Pay Design $_{t}$	0.1030	9.61 ***	0.1029	9.68 ***	0.1006	9.14 ***	0.1034	9.55 ***
2003 - 2007 Period	0.0542	4.26 ***	0.0535	4.17 ***	0.0571	4.27 ***	0.0544	4.25 ***
% of Institutional Ownership $_{t-1}$	0.0794	2.25 **	0.0804	2.29 **	0.0838	2.33 **	0.0824	2.33 **
% of Executive Ownership $_{t-1}$	-0.1750	-0.89	-0.1731	-0.88	-0.1060	-0.51	-0.1840	-0.94
% of Independent Directors $_{t-1}$	-0.0236	-1.80 *	-0.0232	-1.73 *	-0.0216	-1.59	-0.0244	-1.84 *
Entrenchment Index $_{t-1}$	0.0137	3.08 ***	0.0136	3.08 ***	0.0138	3.15 ***	0.0136	3.05 ***
ln(Market Capitalization $_{t-1}$)	-0.0064	-1.55	-0.0059	-1.45			-0.0052	-1.25
Return on Assets $_{t-1}$	-0.0064	-0.08	-0.0056	-0.07			-0.0016	-0.02
Abnormal Returns $_{t-1}$	0.0226	2.89 ***	0.0224	2.83 ***			0.0240	3.06 ***
N	823		823		812		823	
Adjusted R^2	73.40%		73.43%		73.30%		73.40%	

Panel D Effect of Union-Related Characteristics on Voting Outcome of Union-Sponsored Proposals

	Unionized vs. Not Unionized		*Degree of Unionization*		*Dispute with Unions*		*Negotiations with Unions*		*Dual Role*	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
CEO Total Pay $_{t-1}$	0.0003	1.73 *	0.0011	3.06 ***	0.0011	3.15 ***	0.0011	3.11 ***	0.0012	3.22 ***
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$	0.0772	4.89 ***								
Union Pension Fund Proponent $_t$ *x Not Unionized* $_{t-1}$	0.0993	5.85 ***								
Union Pension Fund Proponent $_t$ *x High Unionization* $_{t-1}$			0.0657	2.84 ***						
Union Pension Fund Proponent $_t$ *x Low Unionization* $_{t-1}$			0.0855	4.06 ***						
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dispute w/ Unions* $_{t-1}$					0.0767	3.76 ***				
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dispute w/ Unions* $_{t-1}$					0.0762	3.86 ***				
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Negotiations w/ Unions* $_{t-1}$							0.0757	3.81 ***		
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Negotiations w/ Unions* $_{t-1}$							0.0780	3.78 ***		
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dual Role* $_{t-1}$									0.0360	1.50
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dual Role* $_{t-1}$									0.0904	4.43 ***
Other Institutional Proponent $_t$	0.0519	3.78 ***	0.0487	3.17 ***	0.0534	3.55 ***	0.0534	3.55 ***	0.0499	3.40 ***
Controls	Yes		Yes		Yes		Yes		Yes	
N	1,062		625		685		685		617	
Adjusted R^2	48.70%		47.60%		47.90%		47.90%		49.00%	

Wald Tests	**Coefficient**	**χ^2**	**Coefficient**	**χ^2**	**Coefficient**	**χ^2**	**Coefficient**	**χ^2**	**Coefficient**	**χ^2**
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Not Unionized* $_{t-1}$	-0.0221	2.42								
Union Pension Fund Proponent $_t$ *x High Unionization* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Low Unionization* $_{t-1}$			-0.0198	0.78						
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dispute with Unions* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dispute with Unions* $_{t-1}$					0.0005	0.00				
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Negotiations w/ Unions* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Negotiations w/ Unions* $_{t-1}$							-0.0023	0.02		
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dual Role* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dual Role* $_{t-1}$									-0.0544	4.48 **

Panel E Effect of Union-Related Characteristics on RiskMetrics Recommendations for Union-Sponsored Proposals

Variable	*Unionized vs. Not Unionized* Coefficient	t-statistic	*Degree of Unionization* Coefficient	t-statistic	*Dispute with Unions* Coefficient	t-statistic	*Negotiations with Unions* Coefficient	t-statistic	*Dual Role* Coefficient	t-statistic
CEO Total Pay $_{t-1}$	0.0107	2.08 **	0.0462	3.57 ***	0.0408	3.66 ***	0.0416	3.64 ***	0.0506	3.91 ***
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$	1.5076	4.33 ***								
Union Pension Fund Proponent $_t$ *x Not Unionized* $_{t-1}$	1.8370	5.41 ***								
Union Pension Fund Proponent $_t$ *x High Unionization* $_{t-1}$			1.2485	2.74 ***						
Union Pension Fund Proponent $_t$ *x Low Unionization* $_{t-1}$			1.8480	3.31 ***						
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dispute w/ Unions* $_{t-1}$					1.6429	3.75 ***				
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dispute w/ Unions* $_{t-1}$					1.2422	2.75 ***				
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Negotiations w/ Unions* $_{t-1}$							1.3913	3.19 ***		
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Negotiations w/ Unions* $_{t-1}$							1.5892	3.39 ***		
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dual Role* $_{t-1}$									0.6036	1.18
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dual Role* $_{t-1}$									1.6903	3.82 ***
Other Institutional Proponent $_t$	1.8458	3.46 ***	0.8377	1.54	0.7857	1.55	0.7986	1.55	0.7809	1.45
Controls	Yes		Yes		Yes		Yes		Yes	
N	823		467		510		510		454	
Pseudo R^2	32.80%		35.80%		34.40%		34.30%		37.00%	

Wald Tests	Coefficient	χ^2	Coefficient	χ^2	Coefficient	χ^2	Coefficient	χ^2	Coefficient	χ^2
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Not Unionized* $_{t-1}$	-0.3294	2.14								
Union Pension Fund Proponent $_t$ *x High Unionization* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Low Unionization* $_{t-1}$			-0.5995	1.61						
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dispute with Unions* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dispute with Unions* $_{t-1}$					0.4007	1.40				
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Negotiations w/ Unions* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Negotiations w/ Unions* $_{t-1}$							-0.1979	0.30		
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x Dual Role* $_{t-1}$ versus										
Union Pension Fund Proponent $_t$ *x Unionized* $_{t-1}$ *x No Dual Role* $_{t-1}$									-1.0867	6.09 ***

Table 4 presents the analysis for the determinants of the voting outcome for compensation-related shareholder proposals between 1997 and 2007.

Panel A presents the results of an OLS regression where the dependent variable, *% Votes For*$_t$, is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against).

Panel B presents the results of a logistic regression where we estimate the probability that RiskMetrics issues a recommendation in favor of the shareholder proposal for the subset of 823 compensation-related shareholder proposals where RiskMetrics recommendation is available. The dependent variable, *RiskMetrics Recommendation = For*$_t$, is an indicator variable that is equal to one if RiskMetrics issues a recommendation in favor of the shareholder proposal and zero otherwise. The independent variables are defined as in Panel A.

Panel C presents the analysis for the determinants of the voting outcome for compensation-related shareholder proposals between 1997 and 2007 after controlling for the "unexpected" component of the RiskMetrics recommendation. The dependent variable, *% Votes For*$_t$, is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against). *Residual RiskMetrics Recommendation "For"* is the difference between *RiskMetrics Recommendation = For*$_t$ and the predicted value from the estimation in Panel B. The independent variables are defined as in Panel A.

Panel D presents the analysis for effects of union-related characteristics on the voting outcome for compensation-related shareholder proposals. The dependent variable, *% Votes For*$_t$, is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against). In columns 2 – 5 the sample is limited to unionized firms. For brevity, we report only the coefficients of interest.

Panel E presents the results of a logistic regression where we estimate the probability that RiskMetrics issues a recommendation in favor of the shareholder proposal for the subset of 823 compensation-related shareholder proposals where RiskMetrics recommendation is available. The dependent variable, *RiskMetrics Recommendation = For*$_t$, is an indicator variable that is equal to one if RiskMetrics issues a recommendation in favor of the shareholder proposal and zero otherwise. In columns 2 – 5 the sample is limited to unionized firms. For brevity, we report only the coefficients of interest.

Independent variables are defined as follows: *CEO Total Pay*$_{t-1}$ is the CEO's total compensation for year *t-1* (the most recent fiscal year ending before the shareholder meeting), including salary, bonus, value of equity grants (restricted stock and stock options), long-term incentive payouts, and other annual compensation such as perquisites, severance payments, 401K contributions, and insurance premiums. *CEO Cash Pay*$_{t-1}$ is the sum of salary, bonus and other cash pay for *i* year *t-1*. *CEO Equity Pay*$_{t-1}$ is the value of equity grants (restricted stock and stock options). *CEO Predicted Total Pay*$_{t-1}$ is the exponent of the predicted value from a regression of the natural logarithm of total CEO compensation on proxies for economic determinants of CEO compensation (see Section 4.2). *CEO Residual Total Pay*$_{t-1}$ is *CEO Total Pay*$_{t-1}$ less *CEO Predicted Total Pay*$_{t-1}$. *CEO Exercised Options*$_{t-1}$ is an indicator variable that is equal to one if the total value realized from options exercised by the CEO during year *t-1* is greater than zero. *# of Other Comp-Related Proposals*$_t$ is the number of other compensation-related shareholder proposals voted upon at the same annual meeting; *Comp-Related Vote-No Campaign*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by a compensation-related vote-no campaign; *Other Proposal*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by one or more (non-compensation) governance-related shareholder proposal. *Other Vote-No Campaign*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by another (non-compensation) governance-related vote-no campaign. *Institutional Proponent*$_t$ is an indicator variable equal to one if the proponent is from *Union Pension Funds*, *Public Pensions* or *Other Shareholder Groups*. *Rules of the Game*$_t$ and *Pay Design*$_t$ are indicator variables denoting, respectively, whether the proposal is classified as Rules of the Game or Pay Design (see Section 3.1). *2003 - 2007 Period* is an indicator variable equal to one if the proposal is voted upon between 2003 and 2007. *% of Institutional Ownership*$_{t-1}$ is the percentage of shares held by institutional owners as of the end of year *t-1* based on 13F forms filed with the SEC. *% of Executive Ownership*$_{t-1}$ is the percentage of shares held by the top 5 executives at the end of year *t-1*. *% of Independent Directors*$_{t-1}$ is the percentage of directors classified as independent by RiskMetrics as of the year *t* annual meeting. *Entrenchment Index*$_{t-1}$ counts how many of the following provisions are in place at the firm as of the year *t* annual meeting: chartered board,

poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk, Cohen and Ferrell, 2009). *Market Capitalization*$_{t-1}$ is market value of equity as of the end of year *t-1*. *Return on Assets*$_{t-1}$ is income before extraordinary items scaled by average total assets for year *t-1*. *Abnormal Returns*$_{t-1}$ is the size adjusted buy-and-hold returns for the 24 months preceding end of year *t-1*. *Unionized*$_{t-1}$ is an indicator variable that is equal to one for firms with unionized employees based on information from the 10-K and F-7 notices at the end of year *t-1*, and zero otherwise. *High Unionization* is an indicator variable that is equal to one if *% of Unionized Employees*$_{t-1}$ is greater than the median and zero otherwise, *Negotiations with Unions*$_{t-1}$ is an indicator variable that is equal to one if either of these conditions are met: (i) there is a F-7 notice filed during the 18 months preceding the annual meeting date, suggesting a likely renegotiation of the collective bargaining agreement around the time of the activism event; (ii) the "Employees" section of the 10-K (for the most recent fiscal year ending before the meeting date) states that a collective bargaining agreement expired during the year (and was not renewed) or is going to expire during the next fiscal year. *Dispute with Unions*$_{t-1}$ is an indicator variable that is equal to one if there is a dispute between firm managers and labor unions that result in Unfair Labor Practice charges filed with the US National Labor Relations Board (NLRB) during the fiscal year preceding the annual meeting. *Dual Role* is an indicator variable that is equal to one if at least some of the employees of the target firm are affiliated with the same union whose pension fund is sponsoring the proposal.

***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering [Rogers (1993)].

Table 5 Implementation of Compensation-Related Shareholder Proposals

Panel A Implementation Rates by Proposal Type and Proponent Identity

	# of Proposals	Fully Implemented*		Fully or Partially Implemented**	
		#	%	#	%
All Proposals	**1,198**	**64**	**5.3%**	**100**	**8.3%**
Majority Votes	149	48	32.2%	60	40.3%
Non-Majority Votes	1,049	16	1.5%	40	3.8%
1997-2002	397	5	1.3%	9	2.3%
2003-2007	801	59	7.4%	91	11.4%
By Proposal Type					
Rules of the Game	**544**	**57**	**10.5%**	**78**	**14.3%**
Shareholder Approval	274	43	15.7%	53	19.3%
Reporting	129	13	10.1%	13	10.1%
Disclosure	66	0	0.0%	1	1.5%
Independence	48	0	0.0%	2	4.2%
Other	27	1	3.7%	9	33.3%
Pay Design	**329**	**7**	**2.1%**	**22**	**6.7%**
Link Pay to Performance	258	5	1.9%	19	7.4%
Other	71	2	2.8%	3	4.2%
Pay Philosophy	325	0	0.0%	0	0.0%
By Proponent					
Union Pension Funds	578	41	7.1%	64	11.1%
Individual	437	16	3.7%	27	6.2%
Religious Organizations	79	1	1.3%	1	1.3%
Public Pensions	20	1	5.0%	2	10.0%
Not Disclosed	8	1	12.5%	2	25.0%
Other Shareholder Groups	76	4	5.3%	4	5.3%

* The 64 cases of "full implementation" include 10 proposals to expense stock options and 3 proposals requesting to remove pension income from the computation of bonuses (Rules of the Game – Reporting); 37 proposals to submit future large severance payments to shareholder approval, 4 proposals to adopt an annual advisory "say on pay" vote and 2 proposals requesting shareholder approval, respectively, for future supplementary executive retirement plans (SERPs) and future option repricings (Rules of the Game – Shareholder Approval); 1 proposal to adopt a policy to recoup incentive compensation paid as a result of figures reported in financial statements subsequently restated (Rules of the Game – Other); 5 proposals to introduce performance-based vesting conditions in executive stock option grants (Pay Design – Link Pay to Performance); 2 proposals, respectively, to adopt a policy of minimum equity ownership for directors and a policy of disclosing the timing of option grants ahead of time (Pay Design – Other).

** The most common cases of "partial implementation" include *i*) introduction of performance-based vesting conditions for a fraction of equity grants (rather than for all of them, as requested by proposal; 14 cases); *ii*) adoption of a policy that limits severance packages to no more than 2.99 times salary and bonuses (rather than a policy to submit large severance payments to shareholder approval, as requested by the proponent; 10 cases); *iii*) adoption of a policy to seek recoupment of compensation paid to executives as a result of financial statements' results that are eventually subject to restatement only under stringent conditions (e.g., evidence of fraud) and essentially at the board's discretion (rather than a policy to seek recoupment of such compensation from all executives no matter the circumstances of the restatement, as requested by proposal; 7 cases).

Panel B Determinants of Likelihood of Implementation

	Model (1) *Fully Implemented*		Model (2) *Fully/Partially Implemented*	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	-9.55	-3.65 ***	-7.34	-3.21 ***
CEO Chairman $_{t-1}$	0.07	0.17	0.25	0.75
% of Independent Directors $_{t-1}$	3.46	1.31	3.70	1.65 *
% of Executive Ownership $_{t-1}$	-22.30	-1.98 **	-11.80	-1.66 *
Entrenchment Index $_{t-1}$	-0.22	-1.33	-0.17	-1.25
Majority Vote $_{t}$	1.49	2.99 ***	1.07	2.91 ***
% of Votes For $_{t}$	6.75	3.98 ***	5.36	3.91 ***
Institutional Proponent $_{t}$	-0.39	-0.91	-0.32	-0.96
Rules of the Game $_{t}$	0.26	0.54	-0.03	-0.09
ln(Market Capitalization $_{t-1}$*)*	0.11	0.67	-0.03	-0.27
Return on Assets $_{t-1}$	-4.16	-1.24	-2.46	-1.03
Abnormal Returns $_{t-1}$	-0.01	-0.04	-0.03	-0.09
2003 - 2007 Period	0.19	0.32	0.49	1.05
N	1,061		1,061	
N(Implemented = 1)	60		91	
Pseudo R^2	37.90%		27.70%	

Table 5 Panel A reports the implementation rate for a sample of 1,198 compensation-related shareholder proposals submitted at S&P 1,500 firms between 1997 and 2007. We code as *Fully* (*Fully or Partially*) *Implemented* any proposal where the board takes a significant step toward full (full or partial) implementation, based on the information disclosed in the subsequent year's proxy statement or press reports. *Majority Votes* denotes cases where more than 50% of the votes cast at the annual meeting were in favor of the proposal.

Panel B presents the results of a logistic regression where we estimate the probability of implementation for the sample of 1,061 compensation-related shareholder proposals with available data. The dependent variable in Model (1), *Fully Implemented*$_t$, (Model (2), *Fully/Partially Implemented*$_t$) is an indicator variable that is equal to one if the firm fully (fully or partially) implements the proposal during the one year window subsequent to the year *t* annual meeting.

Independent variables are defined as follows: *CEO Chairman*$_{t-1}$ is an indicator variable that is equal to one if the CEO of the company is also the chair of board of directors as of the year *t* annual meeting. *% of Independent Directors*$_{t-1}$ is the percentage of directors classified as independent by RiskMetrics as of the year *t* annual meeting. *% of Executive Ownership*$_{t-1}$ is the percentage of shares held by the top 5 executives at the end of year *t-1*. *Entrenchment Index*$_{t-1}$ counts how many of the following provisions are in place at the firm as of the year *t* annual meeting: chartered board, poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk, Cohen and Ferrell, 2009). *Majority Vote*$_t$, is an indicator variable that is equal to one if the percentage of votes cast in favor is higher than the percentage of votes cast against. *% Votes For*$_t$, is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against). *Institutional Proponent*$_t$ is an indicator variable equal to one if the proponent is from *Union Pension Funds*, *Public Pensions* or *Other Shareholder Groups*. *Rules of the Game*$_t$ is an indicator variable that is equal to one if the proposal is classified as Rules of the Game (see Section 3.1). *Market Capitalization*$_{t-1}$ is the market value of equity as of the end of year *t-1*. *Return on Assets*$_{t-1}$ is income before extraordinary items scaled by average total assets for year *t-1*. *Abnormal Returns*$_{t-1}$ is the size adjusted buy-and-hold returns for the 24 months preceding end of year *t-1*. *2003 - 2007 Period* is an indicator variable equal to one if the proposal is voted upon between 2003 and 2007.

***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering [Rogers (1993)].

Table 6 Changes in Excess CEO Pay Following Compensation-Related Shareholder Activism

Panel A The Role of Vote-No Campaigns and Shareholder Proposals

	Model (1)		Model (2)		Model (3)		Model (4) *2003 - 2007*	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	-0.13	-2.41 **	-0.13	-2.53 **	-0.13	-2.52 **	0.09	2.01 **
Targeted $_t$	0.01	0.16						
Vote-No $_t$			-0.20	-1.55				
Vote-No $_t$ *x CEO % Residual Pay* $_{t-1} > 0$					-0.33	-2.24 **	-0.32	-2.07 **
Vote-No $_t$ *x CEO % Residual Pay* $_{t-1} < 0$					0.12	0.64	0.02	0.10
Proposal $_t$			0.02	0.76	0.03	0.86	0.01	0.33
Votes Withheld from Comp Comm $_t > 15$ *% x CEO % Residual Pay* $_{t-1} > 0$							0.00	-0.04
Votes Withheld from Comp Comm $_t > 15$ *% x CEO % Residual Pay* $_{t-1} < 0$							-0.03	-0.36
Votes Withheld from Non-Comp Comm $_t > 15$ *% x CEO % Residual Pay* $_{t-1} > 0$							0.02	0.38
Votes Withheld from Non-Comp Comm $_t > 15$ *% x CEO % Residual Pay* $_{t-1} < 0$							0.05	0.39
Other Proposal $_t$	0.03	1.09	0.04	1.09	0.03	1.04	0.02	0.48
Other Vote-No Campaign $_t$	0.02	0.20	0.01	0.09	0.01	0.16	-0.02	-0.27
CEO's Last Year in Office $_{t-1}$	0.05	0.90	0.06	0.98	0.05	0.87	0.02	0.25
CEO % Residual Total Pay $_{t-1}$	-0.44	-8.82 ***	-0.44	-8.80 ***	-0.43	-8.50 ***	-0.46	-7.16 ***
N	2,043		2,043		2,043		1,258	
Adjusted R^2	24.63%		24.91%		25.20%		26.99%	

Panel B The Role of Proponent Identity and Proposal Type

	Model (1)		Model (2)	
Variable	**Coefficient**	**t-statistic**	**Coefficient**	**t-statistic**
Intercept	-0.26	-2.23 **	-0.25	-2.16 **
Vote-No $_t$	-0.19	-1.53		
Vote-No $_t$ *x CEO % Residual Pay* $_{t-1} > 0$			-0.32	-2.18 **
Vote-No $_t$ *x CEO % Residual Pay* $_{t-1} < 0$			0.11	0.58
Rules of the Game by Institutional Proponent $_t$	0.01	0.17	0.02	0.33
Pay Design by Institutional Proponent $_t$	-0.18	-2.07 **		
Pay Design by Institutional Proponent $_t$ *x CEO % Residual Pay* $_{t-1} > 0$			-0.22	-2.03 **
Pay Design by Institutional Proponent $_t$ *x CEO % Residual Pay* $_{t-1} < 0$			-0.08	-0.80
Pay Philosophy by Institutional Proponent $_t$	-0.01	-0.11	0.00	-0.05
Rules of the Game by Other Proponent $_t$	0.07	0.97	0.08	1.18
Pay Design by Other Proponent $_t$	0.01	0.10	0.02	0.25
Pay Philosophy by Other Proponent $_t$	-0.01	-0.13	0.00	-0.06
High Votes For $_t$	0.14	1.28	0.12	1.19
Low Votes For $_t$	0.07	0.68	0.06	0.57
Implemented $_t$	0.10	0.87	0.09	0.77
Not Implemented $_t$	0.07	0.82	0.06	0.73
Other Proposal $_t$	0.03	1.04	0.03	0.96
Other Vote-No Campaign $_t$	0.00	-0.06	0.00	-0.03
CEO's Last Year in Office $_{t-1}$	0.05	0.87	0.04	0.75
CEO % Residual Total Pay $_{t-1}$	-0.45	-8.82 ***	-0.43	-8.41 ***
N	2,043		2,043	
Adjusted R^2	25.53%		25.89%	

Table 6 Panels A and B display the results for the analysis of changes in excess compensation following compensation-related shareholder activism. The dependent variable, *Change in CEO % Residual Pay*$_{t+1}$, is the change in percentage excess pay calculated as *CEO % Residual Pay*$_{t+1}$ less *CEO % Residual Pay*$_{t-1}$. *CEO % Residual Pay*$_{t+1(t-1)}$ is the natural logarithm of *CEO Total Pay*$_{t+1(t-1)}$ less the natural logarithm of *CEO Predicted Pay* $_{t+1(t-1)}$ *(*the exponent of the

predicted value from a regression of the natural logarithm of total CEO compensation on proxies for economic determinants of CEO compensation, see Section 4.2).

Independent variables in Panel A are defined as follows: *Targeted*$_t$, is an indicator variable that is equal to one if the firm is targeted by a compensation-related shareholder proposal or vote-no campaign in year *t*. *Vote-No*$_t$, is an indicator variable that is equal to one if the firm is targeted by a compensation related vote-no campaign in year *t* and zero otherwise. *Proposal*$_t$, is an indicator variable that is equal to one if the firm is targeted by a compensation-related shareholder proposal in year *t* and zero otherwise. *Votes Withheld from Comp (Non-Comp) Comm*$_t$ *> 15%* is an indicator variable that is equal to one if at least 15% of votes were withheld from at least one director sitting (not sitting) on the compensation committee. *Other Proposal*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by one or more (non-compensation) governance-related shareholder proposals. *Other Vote-No Campaign*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by another (non-compensation) governance-related vote-no campaign. *CEO's Last Year in Office*$_{t-1}$ is an indicator variable that is equal to one if year *t-1* is the last year of the CEO's employment at the firm. *CEO % Residual Pay*$_{t-1}$ is *ln(CEO Total Pay*$_{t-1}$*)* less *ln(CEO Predicted Total Pay*$_{t-1}$*)*. *CEO % Residual Pay*$_{t-1}$*>0* (*CEO % Residual Pay*$_{t-1}$*<0*) is an indicator variable equal to 1 if *CEO % Residual Pay*$_{t-1}$ is greater (smaller) than zero.

Independent variables in Panel B (not already defined in Panel A) are as follows: *Rules of the Game (Pay Design, Pay Philosophy) by Institutional Proponent*$_t$ is an indicator variable that is equal to one if the firm is targeted by at least one Rules of the Game (Pay Design, Pay Philosophy) proposal sponsored by a Union Pension Fund, Public Pension Fund or Other Shareholder Group at the year *t* annual meeting. *Rules of the Game (Pay Design, Pay Philosophy) by Other Proponent*$_t$ is an indicator variable that is equal to one if the firm is targeted by at least one Rules of the Game (Pay Design, Pay Philosophy) proposal sponsored by an Individual or Religious Organization at the year *t* annual meeting. *High (Low) Votes For*$_t$ is an indicator variable that is equal to one if the firm is targeted by at least one compensated-related proposal that receives voting support above (below) 38% (3rd quartile of the distribution of votes in favor of compensation-related shareholder proposals). *Implemented*$_t$ *(Not Implemented*$_t$*)* is an indicator variable that is equal to one if the firm is targeted with at least one proposal that is subsequently fully implemented (not implemented).

***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering (Rogers, 1993).