Proxy Issue Proposals: Impact of the 1992 SEC Proxy Reforms

Abstract

This article assesses the impact of the 1992 SEC reforms that enhanced the ability of shareholders to communicate during a proxy contest. Utilizing a sample of 361 shareholder-sponsored corporate governance issue proposals from 1991 to 1995, the article finds that the mean percentage of total outstanding votes cast in favor of an issue proposal declined significantly post-reform. As explanation, the article furnishes evidence that certain sponsors interested in their own private agenda rather than general shareholder welfare exploited more fully the proxy mechanism post-reform; controlling for the composition of sponsors, the proxy reforms generated no significant change in the for-vote outcome of issue proposals. The article concludes instead that the reforms resulted in a shift in the composition of issue proposals targets toward companies relatively less vulnerable to such proposals pre-reform.

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1. Introduction

In October 1992, the U.S. Securities and Exchange Commission (SEC) instituted expansive reforms aimed at increasing the ability of investors to communicate during a proxy contest.[1] This article analyzes the impact of the reforms on proxy contests involving proposals to modify non-control, corporate governance aspects of the corporation (proxy issue proposals).[2]

The article theorizes that the 1992 reforms bolstered the ability of a shareholder wealth-increasing proposal to receive, all other things being equal, the support of a higher fraction of outstanding votes (the for-vote outcome). Accordingly, the reforms may result in a compositional modification in those companies targeted for an issue proposal. Formerly "borderline" companies may voluntarily adopt shareholder proposals rather than risk a public contest and a higher expected for-vote result post-reform. Similarly, companies that otherwise had little fear of proxy issue proposals pre-reform may be confronted by issue proposals post-reform from shareholders emboldened by the expectation of a greater for-vote outcome.

The shift in the composition of firms facing proxy issue proposals leads to two hypotheses. First, the article tests the hypothesis that the composition of firms facing an issue proposal shifted post-reform toward companies which shareholders would have viewed pre-reform as affording a low expected for-vote outcome. The article identifies

[1] For a detailed description of the 1992 proxy reforms, see SEC (1992).

[2] Proxy issue proposals are to be distinguished from proxy control contests that directly involve the election of the board of directors.

companies relatively resistant to issue proposals employing two criteria: (a) the fraction of votes in the hands of management, directors, and insiders of a company and (b) the absence of desired shareholder protection devices in place for a company.[3] A high percentage of votes in the hands of management, directors, and insiders would result directly in more votes against a shareholder proposal; indirectly, a high percentage of votes would also lead other shareholders to believe that for any given for-vote outcome, the potential harm to management is relatively slight due to management's more entrenched status.[4] Likewise, companies more resistant to a proxy issue proposal will have a reduced incentive to employ desired devices because they face a lower cost from a public contest. In particular, the article focuses on the presence of a confidential voting policy.[5] The article predicts that post-reform, companies that experienced a proxy issue proposal shifted post-reform toward targets with more entrenched management and a relatively low incidence of confidential voting.

Second, the article investigates the hypothesis that the proxy reforms had no direct impact on the mean for-vote outcomes in proxy issue proposals. Following the insight of Priest and Klein's (1984) model for judicial cases, the article predicts that, given the com-

[3] Insiders are defined as those shareholders that hold a greater than 5% block of equity securities in a company and that also have a seat on the board of directors either directly or through a representative.

[4] For example, as discussed later in the article, one potential harm to management from a high for-vote outcome is that management may receive negative publicity and shareholders may become more organized, reducing the cost of launching subsequent issue proposals or control contests. Where management is relatively more entrenched however, the possibility of a subsequent issue proposal or control contest is reduced, lowering the benefit to shareholders from voting for the initial issue proposal in the first instance.

[5] For most shareholder proxy votes, the company's management knows the vote cast by any particular shareholder. Companies employing a confidential voting policy restrict the ability of management to view the identity of shareholders casting particular votes.

positional change in the pool of targeted companies, the proxy reforms should have no effect on the mean for-vote outcomes of proposals that reach a shareholder vote.

The article furnishes evidence that the mix of targeted companies shifted post-reform toward firms with higher management, director, and insider vote ownership. Similarly, targeted companies post-reform had a lower incidence of desired shareholder protection devices compared to pre-reform targets, as measured by the presence of a confidential voting policy. On the other hand, the article discovers that post-reform, the mean for-vote outcome declined significantly. To explain this phenomenon, the article tests the hypothesis that the reforms encouraged non-traditional sponsors, including unions and religious organizations, to increase their sponsorship of proposals designed to promote their own specific welfare and not that of shareholders in general. The article finds that unions and religious organizations increased their usage of proxy issue proposals significantly post-reform. After controlling for sponsor identity, the article presents evidence that the reforms had no significant impact on the mean for-vote outcome for shareholder issue proposals.

Section 2 delineates the legal background behind the 1992 SEC proxy reforms. Section 3 describes the data set. Section 4 presents the article's empirical findings.

2. The 1992 SEC Proxy Reforms

Proxy solicitations serve to inform shareholders on corporate voting issues and garner shareholder votes on these issues. Section 14(a) of the Securities Exchange Act of

1934 ("Exchange Act") and its accompanying rules regulate the proxy solicitation process for most public companies in the United States.[6]

At cursory glance, the proxy rules appear to provide favorable treatment for shareholder-sponsored issue proposals. Rule 14a-8 of the Exchange Act (17 C.F.R. § 240.14a-8) obligates companies to include shareholder proposals in their own proxy statements sent out to shareholders so long as the sponsor of the proposal is the record or beneficial owner of at least 1% or $2,000 of the outstanding stock. Nevertheless, Rule 14a-8 contains numerous restrictions on shareholder proposals included in company proxy statements, including one limiting the length of a proposal to only 500 words.[7] Consequently, information supplied privately by each sponsor and the proxy regulations governing such communications are crucial to the success of any shareholder proposal.

Notwithstanding the significance of shareholder communication, the ability of investors to communicate with one another is constrained under the proxy rules. Rule 14a-1(l) (17 C.F.R. § 240.14a-1(l)) treats any communication reasonably calculated to affect voting decisions as a "solicitation" of a proxy, even where the company or sponsoring shareholder is not party to the communication. Pursuant to Rule 14a-3(a) (17 C.F.R. § 240.14a-3(a)), solicitations are not allowed until a formal proxy statement containing in-

[6] The SEC's proxy rules under Section 14(a) of the Exchange Act (15 U.S.C. § 78n) apply to all companies required to register with the SEC under Section 12 of the Exchange Act (15 U.S.C. § 78l). Section 12, in conjunction with Rule 12g-1 of the Exchange Act (17 C.F.R. § 240.12g-1), requires all companies trading on a national securities exchange (e.g., the NYSE) or companies with greater than 500 shareholders of record for any outstanding class or securities and more than $10 million of net assets to register.

[7] Under Rule 14a-8 (17 C.F.R. § 240.14a-8), the target company may omit proposals that are not a proper action for shareholder under applicable state corporate law, violate SEC rules or some other law, attempt to redress a personal claim or grievance of the sponsor, relate to ordinary business operations, are

formation specified by the SEC is delivered to the solicited shareholder. Proxy solicitations are also subject to coverage of Rule 14a-9's antifraud provisions (17 C.F.R. § 240.14a-9).

Investors communicating with one another on how to respond to an issue proposal, therefore, potentially must file a preliminary proxy statement with the SEC, wait for SEC approval, and then mail a formal proxy statement to all those privy to the communications. Aside from imposing direct mailing and filing costs as well as delays, this regime discourages communications by those investors desiring anonymity.[8] Because proxy statements are required to be filed publicly with the SEC, the proxy company and other shareholders are able to determine not only the identity of communicating parties but also the substance of such communications.[9] Moreover, because Rule 14a-9's antifraud prohibitions apply to all proxy solicitations, investors also face the specter of potential antifraud liability. Pound (1991: 271-274) provides anecdotal evidence that the possibility of nuisance suits brought by incumbent management for violation of the proxy rules raises the costs of proxy communications and hampers the private supply of information.

The proxy reforms, while retaining the basic structure of the proxy solicitation rules, allow several exemptions that facilitate communication among investors while obviating the coverage of a large subset of the proxy rules. In particular, Rule 14a-2(b) (17

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counter to a management-sponsored proposal, or are substantially similar to a proposal submitted within the last five years if the prior proposal failed to obtain a specified minimum percentage of votes.

[8] Managers, for example, may refuse to communicate with or provide information to institutional investors that vote for a shareholder proposal. Managers may also choose not to direct company business, including insurance and banking needs, toward such institutional investors.

[9] In addition, the proposal sponsor is required under Rule 14a-8 (17 C.F.R. § 240.14a-8) to reveal its identity directly to the proxy company in addition to its share ownership.

C.F.R. § 240.14a-2(b)) exempts solicitations by a shareholder not seeking the power to vote as proxy for other shareholders so long as the soliciting shareholder's motive is to gain pro rata with other shareholders.[10] As a result, through Rule 14a-2(b), most independent shareholders may freely engage in communications during a proxy contest.[11] Rule 14a-9's antifraud prohibition, nevertheless, continues to apply.

The proxy reforms, under Rule 14a-1(l)(2)(iv) (17 C.F.R. § 240.14a-1(l)(2)(iv)), also curtail the definition of a proxy solicitation to exclude public announcements by shareholders on how they intend to vote, including public speeches, press releases, and newspaper advertisements. Shareholders making such announcements may also provide reasons for their decisions. Unlike the exemption under Rule 14a-2(b), since public announcements are excluded entirely from the definition of what constitutes a solicitation, the public announcement exclusion effectively shields communicating parties from Rule 14a-9's antifraud prohibitions.

The reforms increase in theory the flow of privately supplied information during an issue proposal by relaxing the scope of what constitutes a proxy solicitation. Bolstering the ability of shareholders to communicate anonymously and at lower costs, especially where shareholders fear alienating management, mitigates the collective action problem facing individual shareholders. The article assesses the impact of these reforms.

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[10] Rule 14a-2(b)(1) (17 C.F.R. § 240.14a-2(b)(1)), however, bars the proxy company and its directors and officers (to the extent they are financed by the company), among others, from using the exemption.

[11] Rule 14a-2(b) (17 C.F.R. § 240.14a-2(b)) relieves communicating parties from the burdens of Exchange Act Rules 14a-3 to 14a-6 (other than Rule 14a-6(g)), 14a-8, and 14a-10 to 14a-15.

3. Data Description

The article tracked proxy issue proposals for all companies trading on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and NASDAQ for the 1991 to 1995 time period, with the following two limitations: first, only those proposals occurring during the first six months of each calendar year, the annual meeting season for most companies, were followed; and second, only institution-sponsored proxy issue proposals were considered. Many individually sponsored proposals achieve only a de minimis percentage of for-votes. Focusing on institution-sponsored proposals, therefore, provides greater insight into those proposals that have an impact on shareholder value.

Georgeson & Company of New York, New York supplied data identifying the companies, proxy issue proposals, shareholder sponsors, and vote outcomes for the issue proposals.[12] As reported in Table 1, there were a total of 361 institution-initiated corporate governance proposals involving 277 different companies for the 5-year time period (1991-1992 are pre-reform; 1993-1995 are post-reform).[13]

[Place Table 1 Here]

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[12] Georgeson & Company tracks proxy issue proposals through its own proxy tabulation business and through data gathered from the Investor Responsibility Research Center as well as from other proxy tabulation agencies. While the data is not entirely comprehensive, proxy issue proposals which Georgeson & Company may overlook are typically for smaller companies with low market capitalization.

Table 2 reports a breakdown of proxy issue proposals by the market capitalization of the targeted company. Most issue proposals involved companies with a market capitalization of less than $4 billion. Nevertheless, over 8% of the proposals targeted companies with a market capitalization of at least $20 billion.

[Place Table 2 Here]

Table 3 provides a breakdown of the proxy issue proposals by the two-digit standard industrial classification (SIC) code of the targeted companies. Note that 16.1% of the proposals targeted SIC code 28 (Chemicals and Allied Products). As well, SIC codes 35 (Industrial and Commercial Machinery and Computer Equipment), 36 (Electrical Equipment and Components), and 37 (Transportation Equipment) in the aggregate were involved in 21.5% of the proposals.

[Place Table 3 Here]

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[13] The proxy reform rules took effect on October 22, 1992, well after the 1992 proxy season in the data sample.

Eight distinct types of proposals were tracked: (1) proposals on the general voting process, including confidential voting proposals (Proposal-General Voting); (2) proposals on the composition of the board of directors, consisting primarily of proposals to require a majority of independent directors (Proposal-Board Composition); (3) proposals to include divergent societal views on the board of directors (Proposal-Board Inclusion); (4) proposals to limit the compensation of outside directors (Proposal-Pay Outside Director); (5) proposals to limit executive compensation, including proposals to impose an executive pay cap or restrict golden parachutes (Proposal-Pay Executive); (6) proposals aimed at the election process for directors, including proposals to implement cumulative voting or declassify the board (Proposal-Director Election); (7) proposals seeking to repeal antitakeover measures, including poison pills and blank check preferred stock authorizations (Proposal-Antitakeover); and (8) proposals to move the annual meeting location and other miscellaneous proposals (Proposal-Miscellaneous).

Sponsors were divided into five different categories: (1) shareholder activist organizations (Sponsor-Activist);[14] (2) public pension funds (Sponsor-Public Pension);[15] (3) private pension and mutual funds (Sponsor-Private Pension);[16] (4) organized labor (Spon-

[14] Shareholder activist organizations include the United Shareholders Association (sponsoring proposals from 1991 to 1994 in the data set) and the Investors Rights Association of America (sponsoring proposals in 1995).

[15] Public pension funds include the California Public Employees Retirement System (CalPERS), the New York City Employees Retirement System, the New York City Fire Department Pension Fund, the New York City Police Pension Fund, the New York City Teachers Retirement System, the State of Wisconsin Investment Board, and the NY State Common Retirement Fund, among others.

[16] Private pension funds include TIAA-CREF and U.S. Trust.

sor-Union);[17] and (5) religious organizations (Sponsor-Religious).[18] Table 4 offers a breakdown of the different proposals that particular sponsors brought during the sample period.

[Place Table 4 Here]

Shareholder issue proposals contained in the company's proxy are nearly always advisory and do not mandate change even where a majority vote is obtained. Thus, the value of the proposal to shareholders is contingent upon the reaction of management to a high for-vote obtaining proposal. As discussed in Van Nuys (1993), a high vote percentage against management may spur management into adopting desired corporate governance changes. Managers may decide to implement voluntarily a proposal receiving a high for-vote outcome to avoid damaging publicity from future shareholder proposals that may result in even higher for-vote results. Outside directors may also feel duty-bound to sup-

[17] Organized labor include the Amalgamated Bank of New York's Labor Oriented LongView Collective Investment Fund, the Amalgamated Clothing and Textile Workers Union, the Communications Workers of America, the International Brotherhood of Electrical Workers, the International Union of Operating Engineers, and the Teamsters, among others.

[18] Religious Organizations include the Christian Brothers Investment Service, the Interfaith Center on Corporate Responsibility, the General Board of Pensions of the United Methodist Church, the Episcopal Church, and the Sisters of the Blessed Sacrament.

port a proposal that obtains a significant percentage of shareholder votes.[19] Outside directors interested in their own reputations may also act differently once under the spotlight of media attention following a proxy issue proposal. Subsequent higher for-votes outcomes, moreover, may result in the establishment of communication links and relationships between shareholders that decrease the cost of other shareholder-related actions. A takeover proposal or proxy control contest, for example, may become easier after a high for-vote proxy issue proposal. Finally, managers seeking to maximize shareholder welfare may simply be unaware of the popularity of a particular proposal until after shareholders vote in favor of the proposal.

From the perspective of shareholders, therefore, the value of a proxy issue proposal depends on the actual percentage of for-votes the proposal obtains and not on whether the proposal obtains a majority vote. In support of the value of shareholder-sponsored proposals, Strickland, Wiles, and Zenner (1996) provide evidence from 1986 to 1993 that issue proposals that the United Shareholders Association sponsored resulted in 53 negotiated settlements with management that increased shareholder welfare.

4. Empirical Evidence on the Proxy Reforms

The effect of the proxy reforms in mitigating shareholder communication costs should have several impacts on proxy issue proposals. First, reducing shareholder communication costs raises the probability that any particular issue proposal – to the extent the

[19] Grundfest (1993: 927-28), for example, argues that shareholder "just vote no" campaigns against management-sponsored director slates will attract media attention and increase the reputational

proposal benefits shareholder welfare – obtains a significant proportion of the outstanding votes. Shareholders individually may lack full information on the value of a particular proposal and moreover face collective action problems in voting. Through decreased communication costs, the reforms may raise the willingness of shareholders to investigate and vote on specific proxy issue proposals.

Second, the mix of issue proposals that actually reach a vote should change. Target companies on the margin between settling and defending against an issue proposal will shift toward settlement post-reform. Likewise, companies that previously avoided an issue proposal due to the low expected likelihood of votes against them may face a proposal post-reform. Following the insight of Priest and Klein (1984), nevertheless, the overall impact of the shift in the mix of issue proposals should leave the mean for-vote outcome unchanged.[20] Assume that sponsors find bringing a proxy issue proposal worthwhile only when they expect to reach a certain target level of for-votes;[21] similarly, companies will settle when they expect the for-votes to exceed the target level of for-votes. Although the mix of companies may change, companies and sponsors will resist settlement and opt for a shareholder vote only where they have divergent expectations as to the likelihood of reaching this target level. To the extent both sponsors and companies are unbiased in their

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costs to outside directors, prompting them to seek potential new CEOs.

[20] Priest and Klein (1984) start with the proposition that disputes only proceed to trial judgment rather than settlement because of uncertainty or error on the part of litigants in predicting the outcome at trial. To the extent errors are randomly distributed, therefore, both plaintiffs and defendants should expect a fifty percent success rate at trial.

[21] For example, managers and directors may become worried about the reputational impact of a negative shareholder proposal only past a certain threshold for-vote outcome.

expectations, one would expect that issue proposals that survive to a vote should receive similar for-vote outcomes both pre- and post-reform.

Section 4.1 tests the hypothesis that the mix of companies targeted for a proxy issue proposals changes post-reform. Section 4.2 then tests the hypothesis that despite the proxy reforms, the mean for-vote outcome for issue proposals that reached a shareholder vote remained unaffected.

4.1 Shift in Proxy Issue Contest Target Companies

The article predicts that the group of companies targeted for a proxy issue proposal post-reform shifted to companies relatively more resistant to a proposal pre-reform, defined as companies providing a low expected for-vote outcome.[22]

Two measures are used to gauge a company's resistance to a proxy issue proposal. First, the article uses the percentage of votes owned by management, directors, and insiders.[23] Because the reforms facilitate shareholder coordination, sponsors seeking to maxi-

[22] The impact of the proxy reforms on the percentage of outstanding votes cast either for or against the proposal was also examined (in other words, the total votes actively cast excluding abstentions and broker non-votes). To the extent the proxy reforms worked to reduce the cost to investors of obtaining information on particular proposals, one would expect that more investors would actively vote on particular issues rather than abstaining or declining to submit their proxy. The table below provides evidence for this contention:

[Place Footnote Table 1 Here]
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[23] Share ownership is obtained from the reported "beneficial ownership" contained in the company's SEC proxy filing. Rule 13d-3 of the Exchange Act (17 C.F.R. § 240.13d-3) defines a beneficial owner to include "any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares" voting power or investment power in a security. A person

mize shareholder welfare may become more aggressive post-reform, targeting companies with higher levels of management, director, and insider vote holdings.[24] As well, companies with lower pro-management vote ownership are more vulnerable to an issue proposal and therefore may choose to settle with increasing frequency post-reform. One would therefore expect that post-reform, the average level of management, director, and insider holdings among target companies should rise.

Second, the article uses the presence of a confidential voting policy as a proxy for the vulnerability of a company to a proxy issue proposal. Shareholders may value a confidential voting policy to the extent anonymity induces more shareholders to support subsequent measures against poorly performing management. Companies more vulnerable to an issue proposal, in turn, will tend to adopt voluntarily a confidential voting policy to avoid a public and high-vote obtaining contest over the proposal. Conversely, companies less vulnerable will have less pressure to implement confidential voting.

4.1.1 Comparing Pre- versus Post-Reform Targets

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who has the right to acquire beneficial ownership of a security within sixty days through the exercise of any option or warrant is also considered a beneficial owner or the security.

Vote ownership, in turn, is calculated from multiplying the number of shares owned by the number of votes for each share. Where a company, for example, has outstanding more than one class of common stock with differential voting rights, the ownership of management, directors, and insiders of each class is obtained from the proxy filing and then multiplied by the number of votes per class. The fraction of total votes is then obtained by dividing the calculated vote ownership by the total number of votes outstanding.

[24] Companies with higher levels of management, director, and insider holdings are not necessarily correlated with worse corporate governance. However, because proxy issue proposals can hope to achieve substantial for-votes only against companies without high pro-management holdings, such proposals are not a viable corporate governance mechanism against management-entrenched companies.

The article predicts that post-reform targets should have a greater fraction of votes in the hands of management, directors, and insiders and a lower incidence of confidential voting policies compared with pre-reform targets

Because the reforms themselves may have increased the adoption of confidential voting policies for all firms over time, using the presence of a confidential voting policy measured at the time of a proxy issue proposal may provide an inaccurate comparison between firms facing an issue proposal during different years. For example, firm A may be more resistant than firm B to an issue proposal. Nevertheless, if firm A experienced a proposal post-reform and firm B experienced one pre-reform, there may be a greater likelihood of finding a confidential voting policy for firm A due to the effects of proxy reform itself despite firm A's greater resistance. Likewise, the level of management, director, and insider holding may have shifted over time due to the reform.

To correct for this bias and provide an accurate comparison of pre- and post-reform targets, the presence of a confidential voting policy and the level of management, director, and insider vote holdings are assessed for the same time period for all proxy issue proposal firms regardless of the year the firm experienced an issue proposal in Tables 5 and 6 below (comparisons are made using data from 1992 in the pre-reform period and from 1995 in the post-reform period).

Evidence exists that the characteristics of targeted companies change post-reform. Table 5 compares the fraction of votes in the hands of management, directors, and insiders for three categories of targeted companies. Pre-Reform-Only companies are those companies that were targeted with a proposal only during the pre-reform period of the article's

data sample (1991-1992). Post-Reform-Only companies are companies that were targeted only during the post-reform period (1993-1995). Finally, Pre-and-Post companies are those targeted both pre- and post-reform.

[Place Table 5 Here]

Note that the management, director, and insider vote holdings measured in 1992 was 3.70% for the Pre-Reform-Only group of firms and 9.66% for the Post-Reform-Only firms (difference significant at the 5% level). Similarly, measured in 1995, the management, director, and insider vote holdings was 3.06% for the Pre-Reform-Only firms and 8.63% for the Post-Reform-Only firms (difference significant at the 5% level). This provides limited evidence that because proxy issue proposals are easier to bring, shareholder sponsors purposefully chose companies with greater management, director, and insider vote holdings that in the past would have been relatively more resistant to such proposals due to the entrenched position of management. Table 5 also reports that only Post-Reform-Only firms experienced a significant increase in the vote holdings of management, directors, and insiders from the 1992 to 1995 time periods (significant at the 5% level).

Table 6A provides additional evidence that the companies targeted post-reform include companies that pre-reform were more resistant to a proxy issue proposal. The table reports on the incidence of confidential voting policies for all targeted firms (measured

in 1992 and 1995). Although some companies facing a confidential voting proposal already possess a more limited confidential voting policy, most confidential voting targets employ no such policy. Including such proposals, therefore, may bias the incidence of confidential voting downward. Confidential voting policies are therefore tracked in Table 6B for issue proposals excluding General Voting category proposals (comprised mostly of confidential voting proposals).

[Place Tables 6A and 6B Here]

Note two things of significance from Tables 6A and 6B. First, for all three groups of firms – Pre-Reform-Only, Pre-and-Post, and Post-Reform-Only – the incidence of confidential voting policy adoption increased from 1992 to 1995. In Table 6A, for example, Pre-Reform-Only firms went from a confidential voting policy incidence of 26.67% measured in 1992 to 53.33% measured in 1995. This shift is significant at the 5% level for all groups.[25]

[25] To test further the shift in the incidence of confidential voting policy adoption over the reform period, data on the incidence of confidential voting policy proposals targeting firms without such a policy in place is collected for the pre- and post-reform periods. Note from the table below that post-reform, the incidence of confidential voting proposals drops significantly post-reform.

[Place Footnote Table 2 Here]

Second, those companies targeted only pre-reform have a significantly greater incidence of confidential voting compared to companies targeted only post-reform. This difference is significant at the 5% level for the comparison of all issue proposals and for proposals excluding General Voting issues (whether comparing confidential voting policy incidence measured in 1992 or 1995). This provides evidence that companies targeted post-reform were relatively more resistant to proxy issue proposals pre-reform and therefore avoided adopting confidential voting during the pre-reform period.

No one corporate governance structure is optimal for all situations. Nevertheless, proxy issue proposals work best as a substitute corporate governance mechanism only where management is not so entrenched that a proposal will result in a minimal for-vote outcome. Of course, where management is entrenched, other mechanisms may exist to align the interest of shareholders and management, such as high management ownership of shares. By increasing the viability of proxy issue proposals against more entrenched management, nevertheless, the proxy reforms may be viewed as expanding the feasibility of shareholder-driven proposals for a wider range of companies with relatively more entrenched management as an alternative corporate governance device.

4.1.2 Comparing Targeted Issue Contest Firms against a Matching Sample

The shift in the incidence of confidential voting policies and the vote holdings of management, directors, and insiders provides some evidence that the proxy reforms resulted in a compositional change in the group of companies facing an issue proposal.

Nevertheless, alternative explanations are possible. For example, an exogenous upward shock in the holdings of institutional investors may have caused shareholders to target companies with more entrenched management regardless of the proxy reforms. Likewise, a negative downturn in stock market performance may have resulted in more shareholders making proposals aimed at introducing confidential voting in companies lacking such a policy to increase the ability of shareholders to police management.

To control for these various factors, the article constructs a matching sample of firms that did not experience a proxy issue proposal for both the Pre-Reform-Only and Post-Reform-Only groups of companies. For each issue proposal firm, the matching firm is chosen based on two factors: the SIC code and the asset size of the firm as reported in COMPUSTAT. The matching firm is selected as the firm within the same 4-digit SIC code and closest in asset size with the target proxy company. Only those firms within 25% to 400% of the asset size of the targeted company are considered. Where no qualifying firms exist in the proxy company's four-digit SIC code, the closest four-digit SIC codes both above and below the proxy company's four-digit code is searched for a suitable asset-size matching firm. From this process, matching companies for 186 issue proposal firms are selected.

A logit model is then fitted using the matching sample to estimate the decision to sponsor a proxy issue proposal and how that decision varies between the Pre-Reform-Only and Post-Reform-Only groups of targeted companies. Included in the logit model are the fraction of votes owned by management, directors, and insiders as well as a

dummy variable for the presence of a confidential voting policy to test whether proxy reform shifted the decision to initiate an issue proposal.

Sponsors of issue proposals incur a cost. They must draft a proposal, publicly announce their opposition to management, and bear at least some of the expense of communicating with other shareholders. All other things being equal, because the cost of pursuing an issue proposal is fixed, the likelihood of an issue proposal should increase with firm size. To capture this effect, the market capitalization of issue proposal and matching firms is included.

To the extent that the goal of traditional sponsors is to maximize shareholder welfare, traditional sponsors will desire to attract support from other shareholders. Sponsors will be more likely to bring a proposal where factors are present that would lead one to expect a higher for-vote outcome. The logit model therefore includes factors related to the voting environment, including the number of shareholders and the vote holdings of institutional investors.[26]

Institutional investors possessing either a financial relationship with the proxy company or an indirect relationship with a member of the proxy company's management or board of directors may tend to support management in a proxy issue proposal, reducing the likelihood that a sponsor would bring a proposal in the first place. To account for this possibility, the fraction of votes in the hands of institutional investors with either a direct

[26] Institutional investor share ownership data was obtained from the SEC-Disclosure database. Vote ownership, in turn, was calculated from the votes per class of voting securities as reported in each company's SEC proxy filing. The number of shareholders was obtained from COMPUSTAT.

financial tie with the proxy company (e.g., a bank of the proxy company) or a tie to an insider or insider affiliate on the proxy company's board of directors is added to the model.[27]

Sponsors may also use the past financial performance of the proxy firm to determine if the firm's corporate governance structure negatively impacts shareholder welfare. Sponsors may have only an imperfect sense of the value of a corporate governance structure at any particular firm. Firms that generate an unexpected poor common stock return in the prior year, as a result, provide new information that the corporate governance structure of their firm could be improved, increasing the likelihood of a high for-vote outcome in a proxy issue proposal. For example, sponsors may be willing to believe that managers of firms that perform well are really seeking to maximize shareholder welfare. However, once a firm performs poorly, the poor performance may signal that an increased threat of a change in control may be necessary to place good incentives on the firm's managers. Sponsors may then view a proposal that makes it easier for shareholders to engage in confidential voting or that removes an antitakeover measure as more worthwhile. To account for this possibility, the article includes a measure of past financial performance. To track the financial performance of the proxy firms, the prior one-year unadjusted common stock return for each firm is added to the model as collected from the Center for Research on Securities Prices (CRSP). The use of unadjusted returns corresponds with DeAngelo and DeAngelo (1989)'s finding in a study of 60 proxy control contests from 1978 to 1985 that

[27] Only institutions with at least one percent of the total outstanding votes were aggregated in the related institutional investor vote holdings variable. The presence of a relationship tie with an insider or insider affiliate member of a company's board of directors was obtained through examination of the biographical description of the director nominees reported in each company's SEC proxy filing.

dissidents avoid citing complex statistical analysis of a target's stock performance in their campaigns to shareholders, preferring instead to emphasize accounting measures of performance and raw stock price declines.[28]

Because issue proposals work as a substitute for other corporate governance devices, the fraction of the board of directors comprised of insiders and insider affiliates is also included. Biographical information on director nominees obtained from each company's SEC proxy filing is examined to determine each director's principal occupation and whether any consulting or similar financial relationship existed between the director or the director's primary employer and the target company. From this examination, directors are assigned to one of three classifications: (a) current or past employees of the corporation and directors employed by a controlling shareholder of the corporation ("insiders"); (b) outsiders with some consulting or financial affiliation with the targeted company ("insider affiliates");[29] and (c) independent directors. The fraction of the board composed of insiders and insider affiliates is used as a gauge for the board composition. Firms with a higher fraction of insider and insider affiliate board members may be viewed by shareholders to be

[28] DeAngelo and DeAngelo (1989: 36) write "[o]verall, [the dissidents] campaign strategies seem to reflect an assessment that voters have limited incentives to invest in detailed evaluations of incumbent's competence."

Wahal (1996) in his study of seven activist public pension funds found that firms targeted for a proxy issue proposal tended to underperform the market but did not underperform their respective industries. Gordon and Pound (1993: 712) also found that long-term unadjusted returns better explained for-vote outcomes than long-term market excess returns; they write that an "alternative interpretation…is that many investors do not use excess returns in making their voting decision – that they do not risk adjust using the technology that finance theory suggests."

[29] Grundfest (1993: 875), for example, notes the prior to Kohlberg Kravis Roberts & Co.'s acquisition of RJR Nabisco, several of RJR Nabisco's outside board members enjoyed "lucrative consulting and service contracts" and RJR Nabisco used the services of a bank run by another outside board member.

at greater risk of having poor corporate governance controls.[30]

Finally, because proxy issue proposals are only one alternative means of disciplining managers, the types of issue proposals and their success may depend on the presence of other disciplining devices. In particular, an active takeover market may work to align management incentives with shareholders and reduce the value of proxy issue proposals. To account for this possibility, the number of contested tender offers, as tracked through the Mergerstat Review, is included as an independent variable into the model for each year of the sample period.

Table 7 reports the logit model results. Model 1 uses a dummy variable for proxy reform to test the impact of reform on the decision to initiate an issue proposal. Model 2 tests the specific impact of reform through interaction terms between the reform dummy variable and other independent variables in the model. Because some proposals may involve a confidential voting proposal, the models may negatively bias the coefficient on the presence of a confidential voting policy. Companies targeted with a confidential voting proposal often do not employ confidential voting, reducing the mean incidence of confidential voting among targeted companies. To correct for this bias, Model 3 is fitted for proposals and matching firms not involving a General Voting proposal (comprised mostly of confidential voting proposals).

[30] Several have found a relationship between the presence of outside directors and firm performance. Rosenstein and Wyatt (1984) find a statistically significant positive stock price reaction to the announcement of the appointment of a non-affiliated outside director. Weisbach (1988) finds that firms with over 60% of their board comprised of nonaffiliated directors were more likely to remove their CEO due to

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[Place Table 7 Here]

From Table 7, note that the greater the management, director, and insider vote holdings, the lower the likelihood of a proxy issue proposal (significant at the 5% level for all three models). Higher management, director, and insider vote ownership levels translate into a lower expected for-vote outcome, all other things being equal, leading sponsors to target less entrenched firms. Nevertheless, the coefficient on the MDIHOLD x REFORM interaction term in Models 2 and 3 is positive, indicating that the negative impact of increased management, director, and insider vote holdings on the likelihood of a proxy issue proposal is reduced post-reform. The coefficient, however, is significant at only the 10% level for Model 3 and insignificant for Model 2. Only weak evidence exists, therefore, that post-reform sponsors are more likely to bring a proxy issue proposal against companies with high management, director, and insider vote ownership relative to companies not targeted by a proxy issue proposal.

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poor performance. On the other hand, Hermalin & Weisbach (1991) find no significant relationship between board composition and firm performance.

Second, the logit models provide evidence that sponsors generally target companies more vulnerable to a proxy issue proposal. The article uses the presence of a confidential voting policy to gauge a company's vulnerability to an issue proposal. In all three logit models reported in Table 7 the coefficient on the presence of a confidential voting policy is positive. The coefficient, is significant at the 5% level for Models 1 and 2 and at the 10% level for Model 3. Post-reform, the coefficient on the interaction term between reform and the presence of a confidential voting policy is negative. Although this may indicate that sponsors target companies less vulnerable to a proxy issue proposal post-reform, the coefficient is statistically insignificant.

Finally, Table 7 indicates that the coefficient on the prior one-year unadjusted stock market return is positive (significant at the 5% level in Model 2 and the 20% in Model 3; insignificant in Model 1). The worse the one-year unadjusted return, the lower the likelihood of an issue proposal. Post-reform, nevertheless, a poor one-year unadjusted common stock return increases the likelihood of a proxy issue proposal (significant at the 5% level for Model 2 and at the 20% level for Model 3). This result is consistent with the view that sponsors post-reform raised their willingness to bring a proxy issue proposal against firms that performed poorly in the stock market. To the extent poor performance signals a problem to shareholders, post-reform shareholders became more likely to use the proxy machinery to address this problem.[31]

[31] To test the robustness of the logit model, three additional variations were fitted (results not reported). First, the logit models in Table 7 were separately fitted with dummy variables for all the 2-digit SIC codes, the 3-digit codes where the number of proposals was greater than 10, and for 2-digit SIC codes 28, 35, 36, and 37. None of the SIC code coefficients were statistically significant however. Second, the logit models were fitted with dummy variables for a union or religious organization sponsor. Neither

4.2 Test of the For-Vote Outcome

Evidence from the article's sample of proxy issue proposals indicates that the proxy reforms resulted in a shift in the pool of issue proposal targets that reach a shareholder vote. This section tests the hypothesis that the mean for-vote outcome, nevertheless, did not change. First (1) summary statistics are presented on the for-vote outcome both pre- and post-reform; second (2) multivariate tests of the impact of proxy reform on the for-vote outcome are conducted.

4.2.1 Summary Statistics on the For-Vote Outcome

Despite the article's theoretical prediction with respect to the mean for-vote outcome, post-reform proposals perform *worse* than pre-reform proposals on average. Table 8 reports the mean for-vote outcomes during the pre- and post-reform time periods.

[Place Table 8 Here]

From Table 8 note that the unconditional for-vote as a percent of total outstanding votes drops from 27.2% pre-reform to 22.8% post-reform (significant at the 5% level).

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dummy variable, however, was significant. Third, dummy variables for the state of incorporation – to test for state-related effects including state antitakeover provisions – were added to the logit models. None of

Table 8 also presents a pre- and post-reform breakdown of the distribution of issue proposals by for-vote percentages. Note that the proportion of proposals with less than 10% the outstanding votes increases substantially from 0.8% pre-reform to 17.9% post-reform. More proposals post-reform seem to obtain especially low for-vote percentage totals. The difference between the pre- and post-reform samples is significant at the 0.5% level (χ^2 = 28.3; prob. < 0.005). Figure 1 graphs the for-vote fraction of outstanding votes over the 1991 to 1995 time period.

[Place Figure 1 Here]

Table 9 presents pre- and post-reform for-vote outcomes by proposal and sponsor type. Despite the overall drop in for-vote percentage outcomes post-reform, the for-vote outcome for proposals dealing with the election of directors (Director Election) and the repeal of antitakeover measures (Antitakeover) both increase post-reform. However, the increase is statistically significant at the 10% level for only the Director Election proposals.

[Place Table 9 Here]

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the coefficients on the state dummy variables were significant, however.

Although the summary statistics in Tables 8 and 9 and the for-vote trend in Figure 1 provide evidence that the reforms had a negative impact on issue proposals, the decline in the mean for-vote percentage is consistent with at least two hypotheses. First, the proxy reforms may have resulted in a shift in the type of proposals away from those popular to a broad range of shareholders toward proposals with only narrow appeal. For example, as sponsors are successful in forcing companies to implement the most shareholder value-maximizing proposals, subsequent proposals may provide only a marginal increase to shareholder welfare. Table 10 presents a breakdown of pre- and post-reform incidence of the different categories of issue proposals.

[Place Table 10 Here]

From Table 10, note that Director Election proposals increased from 1.6% of total pre-reform proposals to 24.2% of total post-reform proposals. Simiarly, the number of Board Composition proposals also increased from 5.5% pre-reform to 14.0% of total proposals post-reform. Conversely, General Voting proposals drop from 33.9% of proposals pre-reform to only 15.0% post-reform. The shift in proposal type is significant at the 0.5% level ($\chi^2 = 94.8$; prob. < 0.005).

Second, the proxy reforms may have resulted in a change in the type of sponsors and their objectives away from shareholder wealth maximization toward other goals involving the communicative aspect of issue proposals. Pre-reform, most sponsors were either shareholder activists, public pension funds, or private pensions funds.[32] Post-reform, both unions and religious organizations increased their sponsorships of proposals. Unions, for example, may sponsor an issue proposal to raise the cost to managers of prolonging a strike (due to the negative publicity from the proxy issue proposal) or to give themselves an additional bargaining chip during labor negotiations.[33] Religious organizations may likewise bring an issue proposal to generate publicity over their specific causes. To the extent publicity from the proposal itself is the goal of unions and religious organizations, such sponsors may bring an issue proposal even where they expect a low for-vote outcome. Table 11 provides a summary breakdown of proposal incidence and for-vote outcomes based on sponsor identity.

[Place Table 11 Here]

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[32] Romano (1993) has questioned whether public pension funds seek to improve general shareholder welfare or are vulnerable to in-state political pressure to serve the needs of local constituencies.

[33] According to the Wall Street Journal (May 17, 1996: B1), the Teamsters sponsored an initiative on executive pay at Union Pacific Corp. "that coincided with a bitter fight over organizing new union members at the railroad company's Overnite Transportation unit." Schwab and Thomas (1998: 1022) note that unions have used innovative new communication techniques to communicate with other shareholders, including publishing lists of disfavored corporate directors. Although conceding that some union driven contests occur as part of a union's collective-bargaining strategy, Schwab and Thomas nevertheless contend that many union driven proposals are value-maximizing for the entire group of shareholders.

First, note that prior to the proxy reforms, 85% percent of the issue proposals were sponsored by either a shareholder activist organization or by a public pension fund. Religious organizations sponsored no proposals in the pre-reform sample. Although unions did sponsor proposals pre-reform, they account for only 7.1% of the pre-reform proposals. Post-reform, the range of sponsors changed dramatically. Shareholder activists and public pensions account for less than fifty percent of the proposals post-reform. Moreover, not only did religious organizations become active post-reform, but unions account for 39.6% of the post-reform proposals. The shift in proposal sponsorship is significant at the 0.5% level ($\chi^2 = 76.7$; prob. < 0.005).

Second, although union sponsored proposals do not perform significantly worse than shareholder activist, public pension, or private pension sponsored proposals, religious organizations sponsored proposals receive far fewer for-votes. Post-reform, religious organizations received a mean of 8.7% of the total outstanding votes in favor of their proposals. The difference in for-vote outcomes between religious organizations and proposals sponsored by shareholder activist, public pension, and private pensions as a group is significant at the 5% level.[34] As Table 11 reports, reform did not significantly change the mean for-vote outcome for the different categories of sponsors except for public pension sponsors. Proposals sponsored by a public pension received 7.7 fewer for-vote percent-

[34] Similarly, in a study of 22 CalPERS-led proxy issue proposals, Prevost and Wagster (1999) found that the 1992 proxy reforms subjected companies to increased pressure on compensation issues in a manner that reduced shareholder wealth. They hypothesize that the rules reduced shareholder welfare by allowing sponsors such as "media, labor unions, and political activists" to initiate a proposal for their own personal benefit rather than shareholder wealth maximization.

age points on average post-reform (significant at the 5% level). Figure 2 graphs the number of issue proposals sponsored by unions and religious organizations over the 1991 to 1995 time period.

[Place Figure 2 Here]

At least on a summary statistic level, a shift occurs post-reform in the sponsorship of proposals. Private pensions, previously wary of the negative reaction by management to an issue proposal sponsor, may have become more active to the extent the probability of success rose due to the reforms. Other organizations, including unions and religious organizations, may have found that the reforms increased their ability to communicate their views with both shareholders and the general public and initiated more proposals as a result.

4.2.2 Multivariate Tests of the Impact of Reform on the For-Vote Outcome

This section provides multivariate tests of the impact of the proxy reforms on for-vote outcomes in shareholder corporate governance-related issue proposals, controlling for various factors including sponsor identity and proposal type.

Shareholders are assumed to be wealth maximizing and therefore more likely to vote for proposals that increase their welfare. Each individual shareholder however may

lack full information on the value of any particular proposal. Given these assumptions on shareholder behavior, the model includes several measures for how shareholders may decide to vote on a specific proposal, divided broadly into two categories: (a) variables which are related to the value of the corporate governance proposal to shareholders and (b) variables which are related to the probability that shareholders will communicate and investigate the merits of the proposal.

First, shareholders will view issue proposals along a spectrum ranging from unconditionally desirable to unconditionally undesirable. Shareholders, for example, may believe that removing antitakeover poison pills generally increases their welfare while adopting proposals aimed at increasing the inclusiveness of the board to add diverse, non-business views does not. Dummy variables for the article's eight-part categorization of proposals are added to the model. Although the proposal dummy variables do not capture the full range of substantive proposals with perfect precision, the variance of different proposals within each category is low.

Second, shareholders may view proposals by certain sponsors differently to the extent these sponsors possess different preferences. In assessing a proposal, shareholders will take into account the fact that a sponsor took the costly action of proposing and promoting a proposal in determining the proposal’s value. Nonetheless, not all shareholders share the same preferences. Although all may share a desire to maximize their financial returns, some sponsors may use a proxy issue proposal for other purposes, including communicating a particular issue to the shareholders and to the public for their own ends. These sponsors, moreover, may hide their true preferences in an attempt to obtain as high

a for-vote outcome as possible. Given the asymmetry of information with regard to a sponsor's motivation, shareholders may trust sponsors that they believe share a common preference in how to vote on shareholder proposals. The more common the preferences, the more likely that the sponsor is acting for the shareholders' best interests.[35] For instance, a mutual fund may respond more favorably to a proposal sponsored by another mutual fund rather than a union. Dummy variables for the five different sponsor types in the sample are added to the model to test this possibility.[36]

Third, shareholders may look to the composition of the board of directors as a measure of corporate governance within the target company. The greater the presence of independent outside directors, the less the need is for an outside shareholder proposal to discipline management. To capture this effect, the for-vote model includes the fraction of the board composed of insiders and insider affiliates. Finally, as discussed in Section 4.1 above, shareholders may use the past financial performance of the proxy firm to determine if the firm's corporate governance structure negatively impacts shareholder welfare. A negative stock market performance may provide new information to shareholders that a change in corporate governance may be necessary, increasing the likelihood of a positive for-vote outcome. The for-vote model therefore includes the prior one-year unadjusted

[35] This argument is similar to Lupia and McCubbins' (1994) observation that legislators may learn from constituents bringing a "fire alarm" about agency actions where the legislators' have some assurance that they share similar preferences with the constituents.

[36] Almost all sponsors in the sample had minute vote holdings. The following table provides a breakdown of sponsor holdings based on the sponsor's type.

[Place Footnote Table 3 Here]

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common stock returns.

Merit alone, however, is a necessary but not sufficient condition for a proposal to succeed. There must be present shareholders with adequate incentives to investigate and vote on the proposal. Disperse shareholders may not bother to research a proposal or return a proxy card where the shareholders individually hold too few shares for the expected positive wealth impact from research to outweigh the cost of investigation. The presence of institutional investors is therefore important to obtaining high for-vote outcomes. Institutional investors often hold larger blocks of shares, increasing the benefit to such investors from investigating the merits of a proposal. Institutions also typically possess more expertise and financial resources than individual shareholders in analyzing the value of a proposal, reducing the marginal cost to them from engaging in such analysis. Institutional investors may also choose to communicate their views with other shareholders, decreasing the cost of determining the proposal's value for other shareholders. To account for the impact of institutions, the for-vote model includes the fraction of outstanding votes held by institutional investors as well as the number of shareholders as independent variables.

Nevertheless, the presence of institutions with some relationship tie to management may reduce the expected for-vote outcome. The for-vote model therefore includes the fraction of votes in the hands of institutional investors with either a direct financial tie with the proxy company or a tie to an insider or insider affiliate on the proxy company's

board of directors.[37]

The fraction of votes in the hands of management, directors, and insiders (MDIHOLD) also affects voting outcomes. The more votes in the hands of management, directors, and insiders, the fewer votes that are available to vote potentially for a shareholder proposal. The correlation between MDIHOLD and the for-vote outcome, however, may be non-linear. Over a certain range, one would expect that firms with a higher percentage of pro-management votes will result in greater management entrenchment and worse corporate governance.[38] Therefore, as management holdings increase, the resulting weaker corporate governance structure may create a greater incentive among shareholders to use the proxy process to discipline management. To capture this non-linearity both MDIHOLD and a squared term (MDIHOLD^2) are added to the model.[39]

An ordinary least squares model is estimated on the for-vote fraction of outstanding votes dependent variable for all issue proposals in the sample. To obtain an approximately normal dependent variable distribution, the natural log odds ratio transformation of the for-vote fraction is used.[40] Independent variables, as described above, designed

[37] Only institutions with at least one percent of the total outstanding votes were aggregated in the related institutional investor vote holdings variable.

[38] Morck et al. (1988) provide evidence that, over the range from 5% and 25% share ownership by members of the board of directors, increases in board ownership reduced the Tobin Q value for firms within their sample of 371 Fortune 500 companies.

[39] At some point, managers may hold so much stock that their incentives are to maximize share value. These firms, however, most likely do not encounter a proxy isue proposal in the first place either because managers already have good incentives or because managers have enough stock to guarantee a low-for vote percentage.

[40] The dependent variable used in the model was calculated as follows (where VOTE is the for-vote fraction of total outstanding votes):

$$Dependent\_Variable = LN(\frac{VOTE}{1-VOTE})$$

to measure readily observable information on the merits of the proposal and the incentive of shareholders to investigate and vote for a proposal are included in the model. Table 12 reports the results for the for-vote model. Model 1 in Table 12 fits the for-vote model using ordinary least squares (OLS) and includes a dummy variable for reform to test the impact of proxy reform on for-vote outcomes.

A sample selection bias, however, exists in the OLS for-vote model to the extent only those proposals that sponsors expect to get the most for-votes actually are ever initiated. To correct for this bias the article uses the two-stage procedure from Heckman (1979). In the first stage, a selectivity equation is estimated by a probit to predict which firms will be targeted with a proxy issue proposal using the sample of targeted firms as well as a matching sample described above in Section 4.1 of the article. Two independent variables are used in the probit to identify the for-vote equation and are assumed unrelated to the for-vote outcome: market capitalization and the number of contested tender offers. Because sponsors face a fixed cost in bringing a proxy issue proposal, they will tend to focus on targets with greater market capitalization. Similarly, greater numbers of contested tender offers may proxy for a more favorable takeover market; because takeovers and proxy issue proposals are substitute means to control management, a more favorable takeover market may reduce the likelihood that a shareholder may seek to initiate any particular proxy issue proposal. The selectivity equation also includes the variables from the logit model of the decision by issue proposal sponsors to bring a proposal contained in Model 1 of Table 7 above. The inverse of the Mill's ratio is then calculated and entered as

an additional independent variable in the for-vote equation to correct for the selectivity bias.

Model 2 presents the results from the OLS second-stage of the Heckman sample selection correction procedure. Finally, Model 3 tests the specific impact of reform through the use of interaction terms between the reform dummy variable and the different sponsor and proposal type dummy variables. Model 3 is also fitted using the Heckman 2-stage procedure.

[Place Table 12 Here]

The models provide evidence that the for-vote outcome depends on the voting environment. The greater the votes in the hands of institutional investors, the more for-votes a proposal may expect. In all versions of the model, the coefficient on institutional investor vote holdings is positive (significant at the 5% level). In other words, as institutional investor holdings increase, the predicted for-vote fraction of outstanding votes also increases. In contrast, votes directly in the hands of management, directors, or insiders reduce the for-vote outcome of a proxy issue proposal (significant at the 5% level in all three models). Votes in the possession of institutions with some relationship ties with the board of directors or directly in the hands of management, directors or insiders also reduce the for-vote outcome (significant at the 5% level in Model 1 and the 10% level

the for-vote outcome (significant at the 5% level in Model 1 and the 10% level in Model 2 and Model 3).

The models also provide limited evidence that corporate governance matters to for-vote outcomes. In all three models, proposals aimed at companies with a relatively poor prior one-year unadjusted stock market return receive a higher for-vote outcome. Shareholders seem to increase their estimation of the value of a corporate governance proposal after learning about a firm's poor financial performance. Nevertheless, the coefficient on the prior one-year unadjusted return is significant at only the 10% level in the three models.[41]

The controls for sponsor identity and the type of proposal also impact the for-vote outcome in the model. Religious organizations in particular receive a statistically significant lower for-vote outcome than the base shareholder activist organizations (significant at 5% in all three models). Unions similarly receive a lower for-vote outcome (significant at the 5% in Model 1 and at the 10% level in Model 2; insignificant in Model 3). This provides evidence that shareholders view proposals sponsored through a union or religious organization with more skepticism. Indirectly, therefore, the models support the hypothe-

[41] To control for exogenous shocks on financial return not related to corporate governance, one-year abnormal returns adjusted from returns based on a cross-section of equity securities with similar beta-risk values as tracked through CRSP are also collected (BETARET). As an additional control for exogenous shocks, one-year abnormal returns adjusted from the average return in the corresponding four-digit SIC code group for each company are collected (DIFFRET). Shareholders may also look to the target company's accounting performance to determine the strength of the firm's corporate governance. From the COMPUSTAT database, two different measures of accounting returns are gathered. First, the nominal one-year return on equity for each company is collected (ROE). Second, the difference between the company's ROE and the four-digit SIC average ROE is computed (DIFFROE). The coefficients on BETARET, DIFFRET, ROE, and DIFFROE are all negative when substituted in Model 2 from Table 12 for the one-year unadjusted return independent variable. Only the accounting measures, ROE and DIFFROE, were statistically significant (at the 10% level).

sis that unions and religious organizations bring proxy issue proposals for purposes other than shareholder wealth maximization. The rapid rise in union and religious organization-sponsored proposals post-reform combined with the negative reaction of shareholders to such proposals, as a result, help explain the drop in mean for-vote outcomes post-reform.

Finally, after taking into account differences in voting environment, type of proposal, and sponsor identity, the models provide evidence that the proxy reforms had no overall impact on the for-vote outcome. In Model 1 and Model 3, the coefficient on the dummy variable for reform is negative but statistically insignificant. In contrast, the coefficient on the reform dummy variable in Model 2 is positive and statistically insignificant. This finding is consistent with the hypothesis that a more favorable environment for proxy sponsors resulted in (a) more settlements for companies on the margin between settling and defending against a proxy issue proposal and (b) increased targeting of companies previously resistant to a proxy issue proposal due, for example, to high pro-management vote ownership. Because of the shift in the underlying mix of target companies, the overall for-vote outcomes do not change.

Model 3 further tests the specific impact of proxy reform on different variables in the for-vote model through the use of interaction terms between reform and the sponsor and proposal dummy variables. Only interactions terms where sufficient pre- and post-reform data on sponsor and proposal types are included. Note from Model 3 that the coefficient on the reform interaction term with Proposal-Director Election, encompassing cumulative voting and classified board proposals, is positive and significant at the 5% level. In addition, the coefficient on the interaction term with Proposal-Antitakeover, in-

cluding poison pill repeal proposals, is positive and significant at the 10% level. Some evidence exists, therefore, that reform did positively impact the for-vote outcomes for proposals aimed at increasing the likelihood of an outside takeover attempt. All other interaction terms are insignificant, supporting the hypothesis that the proxy reforms in general had no direct impact on for-vote outcomes.[42]

5. Conclusion

The SEC promulgated the 1992 proxy reforms in order to facilitate shareholder communication. Prior to such reforms, shareholders seeking to communicate during a proxy contest often had to endure the cost and delay of filing such communication with the SEC. Because the filing was public, the identity of communicating shareholders was also disclosed to management. By reducing the cost of such communications and shielding them from public knowledge, the reforms were designed to encourage shareholder co-

[42] Several additional specifications of the model are fitted to test for robustness (results not reported). First, the article estimated Model 2 from Table 12 with dummy variables for the 5 years in the data sample, 1991 through 1995, instead of the reform dummy variable to test for year specific effects. None of the coefficients for the year dummy variables, however, were statistically significant. Second, the article estimated Model 2 with, alternatively, the addition of dummy variables for the 2-digit SIC code of the proxy firms, dummy variables for the 3-digit SIC codes where greater than 10 proposals in the sample were present, and dummy variables for the 2-digit SIC codes 28, 35, 36, and 37 (the 2-digit codes with the greatest incidence of proxy issue proposals). None of the SIC code coefficients were significant, however. Third, the article estimated Model 2 with the addition of an independent variable on the percentage of votes held by the sponsor. Theoretically, sponsors with greater vote and share holdings are more likely to act in the interests of general shareholder welfare. Other shareholders should realize this incentive and vote more with sponsors holding larger blocks of shares. The regression, however, showed little change from Model 2 and the coefficient on the sponsor's vote ownership percentage was statistically insignificant. Finally, dummy variables for the state of incorporation of the different issue proposal companies were introduced to test whether the presence of state-specific effects, including state antitakeover laws, affect the for-vote outcome. None of the state dummy variables were significant.

ordination. This article examined the impact of the reforms in the context of shareholder proposals dealing with corporate governance issues.

Despite the ameliorative impact on shareholder communication costs, the proxy reforms resulted in a lower mean for-vote fraction of total outstanding votes for issue proposals post-reform. The article hypothesized that the lower for-vote outcome was attributable to a change in the mix of proposals and sponsors. The article found evidence that post-reform, non-traditional sponsors more interested in utilizing the proxy device as a communication or bargaining tool rather than maximizing shareholder welfare made greater use of the proxy mechanism. Unions and religious organizations, for instance, increased significantly their sponsorship of proxy issue proposals.

Controlling for sponsor identity and proposal type, among other factors, the article found that the reforms had no statistically significant impact on the for-vote outcome for issue proposals, except for Antitakeover and Board Election proposals. Nevertheless, the article did find a shift in the underlying mix of targeted companies post-reform. Companies with higher levels of management, director, and insider holdings and a lower incidence of confidential voting became more frequent targets of shareholder issue proposals after the 1992 reforms. Although a range of possible corporate governance devices exists for different corporations, issue proposals are less suited to discipline management where management is entrenched simply because obtaining a high for-vote outcome is more difficult. By increasing the ability of sponsors to obtain a higher for-vote outcome at more management-entrenched companies, the reforms expanded the usefulness of the proxy issue proposal as a substitute mechanism of corporate governance.

Several caveats should be noted about the article's results. The article covers only two years prior to the proxy reforms and three years afterwards. In addition, because the article tests the impact of only one policy reform shift, it is possible that exogenous factors unrelated to the proxy reforms are driving the article's results. For example, unions may have increased their use of proxy issue proposals not due to the reforms but rather because during the post-reform time period in the article's sample, union labor negotiations increased in number.

The findings of the article nevertheless lend some support to the argument that the legal barriers to shareholder communication should undergo further liberalization. Under contemporary rules, most shareholder communications face the specter of Rule 14a-9 antifraud liability. To the extent nuisance suits may still arise under Rule 14a-9, potentially beneficial communications are unnecessarily chilled. Groups of shareholders, to the extent they may be characterized as working in agreement to vote on a proxy issue and as beneficially owning greater than 5% of a class of the proxy company's securities, must file information under Schedule 13D with the SEC pursuant to Section 13(d) of the Exchange Act (15 U.S.C. § 78m(d)). The Section 13(d) filing requirement exposes shareholders not only to public scrutiny but may trigger either state antitakeover provisions or a target company's own poison pill provisions.[43] Eliminating filing requirements, antifraud liability, and other limits on communication, at least for non-proponent shareholders, would

[43] For a discussion on the legal barriers facing shareholders during a proxy contest see Black (1992: 822-824).

arguably bolster the effectiveness of proxy issue proposals as a useful device for share-holders to monitor and discipline management.

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Table 1: Issue Proposals by Listed Securities Exchange

Exchange	Proposals
NYSE	340
AMEX	9
NASDAQ	12
Total	361

Breakdown of Issue Proposals and Target Companies by Year

Year	Proposals	Target Companies
1991	100	72
1992	54	41
1993	46	39
1994	53	42
1995	108	83
Total	361	277

Table 2: Breakdown of Proxy Issue Proposals by Market Capitalization of Target Companies

Market Capitalization of Target Company (Billions of Dollars)	Number of Proposals	Percentage of Total Proposals
market cap < 4	204	56.5%
4 market cap < 8	75	20.8
8 market cap < 12	28	7.8
12 market cap < 16	16	4.4
16 market cap < 20	8	2.2
market cap 20	30	8.3
Total	361	100.0%

Market Capitalization Breakdown for Proposals Targeting Companies Under $4 Billion

Market Capitalization of Target Company (Billions of Dollars)	Number of Proposals	Percentage of Total Proposals
market cap < 0.5	34	9.4%
0.5 market cap < 1.0	47	13.0
1.0 market cap < 1.5	33	9.1
1.5 market cap < 2.0	30	8.3
2.0 market cap < 2.5	25	6.9
2.5 market cap < 3.0	13	3.6
3.0 ma rket cap < 3.5	15	4.2
3.5 market cap < 4.0	7	1.9
Total	204	56.5%

Table 3: Two-Digit SIC Code Breakdown of Target Companies

SIC	Number of Proposals	Percentage of Total Proposals	SIC	Number of Proposals	Percentage of Total Proposals
13	4	1.1%	40	1	0.3%
14	1	0.3%	42	6	1.7%
15	2	0.6%	45	14	3.9%
16	4	1.1%	47	5	1.4%
20	9	2.5%	48	17	4.7%
21	2	0.6%	49	9	2.5%
23	5	1.4%	50	5	1.4%
24	4	1.1%	51	1	0.3%
25	2	0.6%	52	1	0.3%
26	21	5.8%	53	8	2.2%
27	8	2.2%	54	3	0.8%
28	58	16.1%	56	8	2.2%
29	11	3.0%	58	3	0.8%
30	5	1.4%	59	1	0.3%
31	3	0.8%	60	9	2.5%
32	2	0.6%	61	3	0.8%
33	9	2.5%	63	3	0.8%
34	6	1.7%	70	1	0.3%
35	25	6.9%	73	2	0.6%
36	24	6.6%	75	3	0.8%
37	29	8.0%	82	1	0.3%
38	15	4.2%	87	8	2.2%

Three-Digit SIC Code Breakdown for SIC Code Groups with At Least Ten Issue Proposals

SIC Code	Number of Proposals	Percentage of Total Proposals
262 (Paper Mills)	17	4.7%
281 (Industrial Inorganic Chemicals)	14	3.9%
283 (Drugs)	11	3.0%
286 (Industrial Organic Chemicals)	14	3.9%
291 (Petroleum Refining)	11	3.0%
353 (Construction, Mining, and Materials Handling)	10	2.8%
367 (Electronic Comp. and Accessories)	10	2.8%
372 (Aircraft and Parts)	10	2.8%
451 (Air Transp., Scheduled, and Air Courier)	11	3.0%
481 (Telephone Communications)	15	4.2%

Table 4: Percentage Breakdown of Issue Proposals by Sponsor Type

Proposal	Shareholder Activist Org.	Public Pen-sion	Private Pension	Union	Religious Org.
General Voting	14.3%	45.5%	0.0%	15.5%	4.4%
Board Composition	1.5	30.4	11.1	6.0	4.4
Board Inclusion	0.0	2.7	0.0	0.0	30.4
Pay Outside Director	12.8	0.0	11.1	6.0	0.0
Pay Executive	23.3	4.5	22.2	17.9	52.2
Director Election	12.0	1.8	11.1	36.9	8.7
Antitakeover	36.1	15.2	44.4	15.5	0.0
Miscellaneous	0.0	0.0	0.0	2.4	0.0
Total Percent	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Proposals	133	112	9	84	23

Table 5: Comparison of the Fraction of Votes Held by Management, Directors, and Insiders for Targeted Issue Proposal Companies

Pre-Reform-Only companies are firms targeted only prior to the proxy reforms. Post-Reform-Only companies are firms targeted only after the proxy reforms. Pre-and-Post companies are firms targeted with an issue proposal both prior to and after the reforms.

	Number of Issue Proposals	Fraction of votes held by management, directors, and insiders (measured in 1992)[a]	Fraction of votes held by management, directors, and insiders (measured in 1995)[b]	p-value from paired t-test of 1992 and 1995 means
Pre-Reform-Only	66	0.0370	0.0306	0.1050[†]
Pre-and-Post	136	0.0540	0.0495	0.5253
Post-Reform-Only	134	0.0966	0.0863	0.0000**

** 5% level; * 10% level. [†]20% level.

[a] The p-value from an unpaired-means comparison t-test of the fraction of votes held by management, directors, and insiders (measured in 1992) for the Pre-Reform-Only and Post-Reform-Only groups of firms is 0.0046 (significant at 5% level).

[b] The p-value from an unpaired-means comparison t-test of the fraction of votes held by management, directors, and insiders (measured in 1995) for the Pre-Reform-Only and Post-Reform-Only groups of firms is 0.0065 (significant at 5% level).

Table 6A: Comparison of the Incidence of a Confidential Voting Policy in Place for Target Companies

Pre-Reform-Only companies are firms targeted only prior to the proxy reforms. Post-Reform-Only companies are firms targeted only after the proxy reforms. Pre-and-Post companies are firms targeted with an issue proposal both prior to and after the reforms.

	Number of Issue Proposals	Fraction of proposals against a company with confidential voting (measured in 1992) [a]	Fraction of proposals against a company with confidential voting (measured in 1995) [b]	p-value from paired t-test of 1992 and 1995 means
Pre-Reform-Only	75	0.2667	0.5333	0.0000**
Pre-and-Post	142	0.1620	0.5282	0.0000**
Post-Reform-Only	136	0.0662	0.3382	0.0000**

** 5% level; * 10% level.

[a] The p-value from an unpaired-means comparison t-test of the incidence of a confidential voting policy (measured in 1992) for the Pre-Reform-Only and Post-Reform-Only groups of firms is 0.0004 (significant at 5% level).

[b] The p-value from an unpaired-means comparison t-test of the incidence of a confidential voting policy (measured in 1995) for the Pre-Reform-Only and Post-Reform-Only groups of firms is 0.0298 (significant at 5% level).

Table 6B: Comparison of the Incidence of a Confidential Voting Policy in Place for Target Companies (Only for Issue Proposals Not Involving a Confidential Voting Proposal)

	Number of Issue Proposals	Fraction of proposals against a company with confidential voting (measured in 1992) [a]	Fraction of proposals against a company with confidential voting (measured in 1995) [b]	p-value from paired t-test of 1992 and 1995 means
Pre-Reform-Only	56	0.2500	0.5536	0.0000**
Pre-and-Post	94	0.1596	0.4894	0.0000**
Post-Reform-Only	119	0.0756	0.3025	0.0000**

** 5% level; * 10% level.

[a] The p-value from an unpaired-means comparison t-test of the incidence of a confidential voting policy (measured in 1992) for the Pre-Reform-Only and Post-Reform-Only groups of firms is 0.0027 (significant at 5% level).

[b] The p-value from an unpaired-means comparison t-test of the incidence of a confidential voting policy (measured in 1995) for the Pre-Reform-Only and Post-Reform-Only groups of firms is 0.0082 (significant at 5% level).

Table 7: Logit Model of the Proposal Incidence

The logit model takes the dependent variable as 1 if the firm experienced a shareholder issue proposal and 0 otherwise. Only Pre-Reform-Only and Post-Reform-Only firms are included in the model. REFORM is 1 for post-reform proposals and 0 for pre-reform proposals.

	Model 1: All Proposals	Model 2: All Proposals with Interaction Terms	Model 3: Excluding General Voting Proposals
Constant	-0.3443 (-0.655)	-0.4080 (-0.517)	-0.3727 (-0.423)
Fraction of votes held by institutional investors	1.0807† (1.523)	0.1445 (0.102)	1.9754 (1.001)
Number of shareholders (millions)	-0.0027** (-2.389)	0.0018 (-0.779)	0.0073 (1.274)
Fraction of votes held by management, directors, and insiders (MDIHOLD)	-1.7648** (-2.102)	-3.3616** (-1.968)	-9.6536** (-2.173)
Fraction of votes held by related institutions	-0.2549 (-0.086)	12.5719† (1.316)	17.3226 (1.227)
Market capitalization (billions of dollars)	0.0183† (1.406)	-0.0268 (-0.721)	-0.3030** (-2.103)
Fraction of insiders and insider affiliates on the board	-0.4907 (-0.709)	0.6639 (0.497)	1.0257 (0.618)
Dummy variable for confidential voting policy	1.3527** (3.345)	1.8172** (2.185)	1.7894* (1.692)
One-year unadjusted common stock return	0.2548 (0.692)	1.4059** (1.971)	1.4008† (1.544)
Number of contested tender offers	0.0120 (0.218)	0.0320 (0.051)	-0.1466 (-0.189)
Dummy variable for proxy reform (REFORM)	-0.0352 (-0.071)	—	—
Fraction of outstanding votes held by institutional investors x REFORM	—	1.4261 (0.869)	0.6855 (0.312)
Number of shareholders x REFORM	—	-0.0004 (-0.174)	-0.0093† (-1.582)
MDIHOLD x REFORM	—	2.4460 (1.241)	8.7279* (1.901)
Fraction of outstanding votes held by related institutions x REFORM	—	-14.5906† (-1.439)	-19.4741† (-1.337)
Market capitalization x REFORM	—	0.0510 (1.273)	0.3210** (2.215)
Fraction of insiders and insider affiliates on the board x REFORM	—	-1.5142 (-0.964)	-2.3392 (-1.237)
Dummy variable for confidential voting Policy x REFORM	—	-0.5490 (-0.574)	-0.5526 (-0.469)
One-year unadjusted common stock return x REFORM	—	-1.6829** (-1.974)	-1.6717† (-1.610)
Number of contested tender offers x REFORM	—	-0.0329 (-0.055)	0.1134 (0.151)
Log Likelihood Observations	-212.8588 342	-208.8806 342	-163.1902 280

** 5% level; * 10% level (z-statistic in parenthesis). †20% level.

Table 8: For-Votes as a Percentage of the Total Outstanding Votes

Pre-Reform	Post-Reform	p-value [a]
27.2%	22.8%	0.0003**

** 5% level; * 10% level.

[a] The p-value is the value of a two-sided t-test of the difference in mean values between the pre-reform and post-reform samples.

Breakdown of For-Vote Percentages Pre- and Post-Reform

For-vote Percentage of Total Votes	Pre-Reform Proposals	Percent	Post-Reform Proposals	Percent
< 10%	1	0.8%	37	17.9%
≥ 10% and < 20%	23	18.1	43	20.8
≥ 20% and < 30%	60	47.2	72	34.8
≥ 30% and < 40%	35	27.6	43	20.8
≥ 40% and < 50%	4	3.1	10	4.8
≥ 50% and < 60%	3	2.4	2	1.0
≥ 60% and < 70%	1	0.8	0	0.0
Total	127	100.0%	207	100%

Test of the difference between the pre- and post-reform distributions: $\chi^2 = 28.3$; prob. < 0.005.

Table 9: Pre- and Post-Reform For-Vote Outcomes by Proposal

Proposal	Number of Pre-Reform Proposals	Mean For-Vote Percentage	Number of Post-Reform Proposals	Mean For-Vote Percentage	p-value [a]
General Voting	43	26.8%	31	24.7%	0.2715
Board Composition	7	16.5	29	14.7	0.5274
Board Inclusion	0	–	9	9.0	–
Pay-Outside Director	0	–	23	20.5	–
Pay-Executives	21	22.3	40	17.5	0.0637*
Director Election	2	17.7	50	28.9	0.0712*
Antitakeover	53	31.6	24	34.3	0.3003
Miscellaneous	1	9.8	1	6.6	–
Total	127	27.2%	207	22.8%	0.0003**

** 5% level; * 10% level.

[a] The p-value is the value of a two-sided t-test of the difference in mean for-vote percentages between the pre-reform and post-reform samples.

Table 10: Pre- and Post-Reform Issue Proposal Incidence by Type of Proposal

Proposal	Number of Pre-Reform Proposals	Percentage of Pre-Reform Proposals	Number of Post-Reform Proposals	Percentage of Post-Reform Proposals
General Voting	43	33.9%	31	15.0%
Board Composition	7	5.5	29	14.0
Board Inclusion	0	0.0	9	4.3
Pay-Outside Director	0	0.0	23	11.1
Pay-Executives	21	16.5	40	19.3
Director Election	2	1.6	50	24.2
Antitakeover	53	41.7	24	11.6
Miscellaneous	1	0.8	1	0.5
Total	127	100.0%	207	100.0%

Test of difference between the pre- and post-reform distributions: $\chi^2 = 94.8$; prob. < 0.005.

Table 11: Pre- and Post-Reform Issue Proposal Incidence by Sponsor Type

Sponsors were divided into five different categories: shareholder activist organizations (Activist); public pension funds (Public Pension); private pension and mutual funds (Private Pension); organized labor (Union); and non-profit and religious organizations (Religious Org.).

Sponsor	Number of Pre-Reform Proposals	Percentage of Pre-Reform Proposals	Number of Post-Reform Proposals	Percentage of Post-Reform Proposals
Activist	72	56.7%	54	26.1%
Public Pension	36	28.3	49	23.7
Private Pension	10	7.9	1	0.5
Union	9	7.1	82	39.6
Religious Org.	0	0.0	21	10.1
Total	127	100.0%	207	100.0%

Test of difference between the pre- and post-reform distributions: $\chi^2 = 76.7$; prob. < 0.005.

Pre- and Post-Reform For-Vote Outcomes by Sponsor Type

Sponsor	Pre-Reform Proposals	For-Vote Outcome	Post-Reform Proposals	For-Vote Outcome	p-value [a]
Activist	72	26.9%	54	25.8%	0.4736
Public Pension	36	28.5	49	20.8	0.0017**
Private Pension	10	26.8	1	20.2	–
Union	9	24.9	82	25.6	0.8709
Religious Org.	0	N/A	21	8.7	–
Total	127	27.2%	207	22.8%	0.0003**

** 5% level; * 10% level.

[a] The p-value is the value of a two-sided t-test of the difference in mean values between the pre-reform and post-reform samples.

Table 12: OLS Determinants of the Natural Log Odds Ratio of the For-Vote Fraction Corrected for Selection Bias Using Heckman's Two-Stage Technique

	Model 1: OLS	Model 2: Heckman	Model 3: Heckman with Interaction Terms
Constant	-1.2916** (-7.632)	-1.5999** (-6.786)	-1.4794** (-6.065)
Fraction of votes held by institutional investors	0.7923** (3.449)	0.9420** (3.815)	0.8238** (3.335)
Number of shareholders (millions)	-0.0002 (-0.677)	-0.0002 (-0.541)	-0.0002 (-0.764)
Fraction of votes held by management, directors, and insiders (MDIHOLD)	-1.7469** (-2.591)	-1.6254** (-2.263)	-1.8833** (-2.638)
MDIHOLD^2	1.3593† (1.405)	0.9894 (1.031)	1.2905† (1.361)
Fraction of votes held by related institutions	-1.5661** (-2.013)	-1.4403* (-1.720)	-1.4349* (-1.737)
Fraction of Insiders and Insider Affiliates on the Board	-0.2672† (-1.369)	-0.2003 (-0.965)	-0.2146 (-1.044)
One-year unadjusted common stock return	-0.1770* (-1.772)	-0.1928* (-1.811)	-0.1866* (-1.762)
Sponsor-Activist	Base	Base	Base
Sponsor-Public Pension	0.0751 (0.793)	0.0291 (0.293)	0.0665 (0.489)
Sponsor-Private Pension	-0.0425 (-0.241)	0.0227 (0.126)	0.0157 (0.087)
Sponsor-Union	-0.1786** (-2.099)	-0.1538* (-1.759)	0.0712 (0.299)
Sponsor-Religious	-1.1007** (-7.056)	-1.0451** (-6.674)	-1.093** (-6.637)
Proposal-General Voting	Base	Base	Base
Proposal-Board Composition	-0.5917** (-5.290)	-0.6544** (-5.550)	-0.6684** (-2.864)
Proposal-Board Inclusion	0.1540 (0.686)	0.1339 (0.612)	0.1269 (0.580)
Proposal-Pay Outside Director	-0.3022** (-2.013)	-0.3469** (-2.301)	-0.2762† (-1.630)
Proposal-Pay Executive	-0.2933** (-2.773)	-0.3037** (-2.701)	-0.3365* (-1.886)
Proposal-Director Election	0.2339** (2.053)	0.1974* (1.705)	-0.9018* (-1.820)
Proposal-Antitakeover	0.2750** (2.857)	0.2174** (2.126)	0.0928 (0.730)
Proposal-Miscellaneous	-1.3064** (-3.495)	-1.3612** (-3.801)	-1.4343** (-3.938)
Dummy variable for proxy reform (REFORM)	-0.0040 (-0.049)	0.0667 (0.746)	-0.0161 (-0.089)
Sponsor-Public Pension x REFORM	—	—	-0.0910 (-0.488)
Sponsor-Union x REFORM	—	—	-0.3145 (-1.226)
Proposal-Board Composition x REFORM	—	—	0.0998 (0.368)
Proposal-Pay Executive x REFORM	—	—	0.1091 (0.483)
Proposal-Director Election x REFORM	—	—	1.2222** (2.370)
Proposal-Antitakeover x REFORM	—	—	0.3781* (1.850)
Inverse Mill's Ratio	—	0.2238* (1.756)	0.2348* (1.890)
	Adj. R2 = 0.5080	Log Likelihood = -563.6733	Log Likelihood = -558.1355
Observations	311	311	311

** 5% level; * 10% level (t-statistic in parenthesis). †20% level.

Footnote Table 1: Mean Percentage of Outstanding Votes Cast For or Against a Proposal

Pre-Reform	Post-Reform	p-value [a]
71.40%	73.60%	0.0196**

** 5% level; * 10% level.

[a] The p-value is the value of a two-sided t-test of the difference in mean values between the pre-reform and post-reform samples.

Footnote Table 2: Pre- and Post-Reform Comparison of the Fraction of Issue Proposals Involving a Confidential Voting Proposal against Firms Without a Confidential Voting Policy in Place

Pre-Reform	Post-Reform	p-value [a]
36.67%	15.49%	0.0259**

** 5% level; * 10% level.

[a] The p-value is the value of a two-sided t-test of the difference in mean values between the pre-reform and post-reform samples.

Footnote Table 3: Breakdown of Sponsor Percentage Vote Holdings by Type of Sponsor

Sponsor	Mean Percent Vote Holdings	Median Percent Vote Holdings	Min	Max
Activist	0.002%	0.000%	0.000%	0.018%
Public	0.394	0.251	0.003	2.432
Private	0.970	1.032	0.671	1.144
Union	0.021	0.003	0.000	0.134
Religious	0.010	0.003	0.000	0.048
Total	0.147	0.004	0.000	2.432

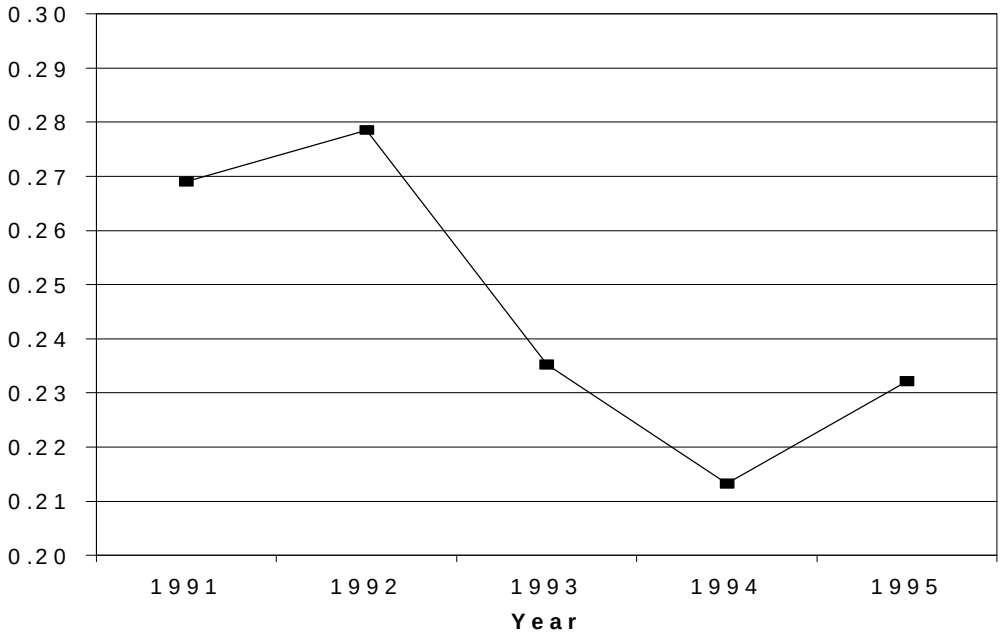

Figure 1: For-Vote Fraction of Outstanding Votes by Proposal Year

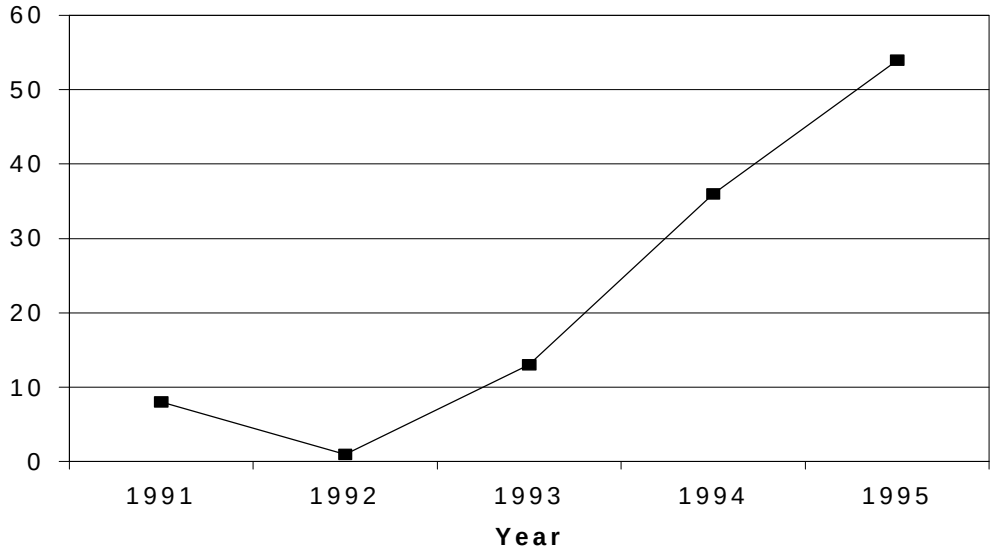

Figure 2: Number of Issue Proposals With a Union or Religious Organization Sponsor