

Impact of Shareholder Activism on the Functioning of the Market for Corporate Control

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Abstract: Shareholder activism aiming at improving corporate governance facilitates takeovers of firms receiving shareholder proposals: such companies are 18% more likely to become a target of acquisition following shareholder proposal and significant voter support. The higher acquisition likelihood is traded off against lower gains: target companies with previous shareholder proposals earn approximately 5.6% lower abnormal acquisition returns compared to the targets with no proposals. The higher acquisition likelihood and lower target returns are more significant for proposals with larger voter turnout, larger proportion of favorable votes, as well as for proposals that are submitted shortly before takeover announcements, motivated by the removal of antitakeover provisions, or sponsored by investors who hold shares in both the bidder and the target. Our findings suggest that shareholder activism facilitates the functioning of the corporate control market by assisting the bidders in the identification of targets or by signaling the willingness of target shareholders to accept bids with lower premiums.

JEL classification: G30; G34

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1. INTRODUCTION

Extensive finance research has been conducted on the trends of shareholder proposals over time and the effect of such proposals on internal governance issues such as CEO turnover, executive compensation, as well as the value and efficiency of the firm (e.g., Gillan and Starks 2000, 2007; Morgan and Wolf 2006; Thomas and Cotter 2007; Ertimur et al. 2010; Renneboog and Szilagyi 2011). The evidence on the creation of shareholder value has been largely mixed. Some studies document little or no evidence of improvement in long-term stock returns performance or operating performance after activism (Karpoff et al. 1996; Song and Szewczyk 2003; Thomas and Cotter 2007), while others find improvement in long run operating performance or positive market (Brav et al. 2008; Klein and Zur 2009; Buchanan et al. 2010). One explanation for the ineffectiveness of shareholder proposals is that boards are not obliged to implement any proposal recommendations, even if the proposals receive majority support by shareholders (Levit and Malenko, 2011). It is thus difficult to attribute the lack of improvement in corporate governance to the ineffectiveness of shareholder activism.

On the other hand, shareholder proposals may be useful in supporting external governance in the forms of takeovers. Some shareholder proposals are motivated by the removal of various antitakeover provisions such as poison pills, classified boards, supermajority requirements, etc. In addition, shareholder activism often represents a form of concern or outright dissatisfaction with the activities of firm's management (Gillan and Starks, 2000), so shareholder proposals may identify potential targets of acquisitions motivated by disciplining or replacement of underperforming managers.

This paper is the first study to present evidence of subsequent acquisitions following shareholder proposals. Ultimately, we extend existing, relatively scarce, finance research on the

overall impact of shareholder activism on acquisition outcomes, most notably Greenwood and Schor (2009) who show that announcements of hedge fund activism are accompanied by positive stock reaction if the targeted firm ultimately ends up acquired. However, in contrast to Greenwood and Schor (2009), our paper is the first study of its kind that focuses on the direct link between shareholder activism (by all possible types of investors – labor unions, pension funds, hedge funds, investment management funds, socially-responsible or religious investors, as well as individuals) and actual acquisition outcomes – takeover likelihood and acquisition abnormal returns. Notably, we also uniquely identify potential information channels that may allow shareholder activism to influence takeover activities.

Using a comprehensive sample of corporate governance-oriented shareholders proposals submitted to S&P 1500 firms, we show that higher shareholder-voter turnout and higher percentage of favorable votes both link to higher likelihood of the proposal firms being subsequently acquired. Compared to firms without any shareholder proposals, those receiving proposals are associated with approximately 18% relatively higher chance of becoming a target of a subsequent completed acquisition. We further document significantly smaller target abnormal acquisition returns for takeover targets affected by shareholder activism. Target companies with previous shareholder proposals earn approximately 5.6% lower abnormal acquisition returns compared to the targets with no proposals.

Furthermore, we find that 97% of all takeover attempts are preceded by shareholder proposals, which suggests that shareholder activism indeed spurs takeover activity (and not vice versa).¹ Attempting to identify the information channels that lead to greater acquisition intensity of companies targeted by shareholder activism, we show that higher acquisition likelihood and

¹ Even though our study is focused on targets of ultimately completed mergers, we find that shareholder proposals precede 70% of takeover attempts that end up withdrawn. This finding is again consistent with shareholder activism driving acquisition activities.

the lower target abnormal gains are primarily associated with proposals that are more recent, more frequent, motivated by the removal of antitakeover provisions, sponsored by investors holding stakes in both the eventual target and the bidding firms, as well as proposals associated with the larger voting participation by shareholders and the larger proportions of favorable votes.

Overall, our results suggest that shareholder activism facilitates functioning of the market for corporate control. By initiating the proposal, activist shareholders identify their dissatisfaction with the management of the company, whereas other shareholders demonstrate their support by participating in voting and casting favorable votes. These actions help potential bidders to identify the suitable targets of acquisitions – especially disciplining takeovers designed to reverse internal governance failures and discipline target managements (Shleifer and Vishny 1997; Jensen 1986, 1988; Gillan and Starks, 2000; Levit and Malenko, 2011).²

In addition, shareholder activism influences the abnormal returns accrued to targets of completed acquisitions. The existence of shareholder proposals may also signal shareholders' willingness to sell (and thus having low reservation values). Furthermore, discontent shareholders could reduce the power of target boards and management to negotiate higher premiums. Both reasons can be associated with lower target acquisition gains (Stulz, et al., 1990; Song and Walkling, 1993).

The rest of the paper is organized as follows: Hypotheses are presented in Section 2. Section 3 describes our data and methodology. Section 4 discusses the results. Section 5 concludes.

² Disciplining takeovers occur to eliminate inefficient target management who do not maximize shareholder wealth, and are generally associated with both gains to target shareholders and positive overall acquisition synergies (Kini et al. 2004; Scharfstein 1988; Weisbach 1993; Jensen 1988).

2. SHAREHOLDER ACTIVISM AND ACQUISITION

2.1 Takeover Likelihood

Shareholder activism is often the consequence of concerns or dissatisfaction of firm owners with the activities of the management (Gillan and Starks, 2000). Since shareholder proposals are highly visible events for all (including the external) market participants, it is likely that they affect external corporate governance and influence the takeover likelihood. If managers consider the proposal a “warning” that a (disciplining) takeover is possible (in which case they are likely to get replaced, see e.g. Shleifer and Vishny, 1997, or Grossman and Hart, 1980), they may be willing to commit to value enhancing activities, rendering the actual takeover less necessary, and less likely.³ If, however, the managers are unable or unwilling to improve corporate values, shareholder activism – both the existence and the strength of support behind the proposals – may help bidders to identify prospective (disciplining) acquisition targets, leading to higher takeover likelihood. Levit and Malenko (2011) support this assumption – their theoretical model implies that shareholder proposal voting affects activities of the potential bidders. In this paper, we first test the impact of shareholder proposals on takeover likelihood, with no a priori.

Hypothesis 1 [1A]: Shareholder activism is associated with increased [decreased] takeover likelihood.

2.2 Target Abnormal Acquisition Returns

Target abnormal returns increase in case of multiple bidder auctions (e.g. Stulz et al.,

³ For example, Safieddine and Titman (1999) show that managers of companies with ample free cash flows and lack of growth opportunities often pre-commit to leverage increases in order to defeat imminent takeover threat. The target shareholders still reap substantial gains, because the higher debt levels lead to optimal payment of the cash flows to the investors rather than suboptimal overinvestment, resulting in long-term improved corporate performance.

1990). Since shareholder activism is easily observable, firms receiving shareholder proposals may attract multiple bidders, and thus may experience larger target shareholder gains. However, Stulz et al. (1990) and Song and Walkling (1993) argue that in order to extract higher target abnormal returns, target managers must have strong power to negotiate with the bidders and target shareholders must have the ability to signal the high reservation price required for them to tender their shares. Since shareholder activism can leave target management weakened and can serve as a signal that potentially dissatisfied target investors are willing to sell for a relatively low price, target abnormal returns may be lower in case of firms affected by shareholder proposals. Ultimately, the impact of shareholder proposals on target abnormal acquisition gains is an empirical issue.

Hypothesis 2 [2A]: Shareholder activism is associated with lower [higher] target abnormal acquisition returns.

2.3 The Impact of Shareholder Proposal Characteristics and of Shareholder Support for the Proposal

Previous finance research documents that shareholder proposals have many motives. They can be driven by concerns over internal governance issues (such as executive compensation, board structure and independence, voting procedures), desires to affect firm activities (such as asset sales), or attempts to remove antitakeover barriers. Out of all the above reasons, we expect that proposals motivated by the removal of antitakeover provisions should be associated with the highest information content for the potential bidders, and thus to be the most significantly related to the changes in takeover likelihood and abnormal target returns. Also, we predict that shareholder proposals should affect acquisition decisions if they were submitted

more recently or if there were multiple shareholder proposals put forward. Ertimur et al. (2010) also show sponsors of shareholder proposals range from reputable investors and institutions with substantial investment experience to activist shareholders with non-business agendas or even individual investors without considerable business knowledge. We expect that more substantive proposals – that is those that draw larger shareholder voting participation and or larger fraction of votes in support – should be primarily associated with changes in takeover likelihood and changes in target acquisition gains.

Hypothesis 3: Changes in takeover likelihood and target acquisition abnormal returns should be more statistically significant for firms receiving shareholder proposals that are more recent, submitted by multiple sponsors, motivated by the removal of antitakeover provisions, as well as associated with larger shareholder participation and larger fraction of votes cast in favor of the proposal.

2.4 The Impact of Share Cross-ownership by Shareholder Proposal Sponsors

Share cross-ownership, i.e. ownership of shares in both the target and bidder firms, should facilitate takeover bids. Stulz et al. (1990) show that bidder foothold in targets lowers acquisition costs for the bidders (as the bidders have to acquire less shares with lower reservation price to complete the acquisition). In addition, cross-ownership can serve as a valuable information channel that helps the bidder to assess the suitability of a potential target, as well as lower the information gathering costs for the bidder, and is often taken into consideration by bidder managers when selecting acquisition targets (Harford et al., 2007). These effects should be even stronger if cross-holdings are by active investors (who are more likely to aid during the acquisition process) and/or if the target is a firm with a potentially dissatisfied shareholder base –

as is the case of many firms with shareholder proposals – likely willing to sell for relatively low reservation price. Consequently, we expect that cross-ownership by shareholder proposal sponsors should lead to even greater likelihood of takeovers (compared to simple cross-ownership).

The impact of cross-ownership on target acquisition gains is less certain. On the one hand, Stulz et al. (1990) and Song and Walkling (1993) argue that share ownership foothold in a target allows bidders to extract value from target shareholders. On the other hand, Matvos and Ostrovsky (2008) show that share cross-ownership is associated with greater target abnormal returns as cross-holding investors balance their losses on bidder investment against gains on target shares.⁴

Hypothesis 4 [4A]: Takeover likelihood should be higher for targets with investors holding shares both in the target and in the bidder firms, especially if those investors sponsor shareholder proposals in the potential target firm. Target abnormal acquisition gains should be lower [higher] for targets with share cross-ownership, especially if cross-holding investors sponsor shareholder proposals.

3. DATA

3.1 Shareholder Proposals

We collect data on shareholder proposals from Georgeson’s annual reviews from 1996 to 2009, which covers the companies from the S&P 1500 index. We obtain companies’ names, the proposals, type of sponsors, votes cast for and against as a percentage of shares voted and the votes cast for and against and abstentions as a percentage of the company’s total voting power.

⁴ Harford, Jenter, and Li (2011) document that the incidence of share cross-holdings increased rapidly over the last 20 years, In contrast to Matvos and Ostrovsky (2008), though, Harford et al. find less evidence of meaningful impact of cross-holdings on acquisition outcomes.

Our sample contains 2877 proposals on 598 companies for the period spanning 1996 until 2009. Following Gillan and Starks 2000, we manually classify all shareholder proposals into 5 groups. In the Appendix Table A1, we list the types of proposals included under each of the five groups: 1) proposals related to repealing antitakeover devices; 2) voting issues; 3) board and committee independent issues; 4) other governance issues and 5) selling the company.

We conduct a number of univariate exercises to validate our data. Tables are suppressed to improve the presentation and readability of the paper but are available from the authors. First we check the numbers of companies receiving proposals across the sample period and within any given year. Similarly to Gillan and Starks (2000), about 61% of the 598 companies receiving proposals received more than one proposal over the sample period time. Moreover, companies do receive multiple proposals in one year. In attempts to understand what areas in governance are receiving the shareholders' interest and how this interest is evolving across time; we classify the proposals according to proposal type and year of submission. Note first that the number of shareholder proposals submitted peaked in 2003. Goergeson reports that the reason for the decline in the 2004 proxy season is due to the Securities and Exchange Commission's access proposal that was published in October 2003 and which provides shareholders a method to add their nominees for director to company proxy statements. Another possible reason could be due to proposals withdrawals and omissions. Regarding which areas of governance were receiving the greatest interest, at the beginning of the sample period, the shareholder proposals mainly focused on repealing anti-takeover devices (55%) and board independence issues (34%), while moving towards the end of the sample period time, proposals related to other issues increased dramatically (almost doubled starting from year 2003). This could be explained due to the emergence of debates surrounding issues related to executive compensation, especially equity

based pay, in that time period. Another possible explanation for the different type of proposals submitted across the time is the identity of the proposal sponsor. Gillan and Starks (2000) point out that institutions tend to address general governance problems (like repealing antitakeover provisions) arising from conflict of interest between management and shareholders, while individuals are the one who emphasize specific corporate governance issues like issues of executive compensation.

[Table 1 about here]

To describe the identity of proposal sponsors, we manually classify the proposal sponsors into 6 groups based on the information provided by Georgeson on names of sponsors as follows: labor unions, pension funds, hedge funds, religious organizations, investment management funds, and individuals. The results are presented in Panel A of Table 1. Overall, the largest percentage of proposals (about 42%) is sponsored by individuals, followed by labor unions (39%). Consistent with Gillan and Starks (2000), there is a variation in the number of proposals submitted by institutions. In an unreported analysis, we find that in the period 1996-1999, both labor unions and pension funds were sponsoring more proposals, but starting from 2000, the proposals sponsored by pension funds decreased dramatically and the proposals sponsored by labor unions decreased in 2000, increased in 2003 and then decreased again in 2004. The percentage of proposals sponsored by individuals was varying until year 2006 when that percentage became more consistent.

Overall, the above exercises confirm that our data is consistent with those used in prior studies, even though we hand collected the data from a different data source, Georgeson, who specializes in tracking corporate governance proposals, and hand classified the data according to prior research.

Panels B and C tally total shareholder-voter turnout, defined as voter participation divided by all voting shares outstanding. Those statistics are broken down based on sample year (Panel A) and proposal type (Panel B). On average, voter turnout is around 87%, with no detectable fluctuations over time and the voter turnout is high for all groups of proposals considered.

[Table 2 about here]

Table 2 describes the distribution of proposal “Favorable Votes”, calculated as the number of “Yes” vote a percentage of all votes casted. On average, favorable votes account for 36% of vote totals. This proportion is higher than the 23% mean of votes in favor reported by Gillan and Starks (2000) for proposals submitted during 1987- 1994, but is consistent with Renneboog and Szilagyi (2011) who report a mean of 34% for proposals submitted between 1996 and 2005.

Table 2 Panel B classifies the votes in favor by proposal type. Despite the relatively constant voter turnout documented in Table 1, the votes in favor for proposals differ based on proposal type. Proposals repealing anti-takeover devices are those with the highest mean votes in favor (55%), followed by proposals related to voting issues (40%). In unreported analysis, we find that proposals sponsored by pension funds have the highest mean votes in favor (42.9%), followed by proposals sponsored by individuals (37.5%). In addition, when studying proposal type and sponsor by year, we find no significant variation occurs in the pattern of voting across time.

3.2 Takeover Targets

We use Securities Data Company (SDC) database to download all successful (completed) mergers and acquisitions that are either classified as mergers or acquisition of majority interest

and have US public targets where the date of original announcement is between January 1996 and December 2009. We also use COMPUSTAT to download the related financial data, Risk Metrics to download the related governance data, CRSP to download the stock prices and Thomson Reuters to download ownership data.

We merge the SDC's universe of successful (completed) takeover bids spanning from January 1996 until December 2009, with the Georgeson sample of S&P 1500 firms with shareholder proposal and the COMPUSTAT data on all S&P 1500 firms. (Georgeson does not report CUSIPs, so we manually assign company CUSIPs by matching using company names). After merging those data sets, we found that 143 shareholder proposal firms out of 598 total firms were successfully acquired during the sample period. Those 143 firms have received a total of 420 proposals over the sample period of time. We find that the numbers of proposals per firm steadily increased throughout our sample period.

[Table 3 about here]

To further investigate the connection between the timing of the proposals and the acquisition event, we present in Table 3 “elapsed time”, the difference between the shareholder proposal date and the merger announcement date. Shareholder proposal date is the date of the annual corporate governance review as reported by Georgeson Inc., and merger announcement date is the original date of announcement as reported by SDC. Approximately 90% of total proposals that matched with completed takeovers precede the acquisition bid, and 60% of the total proposals occur between 0 and 36 months before the announcement of the takeover. This suggests that we could use a three year window before the merger announcement date to identify the proposals that are more relevant in explaining the likelihood and outcomes of takeover. In unreported analysis, we find that out of 143 targets with proposals, 97% (139 firms) receive at

least one shareholder proposal before the takeover bid. Thus, even though shareholder activism and market for corporate control are two alternative governance mechanisms that could theoretically be complementary, our findings suggest that shareholder proposals drive takeover activity, and not vice versa.⁵

To conduct our analysis of takeover likelihood and takeover premium we construct a match sample of “no-proposal” firms, each matched to a proposal firm by being in the same data year, the same 2-digit SIC industry, and the best match within a range of 50% to 200% of proposal firm total book assets. The result of matching generated 1211 match firms in 6065 firm year observations. Hence, the final total sample of firms with and without shareholder proposals is 1809 firms with 12130 firm year observations.

4. RESULTS AND DISCUSSIONS

4.1 Shareholder Activism and Takeover Likelihood

To model the impact of presence of shareholder activism on the probability of being acquired, we use a Probit model relating firm i 's probability of takeover at time t , as a function of the presence of shareholder proposals, the firm's characteristics and control variables at $t-1$ following Palepu (1986); Billet (1996); Billet and Xue (2007):

$$\text{Prob}(\text{Target}_{i,t}) = \alpha + \beta_1 \text{Proposal}_{i,t-1} + \beta_2 \text{Size}_{i,t-1} + \beta_3 \text{Tobin's } Q_{i,t-1} + \beta_4 \text{Profitability}_{i,t-1} + \beta_5 \text{Leverage}_{i,t-1} + \beta_6 \text{Merger Wave}_t + \varepsilon_{i,t} \quad (1)$$

Where $\text{Target}_{i,t}$ is a dummy variable that equals one for a company i that receives a bid (and the

⁵ In additional unreported analysis, we further examined shareholder activism for the targets of acquisition attempts that ended up withdrawn. During 1996-2009 sample period, we identified 107 instances of withdrawn acquisition attempts among S&P 1500 firms. Out of 107 targets, 49 firms received at least one shareholder proposals. Importantly, shareholder activism preceded takeover attempt for 70% (34 out of 49) of targets associated with shareholder proposals. Interestingly, our results further show that even among the 15 targets receiving proposals only after the acquisition attempt got revealed, it is unlikely that takeover activities spur the rise in shareholder activism, as the median time span between the takeover attempt and the shareholder proposal was 4 years.

deal is successfully completed) in the year of announcement t , and zero otherwise. $Proposal_{i,t-1}$ is a dummy variable that equals one, if a company i has at least one proposal in the whole sample period until one year before date of takeover announcement t and zero otherwise. $Size_{i,t-1}$ is the size of a company i at time $t-1$ measured as log of total sales. *Tobin's Q*, $Q_{i,t-1}$ is the market to book ratio of a company i at time $t-1$. *Profitability*, $Profitability_{i,t-1}$ is the net income before depreciation divided by average total equity (ROE) for a company i at time $t-1$. *Leverage*, $Leverage_{i,t-1}$ is the ratio of book value of total debt (long-term debt plus debt in current liabilities) divided by the market value of assets (book value of assets minus the book value of equity plus the market value of equity). *Merger Wave*, $Wave_t$ is the proportion of companies targeted in the same 2-digit SIC industry in the same year t divided by all Compustat S&P1500 firms targeted in the same year t (Ahern and Harford, 2013).

[Table 4 about here]

Table 4 presents summary statistics of firm characteristics for the proposal firms (panel A) and match firms (panel B) during the sample period. As reported in panel C, the shareholder proposal firms are significantly larger, have lower Tobin's Q, are less profitable, and are more leveraged than the match firms.

We measure the effect of shareholder activism by either employing shareholder votes in favor or the level of shareholder participation in votes as explanatory variables. *Favorable Votes* is the mean of votes in favor for all shareholder proposals issued by the company during the sample period until one year before the announcement of the takeover bid, where votes in favor is a ratio of all the votes in favor divided by all votes casted. *Voter Turnout* is the mean of participation in voting of all shareholder proposals issued by the company during the sample period until one year before the announcement of the takeover bid, where the participation is all votes cast at the meeting divided by the total voting power of the company.

[Table 5 about here]

Panel A of Table 5 reports the unconditional probability of acquisition by proposal and non-proposal match firms. About 24% of the shareholder proposal firms end as successfully acquired targets, while 16.6% of the match firms end as successfully acquired targets during the sample period. This 7.4% difference in unconditional probability is statistically significant at the 1% level.

Panel B reports the results of the Probit estimation of model (1). Column 1 includes only firm characteristics and control variables at time $t-1$ as in the classical models of takeover prediction (Palepu, 1986; Billet, 1996; Billet and Xue, 2007). Columns 2 through 6 include different measures of shareholder activism as an explanatory variable, including the existence of shareholder proposals (Column 2), the voting results in favor of the proposal (Columns 3 and 5) and the shareholder participation in the voting on the proposal (Columns 4 and 6). Note that in Columns 3 and 4 firms without a shareholder proposal are given a value of zero for *Favorable Votes* and *Voter Turnout*.

The results strongly support Hypotheses 1 and 3 that predict the positive relationship between shareholder activism and the likelihood of takeovers. Firms with activist shareholders have higher probability of being taken over, if shareholder activism is measured by the existence of proposals, favorable shareholder votes, or shareholder participation in voting on a proposal. The highly statistically significant results translate to economic significance: marginal effect on proposal variables in models 2, 3, and 4 is 3.4%, 3.8%, and 2.5% respectively. The effects are stronger in models 5 and 6, at 5.4% and 2.9%, respectively, when we restrict the sample to those with proposals only. Since the unconditional probability of an acquisition of a firm in the sample equals an approximate of 19%, a firm with shareholder proposals has relatively 18% higher

likelihood of being successfully taken over compared to firms with no proposals. In addition, the favorable voting outcome and voter turnout result in 20% and 13% (22% and 12% when restricting the sample to include only proposal firms) higher probability of being successfully taken over, respectively.

The control variables in Table 5 have generally similar signs and significance compared to the previous finance research on determinants of acquisition likelihood. Smaller, less levered firms with low Tobin's Qs have higher chance of being taken over. In addition, the takeover likelihood for a given firm increases if an industry merger wave occurs and other firms in the same industry are targeted in the same year.

We now turn our attention to analyzing the influence of specific proposals characteristics such as multiple proposals, recent proposals, and proposals motivated by antitakeover provision removal. We restrict our sample to include only firms with shareholder proposals because control firms cannot have the specific proposal characteristics. We define *Multiple* as a dummy variable equal to one if the company has multiple shareholder proposals during the sample period, and zero otherwise. We define *Takeover-Related* proposals as a dummy variable equal to one if the company has at least one proposal that is related to one of the five most influential takeover related proposals (repeal classified board, eliminate poison pill, eliminate supermajority requirement, cumulative voting and sell the company), and zero otherwise. To examine the impact of proposals submitted more recently before the takeover announcement, we use a dummy variable *Recent* equal to one if the shareholder proposal is in a window of 3 years before the announcement of the takeover bid and zero otherwise. To control for the quality of governance, we include governance index *Gindex* developed by Gompers et al. (2003) and

reported by Risk Metrics.⁶ We also add individual dummy variables for shareholder proposal sponsors other than individuals – i.e., for *Labor Union*, *Pension Fund*, or *Hedge Fund*. Lastly, we control for the firm-specific characteristics – *Size*, *Tobin's Q*, *Profitability*, and *Leverage* – introduced in Table 5.

[Table 6 about here]

Table 6 reports the results of the Probit estimation of the impact of shareholder proposals characteristics on takeover likelihood. The results provide additional support for Hypothesis 3 that postulates greater positive impact of “information-substantive” shareholder proposals on the likelihood of takeovers. The marginal coefficients on *Multiple*, *Takeover-related*, and *Recent* proposals in models 1, 2 and 3 are 3.2%, 3.1% and 4.6% respectively. According to Panel A of Table 5, the unconditional probability of an acquisition of a firm is 24% among firms with shareholder proposals. Consequently, having multiple proposals, takeover-related proposals and proposals in a three year window prior to the announcement of a merger leads to a 13%, 13%, and 19% relatively higher probability of a firm being acquired.

Models 4 and 5 test for the possibility that the takeover likelihood for firms with shareholder proposals aimed on the removal of antitakeover provisions increases solely due to the mere removal of given provisions following the passage of proposal or extraordinary large shareholder participation (which likely forces the management to remove the antitakeover provisions even if the original proposal does not pass). We thus include variables *Win* and *Large Voter Turnout*. *Win* is a dummy variable that equals one if the company has on average 50% or more of the votes supporting the proposal and zero otherwise. About 31% of the shareholder proposal firms have 50% or more votes in favor of the proposal. *Large Voter Turnout* is a

⁶ Gompers et al. (2003) observe 24 firm charter or bylaws provisions that restrict shareholder rights via antitakeover barriers or voting power limitation, and aggregate the final number of such provisions to form the *Gindex*. Firms with higher levels of *Gindex* are thus likely to have worse governance.

dummy variable that equals one if the company's voter turnout is on average more than the 75th percentile distribution of the sample's voter turnout and zero otherwise. Models 4 and 5 show that even after controlling for high support from shareholders (*Win*) or large participation in voting (*Large Voter Turnout*), the presence of any antitakeover-related shareholder proposal is still significant: hence shareholder activism itself serves as a signal that increases the possibility of takeover, not just the presence of winning proposals.

The coefficients on firm-specific controls suggest (similarly to the results reported in Table 5) that smaller firms with low Tobin's Qs, as well as companies in industries affected by merger waves have higher chance of being taken over. Lastly, higher likelihood of acquisitions is primarily associated with proposals sponsored by labor unions, as coefficient on Labor Union dummy (measuring the marginal impact over the omitted base group of individual shareholder-sponsored initiatives) is significantly positive – at 5% levels or better – in three out of five total models. Nevertheless, the impact of pension fund- or hedge fund-sponsored proposal seems also be positively linked to the chance of the firm being taken over, albeit less significantly. These results are consistent with findings of Gillan and Starks (2002) who show that shareholder proposals sponsored by institutions (such as labor unions, pension funds or hedge funds) are more relevant than those submitted by individuals. In addition, our findings complement those of Greenwood and Schor (2009) who show that takeover activity is facilitated by hedge fund activism. We do show, however, that similar effect can be seen in case of labor union- and pension fund-sponsored proposals.

4.2 Shareholder Activism and Target Abnormal Acquisition Returns

We employ a standard event study methodology based on the market model and using

returns on the CRSP equally – weighted portfolio to calculate the cumulative abnormal returns (CARs) for targets surrounding the merger announcement. We estimate the market model parameters α and β during the window of 255 to 46 days preceding the takeover attempt announcement. We measure the impact of acquisition during the [-5, +5] window surrounding the takeover announcement. (Our subsequent results are largely unaffected if we analyze alternative windows surrounding the takeover attempt.)

[Table 7 about here]

The univariate and bivariate analysis of target abnormal acquisition returns is presented in Table 7. Mean [median] abnormal returns during the [-5, +5] window surrounding the takeover announcement is 19.18% [16.64%] for the full sample of all targets. Both returns are highly statistically significantly positive. Importantly, the returns for targets not receiving shareholder proposals (mean equal to 21.47%; median equal to 19.20%) are significantly greater than the returns for targets with shareholder proposals (mean equal to 15.04%; median equal to 14.43%). This result supports our Hypothesis 2, which predicts that shareholder activism is associated with lower gains to target shareholders.

We then utilize an Ordinary Least Square Regression (OLS) to regress the CARs on the existence of shareholder activism and other control variables as defined previously. The model is as follows:

$$CAR [-5, +5] = \alpha + \gamma * ProposalCharacteristics + \delta * ProposalSponsors + \beta_1 Size_{i,t-1} + \beta_2 Tobin's Q_{i,t-1} + \beta_3 Profitability_{i,t-1} + \beta_4 Leverage_{i,t-1} + \beta_5 Merger Wave_t + \varepsilon_{i,t} \quad (2)$$

Where CAR [-5, +5] are the cross-sectional daily cumulative abnormal returns in a five day window surrounding merger announcement. *ProposalCharacteristics* is a vector that includes the *Proposal* dummy variable, *Favorable Votes*, *Voter Turnout*, *Multiple*, *Recent*, *Win*, *Large Voter*

Turnout to identify the effect of shareholder proposal existence, as well as of shareholder's support, participation in voting, and proposal types. *ProposalSponsors* is a vector that includes dummy variables for *Labor Union*, *Pension Fund*, or *Hedge Fund*. All other variables are as defined in Tables 5 and 6.

[Table 8 about here]

Table 8 presents the results of the OLS regression relating the cumulative abnormal returns surrounding a merger announcement to the existence of shareholder proposals (Model 1), the support from shareholders for the proposals (Model 2), the participation of the shareholders in voting on a proposal (Model 3), the existence of multiple shareholder proposals (Model 4), the existence of shareholder proposals in a three year window prior to the announcement of the merger (Model 5), the existence of shareholder proposals after controlling for high voting support (Model 6) , and the existence of shareholder proposals after controlling for high participation in voting (Model 7). The results provide strong support for Hypotheses 2 and 3, which predict a negative link between proposal activities and target gains. All models show significant negative cumulative abnormal returns associated with firms that have shareholder proposals. Based on Model 1, target companies with previous shareholder proposals earn approximately 5.6% lower abnormal acquisition returns compared to the targets with no proposals. This result is consistent with the signaling value of the target shareholders' willingness to sell and/or with weaker position of target management during negotiations over the distribution of takeover synergies. Models 2 and 3 suggest that lower abnormal returns to target shareholders are primarily due to previous proposals with large shareholder support and/or large shareholder voting participation. Models 4 and 5 show that multiple and/or recent shareholder proposals are associated with low target gains. Last, based on Models 6 and 7, the

lower target abnormal returns are not solely due to proposals that pass and/or draw extraordinary voting participation. Even controlling for the strong support, the *Proposal* dummy variable is still significantly negative. Once again, it appears to be the mere existence of previous shareholder proposals serves as an information channel that affects acquisition outcomes.

None of firm specific characteristics except for the negative impact of leverage appear to influence target gains in our sample. Interestingly, we find that targets with labor union-sponsored shareholder proposals are associated with larger abnormal returns (compared to the returns for targets with proposals submitted by individual investors). This result is consistent with higher influence of institutional activists (e.g. Gillan and Starks, 2000), or with the stronger willingness of individuals to sell during acquisition attempts.

4.3 Shareholder Activism and Share Cross-holdings of Proposal Sponsors

Previous finance research (e.g., Stulz et al., 1990; Song and Walkling, 1993, Harford et al., 2007, 2001, Matvos and Ostrovsky, 2008) shows that ownership of shares in both the bidder and target affects target shareholder gains (the impact may be both positive or negative) and is taken into consideration by prospective bidders when making acquisition decisions. In our Hypothesis 4, we predict the effect of cross-holdings to be even stronger if the investors with equity positions in both the bidder and the target are, at the same time, sponsors of shareholder proposals in the prospective target companies. Such investors may be particularly active (and thus willing to share information facilitating successful acquisitions) and/or they may be highly dissatisfied with targeted company's management (and thus sponsoring or non-sponsoring investors may be all more motivated to sell). We test whether cross-holdings may serve as the information link through which shareholder activism impacts takeover likelihood – if the existence of shareholder proposal serves as a signal that a company may be a possible target, the

actual suitability for acquisition can be arguably best determined by investors who are familiar with both the bidder and the target thanks to the share cross-ownership. To test the impact of cross-holding on the takeover likelihood, we restrict our sample to a subset comprised of targets acquired by US public bidders and other shareholder proposal control firms, because one can observe share cross-holdings only if both the bidder and the target are publicly-held. This restriction causes the analysis to only include 532 shareholder proposal firms of which 77 shareholder proposal firms were successfully acquired by public bidders. We obtain ownership data for targets and bidders from 13-F reports provided by Thomson Reuters.

In our subsequent analysis, we utilize three variables designed to capture the direct impact of cross-holdings, as well as additional information content associated with sponsoring shareholder proposals by cross-holding investors. We define *Common Ownership* as a dummy variable that equals to one if the target firm and bidder firm have any common owners and zero otherwise. *Info Link (1)* is a dummy variable equal to one if the shareholder proposal sponsor in the target is also an owner in the bidder and zero otherwise. We further study another type of information link *Info Link (2)* which is a dummy variable equal to one if the shareholder proposal sponsor in the target is an owner in the bidder and is also an active shareholder proposal sponsor in the bidder (measured by the existence of shareholder proposals in the bidder) and zero otherwise.

We first analyze the effect of cross-holding and proposal sponsorship by cross-holding investors on target gains. Model 8 in Table 8 shows that neither cross-holding, nor the existence of potential information link due to proposal sponsorship in the target firm by cross-holders have a significant impact on target abnormal returns. This result is not surprising, as existing finance research offers conflicting predictions regarding the link between cross-holding and target

acquisition gains. For example, Stulz et al. (1990) document a negative link, Matvos and Ostrovsky (2008), show a positive link, while Harford et al. (2011) argue that cross holdings should not have a significant impact on acquisition outcomes.⁷

[Table 9 about here]

Table 9 presents the results of Probit model of takeover likelihood after accounting for information links that result due to having shareholder proposal sponsors of targets as other owners in bidders. The results support Hypothesis 4. The impact of *Common Ownership* is positive and statistically significant in all of the models. Equally importantly, the effect of information links is statistically positively significant when included as an explanatory variable (Model 1), when interacted with proposals that are related to anti-takeover provisions (Model 2), when interacted with support of shareholders to the proposals (Model 3), when interacted with participation of shareholders in voting on proposals (Model 4), and after considering the alternative form of information link (*Info Link (2)*) which shows that shareholder proposal sponsors in targets are owners and also active shareholder proposal sponsors in bidders (Model 5). In addition, Models 1-4 suggest that the higher takeover likelihood for companies with previous shareholder proposals (documented in Tables 5 and 6) is indeed mainly due to the target companies with owners holding share positions in the future bidders. After the inclusion of the information link, the presence of anti-takeover proposals (*Takeover Related*) keeps significance only when interacted with the presence of the information link.⁸ The same effect can be found in the model examining the shareholder voting support for the proposal (*Favorable Votes*), while participation in voting (*Voter Turnout*) remains significant.

⁷ In unreported analysis, we also studied the impact of *Info Link (2)* on the target shareholder gains. This alternative definition of information link was also an insignificant determinant of target gains.

⁸ This result serves as yet additional piece of evidence that the higher takeover likelihood is not solely due to the removal of the anti-takeover provisions in future target firms.

5. CONCLUSION

Shareholder proposals are traditionally considered a mechanism for improving internal corporate governance, allowing dissatisfied shareholders to put forward proposals that suggest changes to current corporate charters, bylaws, board structures, or compensation practice (Guo et al., 2008; Ferri and Sandino, 2009; Renneboog and Szilagyi, 2011; among others). However, shareholder resolutions are not binding, requiring only voluntary adoption by management. This greatly limits the value of shareholder activism on improving internal governance and firm value, as documented in prior research (Karpoff et al., 1996; Song and Szewczyk, 2003; Thomas and Cotter, 2007; among others).

In this paper, we uncover consequences of shareholder activism for M&A activities and find evidence that strongly support its role in facilitating the external market for corporate control. We show that shareholder activism both increases the likelihood of being taken over and lowers abnormal acquisition returns when the company targeted by the shareholder proposal becomes the target of ultimately completed acquisition. The results further suggest that the most significant changes in takeover likelihood and target gains are associated with proposals that were submitted more recently, by multiple sponsors, motivated by the removal of antitakeover provisions, as well as with proposals that received either large shareholder voting support or sizable voting participation. Takeover likelihood are also higher when the sponsors of proposals in targets also hold bidder shares – suggesting that share cross-holdings may play an important role of information channel between the bidder and target companies.

Overall, the results imply that shareholder activism improves the functioning of the market for corporate control. These results, coupled with the facts that proposal implementation by directors has grown over time (Brownstein and Kirman, 2004; Morgan and Wolf, 2006;

Thomas and Cotter, 2007; Ertimur et al. 2010), support the notion that shareholder activism, by either large institutions or individuals, creates value for shareholders. Shareholder friendly regulations such as the SEC's short-lived "proxy access" rules or future rule changes to make it less costly to sponsor shareholder proposals should be supported as they may produce positive changes in both internal and external governance, ultimately leading to enhanced shareholder wealth maximization.

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Table 1: Shareholder Proposal Sponsors and Voting Turnout

Panel A classifies shareholder proposal data by sponsor type. Panel B presents descriptive statistics for the percentage (%) of shareholders who participated in voting for shareholder-initiated proposals. Panel C classifies the proposals into 5 categories based on proposal type and presents similar statistics for each proposal type.

Panel A : Shareholder Proposals Classified by Sponsor Type		
Sponsor	Number of Proposals	%
Labor Unions	1133	39%
Public Pensions	215	7%
Hedge Funds	91	3%
Socially Responsible / Religious	134	5%
Investment Management Funds	90	3%
Individuals	1214	42%
Total	2877	100%

Panel B: Voter Turnout by Year					
	N	Mean	Median	Min	Max
1996	91	90.71	91.50	63.3	100
1997	64	88.92	90.20	68.9	100
1998	53	90.43	92.80	57.2	100
1999	69	91.70	91.70	77.2	100
2000	71	87.90	88.00	69.7	100
2001	196	86.57	87.90	39.2	100
2002	224	85.94	86.60	55.6	100
2003	356	86.62	87.00	52.1	100
2004	331	86.69	87.30	55.7	100
2005	305	86.17	87.40	39.9	100
2006	308	87.35	88.00	67.4	100
2007	297	87.68	88.50	71.7	100
2008	250	88.54	89.20	68.6	100
2009	262	87.75	88.40	70.0	100
Total	2877	87.39	88.10	39.2	100

Table 1: Shareholder Proposal Sponsors and Voting Turnout (contd.)

Panel C: Voter Turnout by the Proposal Type

	N	Mean	Median	Min	Max
Anti-takeover devices	867	87.48	88.5	39.2	100
Voting issues	410	87.87	89.2	39.9	100
Board & committee independence issues	486	87.09	87.5	39.9	100
Other governance issues	1060	87.27	87.5	55	100
Sell the company	54	87.14	89.25	67.2	100

Table 2: Favorable Votes

Panel A presents descriptive statistics for the percentage (%) of shareholder votes in favor of shareholder-initiated proposals. Panel B classifies the proposals into 5 categories based on proposal type and presents similar statistics for each proposal type.

Panel A	N	Mean	Median	Min	Max
1996	91	35.81	37.00	1.6	84.1
1997	64	28.74	26.90	1.6	67.8
1998	53	28.63	27.40	2.8	73.0
1999	69	34.78	33.20	1.9	95.8
2000	71	36.17	32.80	2.3	87.7
2001	196	29.64	27.60	0.9	96.0
2002	224	36.70	35.95	0.1	90.7
2003	356	36.60	36.30	2.3	90.1
2004	331	33.63	29.40	1.7	97.2
2005	305	35.87	36.40	0.0	97.6
2006	308	39.51	39.00	1.5	98.2
2007	297	37.16	37.20	0.3	90.2
2008	250	39.41	39.50	0.7	92.6
2009	262	41.35	41.30	1.3	92.4
Total	2877	36.36	36.30	0.0	98.2

Panel B	N	Mean	Median	Min	Max
Anti-takeover devices	867	55.48	57.40	2.1	98.2
Voting issues	410	40.53	40.30	1.3	97.6
Board & committee independence issues	486	21.79	20.45	0.0	95.8
Other governance issues	1060	26.80	25.30	0.0	90.1
Sell the company	54	16.46	13.90	0.1	59.8

Table 3: Elapsed Time between Shareholder Proposal Date and Merger Announcement

This table reports the difference in months between the shareholder proposals date and merger announcement date for shareholder proposals of companies that had complete takeover bids. Elapsed time is shareholder proposal date – merger announcement date. Shareholder proposal date is the date of the annual corporate governance review as reported by Georgeson Inc. Merger announcement date is the original date of announcement as reported by SDC.

Elapsed Time	Frequency of Proposals	Percent
< 0	44	10%
0-12 months	71	17%
12-24 months	70	17%
24-36 months	67	16%
36-48 months	53	13%
48-60 months	32	8%
> 60 months	83	20%
Total	420	100%

Table 4: Summary Statistics of Financial Variables

This table presents the summary statistics of the financial variables for the sample of shareholder proposal firms in panel A and the sample of match firms in panel B during the 1996-2009 periods. *Firm Size* is the log of total sales. *Tobin's Q* is the firm's Tobin's Q ratio, calculated as the sum of market value of equity (end of year price per share * number of shares outstanding at the end of year), short-term and long-term debt, and the liquidating value of preferred stocks, all divided by the total value of book assets. *Profitability* is the return on total equity, computed as net income before depreciation divided by average total equity. *Leverage* is the book value of short-term and long-term debt to market value total assets. Panel C presents the statistical significance of difference in means & medians between the shareholder proposal and match firms. ***,* Denotes statistical significance at the 1% and 10% levels respectively.

Panel A: Shareholder Proposal Firms

Variable	N	Mean	Std.	25%	50%	75%
Size	6065	8.15	1.57	7.08	8.17	9.29
Tobin's Q	6065	1.59	0.85	1.10	1.39	1.70
Profitability	6065	0.22	0.23	0.13	0.20	0.29
Leverage	6065	0.78	0.19	0.03	0.15	0.65

Panel B: Match Firms

Variable	N	Mean	Std.	25%	50%	75%
Size	6065	7.89	1.46	6.92	7.94	8.91
Tobin's Q	6065	1.77	1.14	1.14	1.39	1.89
Profitability	6065	0.22	0.23	0.14	0.21	0.29
Leverage	6065	0.66	0.16	0.04	0.15	0.52

Panel C: Statistical Difference between shareholder proposal and match firms

Variable	Diff in Means	Diff in Medians	T-value	Z-Value
Size	0.26***	0.23***	7.76	7.05
Tobin's Q	-0.18***	0.00	-7.46	-1.55
Profitability	0.00	-0.01*	1.06	-1.79
Leverage	0.12***	0.00	3.53	-0.57

Table 5: Takeover Probability Estimation

Panel A presents univariate comparison of takeover likelihood between groups of proposal firms and match (non-proposal) firms. Proposal firms are members of the S&P 1500 firms that received one or more shareholder proposal during the sample period. Match firms are S&P 1500 control firms that did not receive any shareholder proposals and are matched to the shareholder proposal firms based on firm size (between 50% and 200% of total assets) and 2 digit SIC code. Targets are firms that are successfully acquired during the sample period. *** Denotes statistical significance at the 1% level.

Panel B reports the estimation results of the probability that a firm will become a takeover target, by estimating a Probit model. We use the firm's characteristics as of the end of year t-1 and the observation of whether a firm becomes a target of a takeover attempt in year t to estimate the firm's takeover probability. The sample is from 1996-2009. In models 1 through 4, the sample includes both S&P 1500 proposal and match firms, where matching is done in every year based on the firm's size (between 50% and 200%) and 2-digit SIC code. This results in 12130 firm-year observations (6065 for each of proposal firms and match firms). In models 5 and 6, the sample is restricted to include only S&P 1500 firms with shareholder proposals (6065 firm-year observations). The dependent variable *Target* is a dummy variable that equals one if the firm is a target of a successful takeover, and zero otherwise; *Proposal* is a dummy variable that equals 1 if the company had at least one proposal in the sample period until one year before the takeover announcement and zero otherwise; *Favorable Votes* is the mean of all votes in favor divided by all votes cast for shareholder proposals occurring until one year before the takeover announcement; *Voter Turnout* is the mean of all votes cast divided by total voting power for shareholder proposals occurring until one year before the takeover announcement; *Size* is the log of total sales; *Tobin's Q* is the market to book ratio; *Profitability* is the net income before depreciation divided by average total equity; *Leverage* is the book value of total debt divided by the market value of total assets; *Merger Wave* is the proportion of firms with the same two-digit sic code and targeted in the same year divided by all COMPUSTAT S&P1500 firms targeted in the same year. Heteroskedastic-consistent probability values rejecting the null hypotheses of zero coefficients are reported in parentheses. *, **, *** Denotes significantly different from zero at the 10%, 5%, and 1% level, respectively.

Panel A: Univariate Statistics on Takeover Likelihood

	Number of Firms	Number of Targets	Takeover Likelihood
Proposal Firms	598	143	23.9%
Match Firms	1211	201	16.6%
Difference			-7.3%***

Table 5: Takeover Probability Estimation (contd.)

Panel B: Probit Regressions on Takeover Likelihood

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Proposal</i>		0.459*** (0.000)				
<i>Favorable Votes</i>			0.648*** (0.000)		1.349*** (0.000)	
<i>Voter Turnout</i>				0.439*** (0.000)		1.573*** (0.000)
<i>Size</i>	-0.064*** (0.000)	-0.073*** (0.000)	-0.072*** (0.000)	-0.076*** (0.000)	-0.044* (0.081)	-0.067** (0.014)
<i>Tobin's Q</i>	-0.093*** (0.001)	-0.080*** (0.006)	-0.087*** (0.003)	-0.081*** (0.005)	-0.057 (0.135)	-0.010 (0.816)
<i>Profitability</i>	0.068 (0.554)	0.071 (0.529)	0.064 (0.567)	0.058 (0.610)	-0.102 (0.558)	-0.172 (0.314)
<i>Leverage</i>	-0.456* (0.053)	-0.529** (0.028)	-0.450* (0.059)	-0.508** (0.035)	0.089 (0.661)	0.030 (0.895)
<i>Merger Wave</i>	0.830*** (0.000)	0.822*** (0.000)	0.822*** (0.000)	0.840*** (0.000)	0.750*** (0.004)	0.902*** (0.001)
<i>Constant</i>	-1.303*** (0.000)	-1.383*** (0.000)	-1.315*** (0.000)	-1.332*** (0.000)	-1.934*** (0.000)	-2.512*** (0.000)
N	12130	12130	12130	12130	6065	6065
N(target)	344	344	344	344	143	143
Pseudo R ²	0.0174	0.0425	0.0279	0.0353	0.0777	0.1639
Prob > chi ²	0.000	0.000	0.000	0.000	0.000	0.000

Table 6: Takeover Probability Estimation – Impact of Proposal Characteristics

This table reports the estimation results of the probability that a firm will become a takeover target, by estimating a Probit model. We use the firm's characteristics and proposals characteristics as of the end of year t-1 and the observation of whether a firm becomes a target of a takeover attempt in year t to estimate the firm's takeover probability. The sample is from 1996-2009 and includes only firms with shareholder proposals. The dependent variable *Target* is a dummy variable that equals one if the firm is a target of a successful takeover, and zero otherwise; *Multiple* is a dummy variable that equals 1 if the company has more than one proposal in the sample period until one year before the takeover announcement and zero otherwise; *Takeover Related* is a dummy variable the equals 1 if the company has at least one proposal that is related to repeal classified board, eliminate poison pill, eliminate supermajority requirement, cumulative voting and sell the company, and zero otherwise; *Recent* is a dummy variable that equals 1 if the proposal is within a 3 year window before the announcement of the takeover, and zero otherwise; *Win* is a dummy variable that equals one when the *Favorable Votes* for a company is above 50% and zero otherwise; *Large Voter Turnout* is a dummy variable that equals one when the *Voter Turnout* is greater than 75th percentile distribution of the sample and zero otherwise; *Labor Union* is a dummy variable that equals one if the company has at least one proposal that is sponsored by a labor union and zero otherwise; *Pension Fund* is a dummy variable that equals one if the company has at least one proposal that is sponsored by a pension fund and zero otherwise; *Hedge Fund* is a dummy variable that equals one if the company has at least one proposal that is sponsored by a hedge fund and zero otherwise; *Gindex* is Gompers et al. (2003) measure of governance. All other controls are as defined in Table 5. All explanatory and control variables are lagged one year. Heteroskedastic-consistent probability values rejecting the null hypotheses of zero coefficients are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% respectively.

Table 6: Takeover Probability Estimation – Impact of Proposal Characteristics (contd.)

	(1)	(2)	(3)	(4)	(5)
<i>Multiple</i>	0.555*** (0.000)				
<i>Takeover Related</i>		0.569*** (0.000)		0.551*** (0.000)	0.516*** (0.000)
<i>Recent</i>			1.298*** (0.000)		
<i>Win</i>				0.058 (0.587)	
<i>Large Voter Turnout</i>					0.310*** (0.002)
<i>Labor Union</i>	0.158 (0.145)	0.237** (0.028)	0.097 (0.372)	0.236** (0.028)	0.227** (0.034)
<i>Pension Fund</i>	0.263 (0.124)	0.308* (0.071)	0.241 (0.176)	0.307* (0.073)	0.287* (0.088)
<i>Hedge Fund</i>	0.502* (0.096)	0.439 (0.158)	0.782** (0.029)	0.451 (0.147)	0.435 (0.162)
<i>Gindex</i>	0.004 (0.822)	-0.005 (0.780)	0.008 (0.653)	-0.005 (0.780)	-0.005 (0.773)
<i>Size</i>	-0.082*** (0.002)	-0.053** (0.037)	-0.055* (0.052)	-0.052** (0.039)	-0.049* (0.056)
<i>Tobin's Q</i>	-0.069* (0.071)	-0.049 (0.192)	-0.014 (0.758)	-0.050 (0.189)	-0.045 (0.232)
<i>Profitability</i>	-0.141 (0.425)	-0.141 (0.407)	-0.103 (0.552)	-0.140 (0.411)	-0.167 (0.326)
<i>Leverage</i>	-0.050 (0.817)	-0.084 (0.702)	-0.019 (0.934)	-0.067 (0.76)	-0.033 (0.880)
<i>Merger Wave</i>	0.837*** (0.001)	0.846*** (0.001)	0.773*** (0.005)	0.841*** (0.001)	0.865*** (0.001)
<i>Constant</i>	-1.570*** (0.000)	-1.789*** (0.000)	-2.625*** (0.000)	-1.795*** (0.000)	-1.861*** (0.000)
N	6065	6065	6065	6065	6065
N(target)	143	143	143	143	143
Pseudo R ²	0.0622	0.0691	0.159	0.0693	0.0777
Prob > chi ²	0.000	0.000	0.000	0.000	0.000

Table 7: Target Cumulative Abnormal Returns Around Merger Announcement

This table presents the cumulative abnormal returns (CAR) around the merger announcements over the five day event windows (-5, +5) for the full sample of targets, the targets with shareholder proposals, and the targets without shareholder proposals. *** denote statistical significance from zero at the 1% level. ^^ denote the statistical difference of means or medians between the subsample of targets with proposals and the subsample of targets without proposals at the 1% level.

CAR (-5, +5)	Full Sample	Targets with Proposals	Targets without Proposals	Difference
N	295	105	190	
Mean	0.1918***	0.1504***	0.2147***	-0.0643(^^)
Median	0.1664***	0.1443***	0.1920***	-0.0477(^^)

Table 8: Shareholder Activism and Multivariate Determinants of Cumulative Abnormal Returns for Target Shareholders Surrounding Merger Announcement

This table contains the estimated coefficients for an OLS regression relating the cumulative abnormal return surrounding a merger announcement, the existence of shareholder proposals, the support from shareholders for the proposals, and the participation of the shareholders in voting on a proposal. The cumulative abnormal return is calculated over the (-5, +5) window surrounding the merger announcement. This sample includes 295 targets (out of 344 proposal and match firms' targets) that have available security prices data. *Proposal* is a dummy variable that equals 1 if the company had at least one proposal in the sample period until one year before the takeover announcement and zero otherwise; *Favorable Votes* is the mean of all votes in favor divided by all votes cast for shareholder proposals occurring until one year before the takeover announcement; *Voter Turnout* is the mean of all votes cast divided by total voting power for shareholder proposals occurring until one year before the takeover announcement; *Recent* is a dummy variable that equals 1 if the proposal is within a 3 year window before the announcement of the takeover, and zero otherwise; *Win* is a dummy variable that equals one if *Favorable Votes* for a company is more than 50% and zero otherwise; *Large Voter Turnout* is a dummy variable that equals one if *Voter Turnout* is greater than the 75th percentile distribution of the sample and zero otherwise; *Public US Bidder* is a dummy variable that equals 1 if the bidder is a public US firm and zero otherwise; *Info Link (1) * Public US Bidder* is an interaction between *Info Link(1)* which is a dummy variable that equals 1 if the shareholder proposal sponsor is an owner in the bidder and zero otherwise and *Public US Bidder*; *Common Ownership* is a dummy variable that equals 1 if the target firm and bidder firm have any common owners and zero otherwise. All other variables are as defined in tables 5 & 6. Heteroskedastic-consistent probability values rejecting the null hypotheses of zero coefficients are reported in parentheses. *, **, *** Denotes significantly different from zero at the 10%, 5%, and 1% level, respectively.

Table 8: Shareholder Activism and Multivariate Determinants of Cumulative Abnormal Returns for Target Shareholders Surrounding Merger Announcement (contd.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Proposal</i>	-0.056** (0.013)					-0.054** (0.034)	-0.058** (0.016)	-0.054** (0.049)
<i>Favorable Votes</i>		-0.133*** (0.002)						
<i>Voter Turnout</i>			-0.061** (0.019)					
<i>Multiple</i>				-0.069*** (0.006)				
<i>Recent</i>					-0.051** (0.021)			
<i>Win</i>						-0.010 (0.751)		
<i>Large Voter Turnout</i>							0.006 (0.879)	
<i>Public US Bidder</i>								-0.022 (0.363)
<i>Info Link (1) *</i>								-0.053 (0.361)
<i>Public US Bidder</i>								0.038 (0.631)
<i>Common Ownership</i>								
<i>Labor Union</i>	0.010** (0.023)	0.091** (0.029)	0.098** (0.025)	0.010** (0.022)	0.093** (0.032)	0.098** (0.024)	0.010** (0.023)	0.112** (0.036)
<i>Pension Fund</i>	-0.095 (0.103)	-0.096 (0.132)	-0.095* (0.097)	-0.121** (0.025)	-0.106* (0.062)	-0.094 (0.113)	-0.095 (0.108)	-0.084 (0.312)
<i>Hedge Fund</i>	-0.044 (0.474)	-0.071 (0.159)	-0.043 (0.481)	-0.047 (0.432)	-0.065 (0.374)	-0.0469 (0.454)	-0.044 (0.484)	-0.070 (0.575)
<i>Size</i>	-0.005 (0.622)	-0.005 (0.618)	-0.005 (0.631)	-0.003 (0.752)	-0.005 (0.604)	-0.005 (0.628)	-0.005 (0.623)	-0.004 (0.673)
<i>Tobin's Q</i>	-0.018 (0.384)	-0.017 (0.410)	-0.018 (0.383)	-0.018 (0.390)	-0.0190 (0.364)	-0.018 (0.387)	-0.018 (0.386)	-0.015 (0.425)
<i>Profitability</i>	-0.001 (0.936)	-0.0004 (0.975)	-0.001 (0.943)	-0.001 (0.985)	-0.001 (0.968)	-0.001 (0.946)	-0.001 (0.937)	-0.001 (0.982)
<i>Leverage</i>	-0.005* (0.063)	-0.005* (0.071)	-0.005* (0.062)	-0.005* (0.072)	-0.005* (0.063)	-0.005* (0.062)	-0.005* (0.067)	-0.005*** (0.005)
<i>Merger Wave</i>	0.059 (0.523)	0.059 (0.522)	0.059 (0.526)	0.052 (0.571)	0.060 (0.519)	0.059 (0.526)	0.060 (0.520)	0.063 (0.570)
<i>Constant</i>	0.287*** (0.001)	0.284*** (0.001)	0.285*** (0.001)	0.268*** (0.002)	0.288*** (0.001)	0.287*** (0.001)	0.287*** (0.001)	0.292*** (0.000)
N	295	295	295	295	295	295	295	295
Adjusted R ²	0.0836	0.0864	0.0822	0.0844	0.0813	0.0838	0.0837	0.0496
F	2.25	2.62	2.21	2.61	2.14	2.03	2.2	2.14

Table 9: Target-Acquirer Connection on the Likelihood of Takeover

This table reports the results of Probit models to estimate the likelihood of takeovers when target and acquirer are linked through share ownership. Two types of links are possible. *Info Link (1)* is a dummy set to 1 if the shareholder proposal sponsor in the target firm is also an owner in the bidder firm, and zero otherwise; *Info Link (2)* is a dummy set to 1 if the shareholder proposal sponsor in the target firm is an owner in the bidder and is also an active shareholder proposal sponsor in the bidder, and zero otherwise. The sample is from 1996-2009 and includes only firms with shareholder proposals that were acquired by public US bidders. This drives the number of targets to be 77 compared to 143 targets in table 6. The dependent variable *Target* is a dummy variable that equals 1 if the firm is a target of a successful takeover, and zero otherwise; *Common Ownership* is a dummy variable that equals 1 if the target firm and bidder firm have any common owners and zero otherwise. All other variables are as defined in Tables 5&6. All explanatory and control variables are lagged one year. Heteroskedastic-consistent probability values rejecting the null hypotheses of zero coefficients are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% respectively.

Table 9: Target-Acquirer Connection on the Likelihood of Takeover (contd.)

	(1)	(2)	(3)	(4)	(5)
<i>Info Link (1)</i>	1.764*** (0.000)	1.383*** (0.000)	1.130*** (0.001)	-1.256 (0.605)	1.249*** (0.000)
<i>Takeover Related</i>		-0.037 (0.764)			
<i>Info Link (1) *</i> <i>Takeover Related</i>		0.842** (0.024)			
<i>Favorable Votes</i>			-0.098 (0.773)		
<i>Info Link (1) *</i> <i>Favorable Votes</i>			1.834** (0.033)		
<i>Voter Turnout</i>				0.878* (0.081)	
<i>Info Link (1) *</i> <i>Voter Turnout</i>				3.724 (0.180)	
<i>Info Link (2)</i>					1.742*** (0.000)
<i>Common Ownership</i>	1.458*** (0.000)	1.445*** (0.000)	1.439*** (0.000)	1.423*** (0.000)	1.305*** (0.000)
<i>Recent</i>	1.183*** (0.000)	1.143*** (0.000)	1.141*** (0.000)	0.361 (0.421)	1.105*** (0.000)
<i>Labor Union</i>	0.152 (0.273)	0.141 (0.316)	0.151 (0.281)	0.107 (0.442)	0.168 (0.236)
<i>Pension Fund</i>	-0.184 (0.439)	-0.107 (0.640)	-0.125 (0.602)	-0.227 (0.383)	-0.165 (0.524)
<i>Hedge Fund</i>	0.612* (0.083)	0.636* (0.066)	0.626* (0.069)	0.314 (0.386)	0.587 (0.142)
<i>Gindex</i>	0.009 (0.686)	0.006 (0.810)	0.005 (0.835)	0.003 (0.898)	0.015 (0.513)
<i>Size</i>	-0.097*** (0.005)	-0.010*** (0.004)	-0.101*** (0.004)	-0.107*** (0.003)	-0.112*** (0.001)
<i>Tobin's Q</i>	0.005 (0.921)	-0.001 (0.987)	0.012 (0.813)	0.019 (0.727)	0.009 (0.867)
<i>Profitability</i>	-0.068 (0.714)	-0.049 (0.794)	-0.111 (0.571)	-0.114 (0.567)	-0.122 (0.529)
<i>Leverage</i>	0.109 (0.700)	0.110 (0.701)	0.010 (0.724)	0.122 (0.667)	0.243 (0.373)
<i>Merger Wave</i>	0.586* (0.074)	0.609* (0.061)	0.606* (0.065)	0.659* (0.057)	0.703** (0.019)
<i>Constant</i>	-2.588*** (0.000)	-2.468*** (0.000)	-2.436*** (0.000)	-2.410*** (0.000)	-2.538*** (0.000)
N	5531	5531	5531	5531	5531
N(target)	77	77	77	77	77
Pseudo R2	0.2665	0.2724	0.2726	0.2841	0.2992

Appendix: Shareholder Proposals by Type

1- Issues related to antitakeover devices:

- Repeal classified board
- Eliminate poison pill
- Approve golden parachutes
- Eliminate supermajority requirement
- Opt-out of state antitakeover law
- Prohibit greenmail payments
- Targeted share placement
- Fair price provision

2- Voting issues:

- Cumulative
- Confidential
- Majority vote to elect directors

3- Board and committee independence issues:

- Director ownership
- Prohibit dual CEO/Chair
- Increase board independence
- Limit director terms
- Nomination of directors
- Director compensation
- Director attendance at meetings
- Other related to directors

4- Other Governance issues:

- Executive compensation
- Annual meeting
- Restore preemptive rights
- Audit-related
- Restrict options
- Equal access to proxy
- Establish shareholder committee

5- Sell the Company