

ABSTRACTS OF DOCTORAL DISSERTATIONS

THE CAUSES OF PROXY CONTESTS: AN EMPIRICAL STUDY,
1956-60*

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THE PROXY CONTEST as a means of instituting corporate reform has become popular in the United States since World War II. Up to now, however, there have been no systematic investigations of the causes of proxy contests, because scholars, journalists, and lawyers have thought each contest so unique that any attempt at aggregation of the results of the individual contests has been considered to be fruitless. The results of this analysis of sixty-seven companies, in which there were seventy-nine contests, proved otherwise.

The purpose of this dissertation was to uncover the causal forces that precipitate a proxy contest, and then to aggregate them to determine whether a causal classification system was possible. Such a system would be invaluable to managements in aiding them in the avoidance of future proxy contests, since corporate vulnerabilities which could lead to a contest would be recognized and eliminated.

The term "causes" is used to mean the events and conditions that ultimately lead to proxy contests. In analyzing the contests, the causes were discovered to be either *precipitating* or *facilitating* in nature: precipitating causes are events and conditions that arouse opposition to management, whereas facilitating causes are conditions that promote efforts of the opposition to gain representation and/or control. The methodology developed for this study revealed furthermore that there were two types of causal forces: *financial* and *non-financial*. Financial causes are all those relating to the company's financial condition and profitability. Non-financial causes, on the other hand, reflect the personal relationships and activities of the management and opposition, and the environmental atmosphere surrounding the firm. Utilization of the methodology in every case led to a determination of the cause or causes which precipitated the contest.

After the cause(s) of each company's contest was determined, the results were aggregated into a causal classification system which evolved from the micro-analysis. Unlike previous studies, this study was able to evolve such a classification system. The presence of this causal classification system invalidated the contention that causal patterns are impossible to delineate in proxy contests. However, it is evident also that a single causal pattern which explains all proxy contests does not emerge from the research.

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This analysis revealed that almost one-half of the contests were caused by operating performance—most frequently general inefficiency and stagnant, unprogressive, operations. In addition to poor operating performance, other important financial causes were: specific management decisions, conflicts arising from differences in the appraisal of the value of alternative uses of the company's resources, power struggles arising from intra-board and management conflicts over corporate policy, power vacuums, and the most startling result of the entire analysis—the high incidence of management dishonesty, fraud, and illegal financial activities. The non-financial causes precipitated most of the other contests, the major causes being conflicts and dissensions among and between the board of directors and the management. Furthermore, one corporate structural characteristic, cumulative voting, facilitated the conflict in fifteen separate instances, more than any other cause of conflict.

The investigation disclosed that external influences and pressures did not cause proxy contests. The causal forces initiating the contests are explained by internal activities and conflicts within the company itself and not by external influences and pressures. Since the contests are internally caused, managements, in order to avoid such contests, must eliminate the internal vulnerabilities. The mere fact that a contest occurs places blame on the company and its incumbent management. Thus all of the basic corporate vulnerabilities are traceable to the management and its inability to perform in such a manner so as to avoid conflict.

One of the most significant conclusions of the analysis was that the high incidence of non-financially caused contests limits the usefulness of the causal classification system developed in applications for future analysis. Although there was overlap in cases where the causes were partly financial in origin, the non-financially caused contests are unique and are, therefore, devoid of generalization.

Following the main body of the analysis is an extensive appendix which contains the pertinent data utilized in determining the causes of the proxy contests. This material, combined with the methodology provided in the text, provides the reader with the causal forces for every contest.