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**INVESTOR USE OF EXPANDED PROXY
STATEMENT DISCLOSURES ON
EXECUTIVE COMPENSATION**

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BY

**MARILYN F. JOHNSON
UNIVERSITY OF MICHIGAN BUSINESS SCHOOL**

AND

**MARGARET B. SCHACKELL
UNIVERSITY OF MICHIGAN BUSINESS SCHOOL**

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Compensation**

Marilyn F. Johnson and Margaret B. Shackell

University of Michigan Business School
701 Tappan Street
Ann Arbor, Michigan 48109-1234

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Investor Use of Expanded Proxy Statement Disclosures on Executive Compensation

Abstract

We examine 169 shareholder proposals on executive compensation filed against 106 firms by 74 sponsors over the period 1992-95 to determine whether shareholders base their support for compensation proposals on the expanded proxy statement disclosures about executive compensation and share price performance, as the SEC envisions they will do. Our evidence indicates that neither the decision to file a proposal nor the decision to withdraw a proposal is associated with the information in the expanded proxy statement disclosures (i.e., the level of compensation, the relation between compensation and firm performance, or the firm's prior share price performance). In contrast, voting outcomes are associated with prior returns, but are unassociated with compensation levels or pay-for-performance sensitivities. Overall, our results suggest that shareholders use executive compensation proposals to express a general dissatisfaction with poor firm performance that is unrelated to specific attributes of a firm's compensation structure.

Key words: Shareholder proposals; Corporate governance; Management compensation
JEL classification: G34; D23; and J33

Investor Use of Expanded Proxy Statement Disclosures on Executive Compensation

1. Introduction

During the early 1990s, there has been considerable stakeholder concern over executive compensation levels and the structure of executive compensation plans. In 1992, to lower the cost to shareholders of monitoring executive compensation policies, the Securities and Exchange Commission (SEC) took two actions. First, it issued new proxy disclosure rules that require firms to report additional comprehensive information on executive compensation and share price performance. Second, the SEC expanded the scope of allowable topics for shareholder proxy proposals to include executive compensation issues. It is the SEC's intent that shareholders use the additional proxy disclosures to evaluate the appropriateness of executive compensation payouts in light of firm performance; and use the shareholder proposal mechanism to initiate change, should the information in the proxy statement indicate that compensation policies are not value maximizing (Breedon 1992). In this paper, we examine how shareholders use the information in the proxy statement to make proposal filing decisions, voting decisions, and proposal withdrawal decisions. Overall, we find little evidence that shareholders are using the new information in the manner envisioned by the SEC.

Specifically, results from a sample of 169 shareholder proposals filed against 106 firms by 74 sponsors over the period 1992-95 indicate that the filing decision is at best indirectly associated with the compensation and performance information contained in the proxy statement. The proposal filing decision is unassociated with compensation levels, pay-for-performance sensitivities, and prior stock returns. However, firms with prior negative financial press coverage of compensation policies are more apt to receive shareholder proposals. Negative financial press coverage, in turn, is associated with prior abnormal returns and compensation levels. Thus, proxy filing decisions are only indirectly associated with proxy information via the association with financial press coverage. Additionally, we find that larger firms, firms with lower prior sales

growth, and firms with lower institutional holdings have a greater probability of receiving executive compensation proposals.

We find no evidence that voting outcomes are associated with compensation levels, pay-for-performance sensitivities, or press coverage. However, voting outcomes are negatively associated with prior abnormal returns. Thus, shareholders appear to use their voting power to express general dissatisfaction with poor firm performance, but the dissatisfaction is not linked to specific characteristics of the firm's compensation plans. Additionally, we find that proposals receive less voting support when there are greater shareholdings by outside directors, greater shareholdings by passive investors, and if the proposal is sponsored by an individual 'gadfly' investor or a public institution.

We also examine a sponsor's decision to withdraw a proposal prior to a shareholder vote. Withdrawal of a proposal typically occurs when the proposal sponsor and target firm have negotiated a settlement (IRRC 1996). We find that 34 (20.1%) of proposals were withdrawn. We find no evidence that the information in the proxy statement influences this outcome. Compensation levels, pay-for-performance sensitivities, and stock returns at firms where proposals are subsequently withdrawn do not differ from those at firms where the proposals are put to a vote. However, we find that the decision to withdraw a proposal is positively related to prior sales growth, the presence of a CEO who also holds the position of Chairman of the Board, the level of outside director shareholdings, and the level of shareholdings by passive institutional investors.

We view the information presented in this study to be important for several reasons. First, previous accounting research has examined how firms exercise discretion in preparing the information included in the new proxy disclosures,¹ but has not examined how investors use the

¹Byrd, Johnson and Porter (1998) find that only 10% of performance graphs reveal the composition of the peer group used by the compensation committee in benchmark comparisons, and that the decision to reveal this information is motivated by stakeholder concern about the firm's compensation policies. Lewellen, Park and Ro (1996) and Soffer (1998) show that in preparing performance graphs, reporting companies exploit the discretion

information in their proposal filing and voting decisions. Second, accountants are interested in understanding the structure of executive compensation.² In light of heightened public interest in executive compensation, it is possible that political considerations will join agency theoretic factors as determinants of compensation policies. Thus, it is important for accountants to understand stakeholder discontent with compensation policies. Third, we add to the existing literature on shareholder proposals. Previous studies have not examined executive compensation proposals because their samples predate the SEC's 1992 decision to allow executive compensation proposals.³ Additionally, previous studies have examined proposals that were put to a vote, but have not examined proposals that were withdrawn by the sponsor prior to a shareholder vote. Since shareholder proposals rarely receive majority voting support and are advisory rather than binding, withdrawn proposals may well represent the subset of proposals that have the greatest potential to influence firm policies.

The remainder of our paper proceeds as follows. Section 2 describes the recent SEC rule changes that expand proxy disclosures and allow shareholder proposals on executive compensation. Section 3 develops our hypotheses about shareholder motivations for filing proposals and shareholder voting behavior. We describe the data used to test these hypotheses in section 4. Section 5 reports results from empirical tests of our hypotheses about shareholder proposal initiation and shareholder voting, as well as descriptive evidence on proposal withdrawal. Section 6 presents our conclusions.

allowed by the SEC to enhance their reported relative performance. Murphy (1996) finds that firms exercise reporting discretion in a manner that lowers the value of the stock option component of compensation.

² See, for example, Antle and Smith (1986), Baber, Janakiraman, and Kang (1996), Bushman and Indjejikian (1993), Bushman, Indjejikian, and Smith (1996), Gibbons and Murphy (1990), Kim and Suh (1993), Lambert and Larcker (1987), and Sloan (1993), among others.

³ Karpoff, Malatesta, and Walkling (1996) find that shareholder-initiated corporate governance proposals filed in the late 1980s are motivated by poor firm performance, but do not lead to performance improvements. Gordon and Pound (1993) find that voting support for shareholder-initiated corporate governance proposals filed in the early 1980s is associated with firm performance, the existence of alternative monitoring mechanisms, the identity of the proposal sponsor, the content of the proposal, and the composition of the shareholder base.

2. SEC rules on executive compensation

2.1 Expanded proxy statement disclosure requirements

In 1992, in response to growing public concern about executive compensation policies at large U.S. corporations, the SEC adopted rules that expand the compensation and performance disclosures required in the proxy statement. According to SEC Chairman Richard C. Breeden (1992), the motivation for these rule changes is a belief that “the best protection against abuses in executive compensation is a simple weapon - the cleansing power of sunlight and the power of an informed shareholder base.” The new rules require presentation of a table containing the compensation of the company’s five most highly paid executives, a performance graph that compares the company’s five-year cumulative total shareholder return with returns for the same period on both a broad market index and an industry or peer index, and a report by the compensation committee that presents a rationale for the firm’s compensation policies. Reporting compensation and stock market performance together highlights the need for links between a firm’s pay practices and its financial performance.

2.2 Shareholder proposals on executive compensation

Nearly all shareholder proposals are submitted through SEC Rule 14a-8, which regulates the proposals that appear in the company’s proxy statement and on the proxy ballot. A major reason that a shareholder-initiated proposal may be excluded from the proxy is the interference of the proposal with managers’ rights to conduct the company’s “ordinary business.” The SEC’s definition of “ordinary business” is fluid and is often modified in response to public and political interest in a particular topic. For example, in response to increasing public concern about health care, the SEC no longer disallows proposals about cigarette advertising aimed at minors (Mahoney 1993). Similarly, in response to rising public furor over executive pay, the SEC announced late in the 1992 proxy season that proposals about executive compensation would no longer be disallowed under the “ordinary business” exclusion. The decision to allow executive

compensation proposals occurred concurrently with the decision to expand proxy disclosure requirements. The SEC's hope was that the expanded disclosure requirements would provide investors with sufficient information to evaluate executive compensation policies. When compensation policies were determined to be inappropriate, the proposal mechanism could then be used to initiate change (Breedon 1992).

Since the company bears the costs of printing and distributing the proposals, costs to shareholders of filing 14a-8 proposals are low. For example, Pozen (1994) reports that 1987 efforts by the College Retirement Equities Fund (CREF) to repeal poison pills at over a dozen companies involved a cash outlay of less than \$10,000. Thus, shareholder proposals provide a low-cost way of mounting a challenge to compensation practices that have been determined to be non-value maximizing. Although compensation proposals are advisory (as opposed to binding) and the probability of passage is low, the cost of filing is also low enough that many potential proposals will meet a reasonable cost-benefit hurdle.

Table I displays executive compensation proposals by type, sponsor, year, and voting outcome. Over the period 1992-95, 169 compensation proposals were filed by 74 sponsors against 106 firms. As indicated in panel A, approximately one-half of the proposals in our sample (49.1%) request that the level of executive compensation be reduced. By comparison, 52 proposals (30.8%) call for an increase in disclosure, 20 proposals (11.8%) suggest that the compensation committee should be comprised solely of independent directors, 7 (4.1%) request an increase in pay-for-performance sensitivities, and 7 (4.1%) request that executive compensation policies be put to a shareholder vote. Following the adoption of expanded SEC compensation disclosure requirements, there was a decline in the number proposals about compensation disclosure issues (35 in 1992 and 1993 versus 17 in 1994 and 1995). As indicated in panel B, over 80% of proposals were filed by individual shareholder activists, such as Evelyn Davis and the Katz brothers.

By implication, institutional involvement in proposal sponsorship is limited. Institutionally

sponsored proposals comprise only 17.8% of all proposals in our sample. Private institutions are most apt to sponsor proposals about compensation levels, while all proposals sponsored by public institutions call for an increase in the independence of the compensation committee. Since compensation proposals were not allowed until late in the 1992 proxy season, it is not surprising that more proposals were filed in 1993 and 1994 than in 1992. As indicated in panel C, there were also fewer proposals filed in 1995 than in either of the preceding two years.⁴

Panel D shows that there is significant variation in voting outcomes. While none of the proposals secured majority support, 17.8% of the proposals received over 20% of shares voted. Panel D also indicates that 20% of proposals are withdrawn by the sponsor prior to a shareholder vote. Typically, a proposal is withdrawn when the sponsor has negotiated a satisfactory resolution with the target company. Panel E suggests that proposals sponsored by individual investors generally receive lower support than other proposals. In addition to receiving greater voting support, proposals sponsored by public institutions and proposals with mixed sponsorship were more apt to be withdrawn. Finally, evidence in panel F indicates that proposals about compensation committee independence receive higher voting support than do other categories of proposals.

Clearly, shareholders have incentives to support reasonable proposals aimed at correcting poorly structured compensation contracts. But, why would a shareholder support proposals that may appear to be nonsensical, such as those filed by individual 'gadfly' investors suggesting that CEO pay be capped at the level of the salary of the President of the United States? As long as the target firm's compensation policies are not value-maximizing, wealth-motivated shareholders have incentives to support such proposals because voting support signals shareholder dissatisfaction to management and may serve as a catalyst for change. Former SEC Commissioner Sommer argues that management views voting support for shareholder proposals to be an expression of "no confidence" and that even a twenty percent vote in favor of a proposal sends a strong, negative

⁴ The number of compensation proposals filed in 1996 was roughly comparable to the number filed in 1995. Early evidence from the 1997 proxy season indicates a 30% increase in compensation proposal filings over 1996.

signal (1992, p. 708). Anecdotal evidence is offered by Pozen (1994, p. 145), who points out that in March of 1993, after observing a negative pay-for-performance relation at Paramount, the State of Wisconsin Pension Board encouraged other blockholders to withhold their compensation committee votes. The pension fund believes that its initiative led to subsequent improvements at Paramount, even though few votes were actually withheld.

3. Hypothesis development

In this section, we develop hypotheses that a) explore shareholder motivations for filing executive compensation proposals, and b) predict voting outcomes. These hypotheses argue that shareholder support for executive compensation proposals is related to the structure of a firm's executive compensation plans, firm performance, the existence of alternative monitoring mechanisms, the composition of the shareholder base, and the type of investor who sponsors the proposal. These hypotheses examine whether support for shareholder proposals on executive compensation is related to the factors envisioned by the SEC (the compensation and stock price performance information in the proxy statement), as well as factors found by previous researchers to be associated with shareholder support for compensation proposals (accounting measures of firm performance, firm size, the existence of alternative monitoring mechanisms, and the composition of the shareholder base).

3.1 Compensation policy and executive compensation proposals

Managers are unlikely to act to maximize shareholder wealth unless it is in their self-interest to do so. While some CEOs assert they are motivated not by money, but by personal pride in a job well-done, an inherent conflict of interest plagues the shareholder-manager relationship. The role of the compensation committee is to minimize the resulting agency costs by structuring executive compensation contracts that align the interests of managers with those of shareholders. As owners of the corporation, shareholders have incentives to pressure the compensation committee to make

value-increasing changes when shareholder assessments indicate that compensation practices are sub-optimal. The recent increase in executive compensation disclosures required by the SEC has lowered the cost to shareholders of obtaining the information needed to assess the degree of incentive alignment provided by a firm's executive compensation policies. It is the SEC's intent that shareholders signal their discontent via the shareholder proposal mechanism. To evaluate whether shareholders are using the new proxy disclosures as the SEC anticipates, we hypothesize that:

H1A: The probability of receiving a shareholder proposal on executive compensation is negatively associated with shareholders' perceptions of the degree of incentive alignment provided by a firm's executive compensation plans.

H1B: Voting support for executive compensation proposals is negatively associated with shareholders' perceptions of the degree of incentive alignment provided by a firm's executive compensation plans.

3.2 Firm performance and executive compensation proposals

Our second hypothesis predicts that shareholders are more apt to support executive compensation proposals when firm performance is poor. Poor financial performance reflects poorly on incumbent management, a fact that is particularly salient to shareholders who review the proxy statement's performance graph. Karpoff, Malatesta, and Walkling (1996) present evidence that shareholder proposals to tighten internal and external governance are more likely at firms with poor performance records. The SEC decision to allow shareholder proposals on executive compensation provides shareholders at poorly performing firms with an additional tool. By taking action to alter the structure of executive compensation, managers' interests can be better aligned with those of shareholders. Thus, we predict that:

H2A: The probability of receiving a shareholder proposal on executive compensation is negatively associated with firm performance.

H2B: Voting support for executive compensation proposals is negatively associated with firm performance.

3.3 Alternative monitoring mechanisms and executive compensation proposals

Of course, executive compensation contracts are not the only available vehicle for aligning the interests of managers with those of shareholders. Alternative monitoring mechanisms exist. Even if compensation contracts are poorly structured, the existence of other alignment mechanisms may discourage a manager from pursuing personal goals inconsistent with maximizing shareholder wealth. Additionally, alternative monitoring mechanisms may provide explicit incentives that favor the design of value-maximizing compensation policies. For example, independent compensation committees are more likely to write incentive-aligned contracts than are non-independent committees. For both of these reasons, when substitute mechanisms are functioning effectively, shareholders do not need to be as concerned about the structure of executive compensation contracts. Thus, we predict that:

H3A: The probability of receiving a shareholder proposal on executive compensation is negatively associated with the effectiveness of alternative monitoring mechanisms.

H3B: Voting support for executive compensation proposals is negatively associated with the effectiveness of alternative monitoring mechanisms.

3.4 The shareholder base and executive compensation proposals

Irrespective of the decision context, there is cross-sectional variation in shareholders' incentives to provide voting support to management. This variation is driven by a variety of factors. For example, Gordon and Pound (1993) argue that the interests of some shareholders (ESOPs, insiders) are closely tied to those of the firm's management, while others (individual investors) may hold such a small fraction of the firm that the costs of evaluating matters that are put to a vote far outweigh expected benefits. Thus, the composition of the shareholder base may also influence shareholders' willingness to support shareholder proposals. If proposal sponsors are rational, the composition of the shareholder base will also influence the probability of proposal receipt, in that sponsors are less apt to file proposals against a firm whose shareholder base has a proclivity to vote with management. Thus, we predict that:

H4A: The probability of receiving a shareholder proposal on executive compensation is negatively associated with the proclivity of the shareholder base to vote with management.

H4B: Voting support for executive compensation proposals is negatively associated with the proclivity of the shareholder base to vote with management.

3.5 The content and sponsorship of executive compensation proposals

Although the ostensible purpose of the shareholder proposal mechanism is to reduce agency conflicts between shareholders and managers, the low cost of filing a shareholder proposal, coupled with widespread populist concern about pay levels, suggests that proposals may also serve political ends. Additionally, the low cost of filing a proposal suggests that some proposal sponsors - although well-intentioned - may not possess the knowledge that is necessary to make an accurate determination of the degree of incentive alignment provided by a firm's compensation policies. Since the political motivations and the sophistication of the proposal sponsor are apt to vary across classes of proposal sponsor (i.e., individual investors, private institutions, public institutions, and mixed sponsorship), we predict that:

H5: Voting support for shareholder proposals on executive compensation varies positively with the incentives of the proposal sponsor to maximize shareholder wealth.

4. Data

4.1 Data sources

Our sample consists of 169 proposals by 74 sponsors made at 106 firms during the 1992-95 proxy seasons. We began by obtaining an initial proposal sample from the Investor Research Responsibility Center's (IRRC) quarterly *Corporate Governance Bulletin*, which tracks proposal activity at approximately 1,500 large firms. To conduct our subsequent analysis, we also require data on the structure of the firm's executive compensation plans, firm performance, the existence of alternative monitoring mechanisms, and the composition of the shareholder base. This additional information is gathered from: Standard & Poor's ExecuComp (executive compensation

data, which S&P collects from the proxy statements), Compustat (accounting measures of firm performance), CRSP (stock returns), IRRC's 1995 *Corporate Takeover Defenses* directory (management entrenchment data), corporate proxies (compensation committee independence data, as well as data about executive compensation and ownership structure that was not available in electronic form), Compact Disclosure (ownership structure data), and ABI/Inform (financial press coverage of our sample firms' compensation policies).

4.2 The control sample

To identify factors that explain the decision to file an executive compensation proposal, we require a control sample. Our control sample consists of the firms that did not receive executive compensation proposals during the sample period, but are in the same four-digit SIC code as the corresponding proposal firms and have a beginning market value of common equity closest to that of the proposal firms. Due to data restrictions, seven matches were based on three-digit SIC codes and ten were based on two-digit SIC codes. Table 2 reports on the success of the matching by comparing the total assets, net sales, market value, and market-to-book ratio of proposal and no-proposal firms. Proposal firms have significantly larger mean and median total assets, net sales, and market values than do the no-proposal firms. These results suggest that within any given industry, the largest firms are the firms most apt to receive executive compensation proposals. There is no difference in the market-to-book ratios of the two groups of firms.

4.3 Variable definitions and descriptive statistics

Table 3 contains definitions of the variables used in our proposal filing decision and voting outcomes analysis, and Table 4 contains descriptive statistics for the variables. These descriptive statistics are reported for 133 proposal firms and their industry matches. When a sample firm received more than one executive compensation proposal in a given year, all but one of the proposals was randomly deleted. Thirty-six of the original 169 proposals were omitted from subsequent analyses.

Our first hypothesis predicts that both the probability of receiving a shareholder proposal and voting support for the proposal will be positively associated with shareholders' perceptions of the optimality of the firm's executive compensation policies. We use total CEO compensation and the sensitivity of executive pay to firm performance to measure the firm's executive compensation practices. The inclusion of total compensation is motivated by the fact that the level of executive pay has become one of the most visible and politically contentious issues facing U.S. corporations⁵ and by the fact that a purpose of the compensation tables in the expanded proxy disclosures is to provide shareholders with information about compensation levels.

Our use of pay-for-performance sensitivities is motivated by the fact that stakeholders have also expressed concern about how pay is delivered. For example, the United Shareholders Association (1993) concluded that, "the costs of paying executives too much are often trivial compared to the costs of paying executives in ways that provide little or no incentives to create value." Compensation packages that are sensitive to performance reduce the costs associated with managerial non-performance and also reduce the costs associated with direct monitoring of executives (Murphy 1986). Additionally, a major purpose of the expanded proxy disclosures on executive compensation is to allow shareholders to evaluate the link between compensation and firm performance. We use the increase in cash compensation per \$1,000 increase in shareholder wealth as measured by Murphy for the United Shareholder's Association (1993) to capture pay-for-performance sensitivities. Mean (median) total CEO compensation is \$2.599 million (\$1.695 million), and mean (median) sensitivities are \$0.19 (\$0.05).

Since shareholder perceptions of a firm's executive compensation policies may differ from

⁵ In response to increasing public furor over executive compensation, Congress has considered a variety of regulatory and legislative actions. For example, in 1991, the House of Representatives debated legislation that would have eliminated a tax deduction for executive compensation in excess of 25 times that of the lowest-paid worker, and the Senate considered the "Corporate Pay Responsibility Act," which would have provided shareholders with additional mechanisms for influencing executive compensation policies. Congress eventually passed section 162(m) of the Omnibus Budget Reconciliation Act of 1992, which disallows deductions for pay in excess of \$1 million that is not performance-based.

the actual policies, we also include three variables that measure shareholder perceptions: prior negative coverage of the firm's compensation policies in the financial press (*Barron's*, *Business Week*, *Forbes*, *Fortune*, and *Institutional Investor*) during the year preceding the filing of the proposal, prior positive press coverage, and firm size. Our inclusion of the financial press coverage variables is motivated by press involvement in the compensation debate.⁶ Our inclusion of firm size is motivated by the positive association between firm size and compensation levels, as well as the general tendency of larger firms to be more politically visible. The percentage of firms with positive popular press citations, 9.3%, is approximately equal to the percentage of firms with negative citations, 8.9%. Mean (median) firm size is \$10,321 million (\$5,037 million).

Our second hypothesis predicts that the probability of receiving a shareholder proposal on executive compensation and voting support for a shareholder proposal will be negatively associated with prior firm performance. Since the proxy statement performance graph reports the firms stock price performance relative to a broad market index and a peer group, we include cumulative abnormal returns as a performance measure. For consistency with prior research, we use the two other accounting performance variables identified by Karpoff, Malatesta and Walkling (1996): operating return on sales and sales growth. Our inclusion of sales growth is also motivated by the populist focus on pay practices at firms engaged in downsizing and Murphy's (1995) argument that firms in the midst of down-sizing typically need to restructure their executive compensation plans to increase the weight placed on stock returns relative to that placed on accounting performance measures. Mean (median) sales growth is 22.9% (28.7%). Twenty-one percent of observations have negative sales growth. Mean (median) operating return on sales is 23% (19%), while mean (median) abnormal returns are 0.07% (0.02%).

Our third set of hypotheses predicts that the probability of receiving a shareholder proposal and voting support for proposals will be negatively associated with the existence of alternative

⁶ *Barron's*, *Business Week*, *Fortune*, *Forbes* and the *Institutional Investor* published 66 articles over the period January 1, 1991 - December 31, 1994, that discuss firms' executive compensation policies. These 66 articles contained 277 citations to the compensation policies of 144 firms, or an average of 1.92 citations per cited firm. Of the citations, 155 (56.0%) were negative, 28 (10.1%) were neutral, and 94 (33.9%) were positive.

monitoring mechanisms. We examine two sets of alternative monitoring mechanisms: the control that management exerts over the compensation committee and the extent to which management is shielded from the market for corporate control by the existence of anti-shareholder rights provisions. To measure managerial control over the compensation committee, we use an indicator variable equal to 1.0 if a non-independent director serves on the compensation committee⁷ and two other measures of CEO power. These measures are an indicator variable equal to 1.0 if the CEO also hold the position of Chairman of the Board and the number of years that the CEO has held the position of CEO. Forty-four percent of compensation committees contain at least one non-independent member, and 75.6% of the CEOs also hold the position of chairman. Mean (median) CEO tenure, is 6.07 (5.0) years.

If shareholder proposals on executive compensation are viewed as a mechanism for better aligning executives' interests with those of shareholders, then they will be filed and will receive greater voting support when the target corporation has previously adopted measures that increase the cost to shareholders of monitoring management. We define management entrenchment as an indicator variable equal to 1.0 if the firm has more than four of ten possible types of anti-shareholder rights provisions. This definition is the same as that used by Gordon and Pound (1993), who consider the following types of governance protections: poison pills, supermajority, blank check preferred, unequal voting rights plans, classified board, elimination of cumulative voting, limits on action by written consent, limits on the right to call a special meeting, and lock-in provisions in the corporate charter. Slightly less than 5% of sample firms have four or more entrenchment provisions.

Our fourth set of hypotheses predicts that the probability of receiving a shareholder proposal and the voting support for the proposal will vary negatively with the proclivity of the

⁷ Boards on which independent outside directors hold a majority of seats are associated with decisions that benefit shareholders (Byrd and Hickman 1992 and Brickley, Coles, and Terry 1994). Comparable benefits exist at the committee level (Klein 1995, Dechow, Sloan, and Sweeney 1996, and Wright 1996). Additionally, Newman and Wright (1996) find that pay-performance sensitivities are higher at firms with independent compensation committees.

shareholder base to vote with management. Our three measures of the composition of the shareholder base are: percent outside director holdings, percent institutional holdings, and the presence of indexed investors. Of course, the outside directors who set executive compensation policies are more apt to vote in support of those policies than are other classes of shareholders. Prior research also documents that institutions are less apt to vote with management on governance proposals than are individual investors (Gordon and Pound 1993) and that firms with a high percentage of shares held by institutions have a higher probability of receiving shareholder proposals on corporate governance issues (Karpoff, Malatesta and Walkling 1996). Mean (median) institutional holdings is 50.8% (52.1%), while mean (median) outside director holdings is 0.2% (0.1%).

Indexed investors cannot sell poor performers, hence are more apt to be activists on corporate governance issues (Monks and Minow 1995). Since S&P 500 firms tend to have a higher proportion of stock held by index managers, we measure the presence of indexed investors by an indicator variable equal to 1.0 if the firm is a member of the S&P 500. Of the firms in our sample, 76.1% are members of the S&P 500.

To test our fifth hypothesis, which predicts a positive association between voting support and the incentives of the proposal sponsor to maximize shareholder wealth, we use indicator variables for classes of proposal sponsors. Wohlstetter (1993) claims that individual activists and public fund managers lack both the knowledge and the ability to effectively monitor management. Further, proposals by individual and public institutions are more apt to be politically motivated (Romano 1993). In contrast, previous research suggests that proposals sponsored by private institutions with significant assets under management are more apt to be motivated by shareholder wealth maximization. For example, Strickland, Wiles and Zenner (1996) find activism by the United Shareholders' Association to be value-increasing. Thus, prior research suggests proposals sponsored by private institutions or proposals with mixed sponsorship will receive greater voting support than proposals sponsored by individual investors or public institutions.

When testing our fifth hypothesis, we also include an indicator variable equal to 1.0 if the

proposal was filed in 1992, prior to the announcement of the proposed SEC rule changes. Since shareholders had less available information to evaluate executive compensation policies, both the nature of shareholder proposals and voting support may differ from that in the subsequent period of expanded disclosure.

Pearson (Spearman) correlation coefficients among our independent variables are reported in the upper (lower) diagonal of Table 5. Generally, these correlations are low. Additionally, Spearman and Pearson measures of association are of comparable magnitudes. Consistent with firm size being the most significant determinant of CEO compensation, the correlation between total CEO compensation and market value of common equity is 0.48. Institutional ownership is negatively correlated with operating return on sales and sales growth ($\rho = -0.51$ and -0.34 , respectively), but is positively correlated with abnormal returns ($\rho = 0.21$). CEO tenure is positively correlated with institutional holdings ($\rho = 0.26$) and public sponsorship of a proposal ($\rho = 0.20$).

Somewhat surprisingly, there is a large positive correlation between positive and negative financial press citations, $\rho = 0.53$. This finding is consistent with the tension between populist political concerns and shareholder wealth maximization in financial press coverage of the executive compensation debate. For example, it is not uncommon for an article criticizing the high pay earned by a CEO to be followed a few months later by an article praising that pay package as an appropriate response to the firm's superior stock price performance.

5. Empirical evidence on the decision to file shareholder proposals and voting outcomes

In this section, we present results from three sets of tests. First, we examine the decision to file a shareholder proposal on executive compensation. Second, we explore the factors that explain voting outcomes. Third, we examine the situations in which a proposal is withdrawn, as opposed to put to a shareholder vote.

5.1 Empirical evidence on the decision to file shareholder proposals

To test our hypotheses about the factors that influence shareholders to initiate proposals on executive compensation, we estimate the following probit model:

$$(1) \Pr(\text{Proposal}_i) = \sum \alpha_k * \text{Structure of Executive Compensation}_i + \sum \beta_k * \text{Firm Performance}_i + \sum \delta_k * \text{Alternative Monitoring Mechanisms}_i + \sum \gamma_k * \text{Shareholder Base}_i + \epsilon_i$$

Results from the estimation of this model for the complete sample of $N = 133$ proposal firms and $N = 126$ no-proposal firms for which complete data is available are reported in Table 6. The pseudo- R^2 for this model is 40%. We find that the decision to file a proposal is related to the structure of executive compensation (H1A) and firm performance (H2A). We find no evidence of an association between the proposal filing decision and the existence of alternative monitoring mechanisms (H3A). Although we find evidence of an association between the composition of the shareholder base and the receipt of a shareholder proposal on executive compensation (H4A), the relation is in the direction opposite to that predicted.

Support for H1A is evidenced by the positive signs on the negative popular press coverage and market value of common equity variables. Somewhat surprisingly, neither of the two direct measures of the structure executive compensation - total CEO compensation and the sensitivity of CEO compensation to firm performance - is significant. Thus, we find no evidence of direct shareholder use of the information about executive compensation contained in the proxy statement.

However, our evidence is consistent with investors' indirect use of the proxy statement compensation and performance disclosures. In results not tabled, we use the compensation, and performance variables from our filing decision model (Equation 1) to estimate the probability that a firm will receive negative press coverage of its compensation policies. This analysis indicates that firms with higher total compensation, larger firms, and firms with larger absolute abnormal returns are more apt to receive negative financial press coverage. We also find that coverage is unassociated with return on sales, sales growth, and the sensitivity of compensation to firm performance. Thus, proxy filing decisions are only indirectly associated with the compensation

and stock price performance information in the proxy statements via the association with negative financial press coverage.

Support for H2A is evidenced by the negative sign on the sales growth variable. This finding is consistent with populist discontent over high pay levels at firms undergoing downsizing. In contrast, neither of the two measures of profitability - return on sales and abnormal returns - is associated with the proposal filing decision. Once again, we find no evidence that shareholders are using information about share price performance in the manner envisioned by the SEC.

The lack of support for H3A is evidenced by the insignificance of the compensation committee independence, CEO as Chairman of the Board, CEO tenure, and managerial entrenchment variables. The existence of alternative monitoring devices does not influence the probability that a proposal will be filed. Finally, contrary to H4A, we find a negative association between the probability of receiving a shareholder proposal on executive compensation and the percentage of shares held by institutions. This finding contrasts with that of Karpoff, Malatesta and Walkling (1996), who document a positive association between the probability of receiving a shareholder proposal on other corporate governance issues and the proportion of outstanding shares held by institutions. One interpretation of these results is that the individuals who sponsor compensation proposals anticipate lower institutional support for executive compensation proposals.

5.2 Empirical evidence on voting outcomes

We now turn to an examination of our hypotheses about voting outcomes. To examine shareholder voting behavior, we use OLS to relate a series of variables that measure the constructs identified in our hypotheses to voting outcomes, where voting outcomes are defined as votes in favor of the proposal, as a percentage of total votes cast:

$$(2) \text{ Vote} = \sum \alpha_k \text{ * Structure of Executive Compensation}_i + \sum \beta_k \text{ * Firm Performance}_i + \sum \delta_k \text{ * Alternative Monitoring Mechanisms}_i + \sum \gamma_k \text{ * Shareholder Base}_i + \sum \lambda_k \text{ * Proposal Sponsor/Type}_i + \varepsilon_i$$

Results from the estimation of this equation for the complete sample of $N = 100$ (out of a possible 133) proposal firms for which data is also available for the industry match are reported in Table 7. Our results indicate support for our firm performance (H2B) hypothesis. Consistent with our prediction that voting support will be lower at firms with poor performance, proposals filed against firms with lower abnormal returns relative to the industry match firm receive higher voting support. In contrast, we find no evidence that the percentage of votes cast in favor of a proposal is associated with either the structure of executive compensation (H1B) or the existence of alternative monitoring mechanisms (H3B). The lack of significance of the compensation levels and pay-for-performance variables again suggests that shareholders are not using the compensation information contained in the proxy statement as a primary input to their voting decisions. The lack of significance of the monitoring variables suggests that the other attributes of corporate governance we examine are not viewed by shareholders to be complete substitutes for the incentives provided by compensation plans.

Evidence in support of our shareholder base hypothesis (H4B) is mixed. Consistent with our predictions, the greater the proportion of shares held by outside directors, the lower the voting support for the proposal. Contrary to our predictions, proposals filed against firms in the S&P 500 receive lower voting support than proposals filed against other firms. Thus, the greater the concentration of passive investors, the lower the percentage of shares voted in favor of the proposal. One interpretation of this latter result is that passive institutions are more apt to engage in "behind closed doors" dialogue with management, than to publicly oppose management.

Evidence in support of our proposal sponsor hypothesis is also mixed. Consistent with our prediction that voting support is positively associated with the incentive of the proposal sponsor to maximize shareholder wealth, proposals sponsored by individual investors receive lower voting support than other proposals. Prior literature suggests a similarity in the motivations of individual investors and public institutions. Contrary to this prediction, we find that proposals filed by public institutions receive greater voting support. If the typical shareholder is reluctant to

interfere in the running of the business, then that shareholder is less apt to support a sponsor who proposes specific changes in the structure of executive compensation plans (e.g., proposals to reduce the level of total compensation) than a sponsor whose proposal lowers the cost to shareholders of monitoring management (e.g., proposals to increase the independence of the compensation committee). As indicated in Table 1, public institutions are most apt to file proposals about compensation committee independence, while other classes of investors are most apt to file proposals about compensation levels. Thus, the significant difference in voting support for proposals filed by public institutions versus those filed by individual investors may reflect a greater shareholder willingness to support proposals that improve monitoring than to support proposals that narrow the range of allowable compensation packages.

5.3 Withdrawn proposals

To examine the factors that motivate compensation committees to negotiate a compromise with proposal sponsors, we estimate a probit model that explains the probability of a proposal being withdrawn, as opposed to being put to a vote. All independent variables used to explain voting outcomes are included in the model. The decision to withdraw is made by the proposal sponsor, in response to concessions on the part of the target firm. Thus, our model is a joint test of the compensation committee's willingness to offer a compromise and the sponsor's willingness to accept that compromise. Because the withdrawal of a proposal is influenced by the behavior of both parties, we do not offer formal predictions and view the resulting analysis to be descriptive.

$$(3) \Pr(\text{Withdraw}_i) = \sum \alpha_k * \text{Structure of Executive Compensation}_i + \sum \beta_k * \text{Firm Performance}_i + \sum \delta_k * \text{Alternative Monitoring Mechanisms}_i + \sum \gamma_k * \text{Shareholder Base}_i + \sum \lambda_k * \text{Proposal Sponsor/Type}_i + \epsilon_i$$

Results from the estimation of Equation (3) are reported in Table 8. These results suggest that the probability that a shareholder proposal on executive compensation will be withdrawn is associated with firm performance (as evidenced by the positive sign on return on sales relative to the industry match), the existence of alternative monitoring mechanisms (as evidenced by the

positive sign on CEO tenure and outside director holdings), the composition of the shareholder base (as evidenced by the positive sign on the S&P 500 indicator variable), and the proposal sponsor (as evidenced by the negative sign on the 'gadfly' indicator variable). Thus, the successful negotiation of a compromise is more likely to result when the firm is growing, the firm's CEO has a longer tenure, the firm's outside directors have greater shareholdings, the firm's investor base contains a larger proportion of passive, indexed institutions, and the proposal sponsor is other than an individual investor.

Interestingly, there is no evidence that the withdrawal of a proposal is associated with the structure of the firm's executive compensation policies or the firm's share price performance. Thus, we find no evidence of a relation between information contained in the expanded proxy disclosures on executive compensation and the sponsor's decision to withdraw a proposal. The positive sign on the S&P 500 variable, a proxy of the presence of passive, indexed investors is additional evidence consistent with the argument that passive institutions are more apt to engage in "behind closed doors" dialogue with management, than to publicly oppose management.

6. Conclusion

In 1992, the SEC expanded the information about executive compensation and share price performance that firms are required to disclose in their proxy statements. At the same time, the SEC expanded the allowable scope for shareholder proxy proposals to include executive compensation topics. It is the SEC's expectation that shareholders will base their proposal filing and voting strategies on the information contained in the expanded proxy disclosures, i.e., on an evaluation of the appropriateness of executive compensation policies in light of firm performance. This paper examines the factors that explain proposal filing decisions, voting outcomes, and the decision to withdraw proposals prior to a shareholder vote. Results from a sample of 169 proposals filed against 106 firms by 74 sponsors during the 1992-95 proxy seasons provide little evidence that shareholders use the information in the expanded proxy disclosures in the manner

envisioned by the SEC.

First, although the ostensible purpose of the shareholder proposal mechanism is to provide shareholders with a forum for criticizing compensation policies that do not adequately align the interests of managers with those of shareholders, the low cost of filing a proposal, coupled with widespread populist concerns about pay levels, suggests that proposals may also serve political ends. Our evidence is consistent with this argument. Individual investors file 80% of compensation proposals, and 49% of compensation proposals recommend a cap on the level of CEO pay. Consistent with populist concerns about CEO pay at firms undergoing downsizing, we find that the probability of receiving a compensation proposal is negatively associated with prior sales growth. Our results also suggest that the filing decision is more heavily influenced by stakeholder perceptions of a firm's compensation policies than by actual attributes of CEO pay. The probability of receiving a proposal is positively associated with firm size and prior negative press coverage of the firm's compensation policies, but is unassociated with the level of CEO pay or the sensitivity of CEO pay to firm performance. Additionally, the probability of receiving a shareholder proposal is unassociated with prior share price performance. Thus, neither the compensation nor performance information in the proxy statement appears to be directly used by investors in their proposal filing decisions.

Second, our evidence suggests that sophisticated shareholders use their voting rights to signal dissatisfaction with firm performance, as opposed to dissatisfaction with the firm's compensation policies. Voting support is negatively associated with prior abnormal returns, but is unassociated with attributes of the firm's compensation policies. Additionally, sophisticated investors appear reluctant to support executive compensation proposals. Institutions file only 20% of compensation proposals. In contrast, Karpoff, Malatesta and Walkling (1996) find that 35% of proposals on other topics are filed by institutional investors. We also find that indexed institutions are less apt to vote in support of compensation proposals than are individual investors. This finding is in contrast to evidence in Gordon and Pound (1993) that institutional investors are more

willing to support shareholder proposals on other governance topics than are individual investors.

We also note that approximately 20% of proposals are withdrawn by the sponsor prior to a shareholder vote because an accommodation with management has been reached. This subsample is particularly interesting because the lack of voting support for executive compensation proposals (none of the proposals in our sample received majority support and less than 20% received greater than 20% voting support) suggests that the power of the shareholder proposal mechanism to influence corporate policies rests not in the impact of advisory votes, but in the ability of the mechanism to sometimes serve as a catalyst for subsequent negotiations with management. Two-thirds of proposals about compensation committee independence are subsequently withdrawn, and 41% of withdrawn proposals are about compensation committee independence. The withdrawal of a proposal is unassociated with the firm's executive compensation policies and its share price performance, but is positively associated with prior sales growth, the presence of a CEO who is also Chairman of the Board, the proportion of outside director shareholdings, and the presence of passive investors in the shareholder base. The fact that proposal withdrawal is much more likely when the proposal topic is the independence of the compensation committee - as opposed to recommendations about how to restructure compensation plans - suggests that the proposal mechanism is a more effective vehicle for addressing perceived deficiencies in the Board's committee structure than for addressing perceived deficiencies in executive compensation policies.

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Table 1

Compensation proposals by proposal type, year, sponsor, and voting outcomes for N = 169 proposals filed over the period 1992-1995

Panel A: Proposal Type by Year

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>Total</u>
Pay Levels	3	40	23	17	83
Pay-for-Performance	0	0	5	2	7
Comp Comm Composition	1	9	7	3	20
Disclosure	17	18	12	5	52
Shareholder Vote	<u>0</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>7</u>
Total	21	68	50	30	169

Panel B: Proposal Type by Proposal Sponsor

	<u>Public Inst^a</u>	<u>Priv Inst^b</u>	<u>Individual^c</u>	<u>Mixed^d</u>	<u>Total</u>
Pay Levels	0	3	72	8	83
Pay-for-Performance	0	0	7	0	7
Comp Comm Composition	15	0	1	4	20
Disclosure	0	1	50	1	52
Shareholder Vote	<u>0</u>	<u>0</u>	<u>6</u>	<u>1</u>	<u>7</u>
Total	15	4	136	14	169

Panel C: Proposal Sponsor by Year

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>Total</u>
Public Institution	1	4	7	3	15
Private Institution	0	2	1	1	4
Individual Investor	19	54	39	24	136
Mixed	<u>1</u>	<u>8</u>	<u>3</u>	<u>2</u>	<u>14</u>
Total	21	68	50	30	169

Panel D: Year by Voting Outcome

	<u><10%</u>	<u>10-20%</u>	<u>20-50%</u>	<u>Withdrawn</u>	<u>Total</u>
1992	7	9	4	1	21
1993	20	14	10	24	68
1994	22	13	9	6	50
1995	<u>11</u>	<u>9</u>	<u>7</u>	<u>3</u>	<u>30</u>
Total	60	45	30	34	169

Table 1 continued

Compensation proposals by proposal type, year, sponsor, and voting outcomes for N = 169 proposals filed over the period 1992-1995

Panel E: Proposal Sponsor by Voting Outcome

	<u><10%</u>	<u>10-20%</u>	<u>20-50%</u>	<u>Withdrawn</u>	<u>Total</u>
Public Institution	0	0	5	10	15
Private Institution	1	0	3	0	4
Individual Investor	58	45	17	16	136
Mixed	<u>1</u>	<u>0</u>	<u>5</u>	<u>8</u>	<u>14</u>
Total	60	45	30	34	169

Panel F: Proposal Type by Voting Outcome

	<u><10%</u>	<u>10-20%</u>	<u>20-50%</u>	<u>Withdrawn</u>	<u>Total</u>
Pay Levels	29	23	18	13	83
Pay-for-Performance	4	3	0	0	7
Comp Comm Composition	0	0	6	14	20
Disclosure	25	15	5	7	52
Shareholder Vote	<u>2</u>	<u>4</u>	<u>1</u>	<u>0</u>	<u>7</u>
Total	60	45	30	34	169

^a Public institutions include the California State Teachers Retirement System (3 proposals), New York City Employees Retirement System (10 proposals), and New York City Fire, Police, or Teachers pension fund (5 proposals).

^b Private institutions include the College Retirement Equities Fund (1 proposals), United Brotherhood of Carpenters pension fund (1 proposal), and Electrical Workers (2 proposals).

^c Individual investors include Evelyn Davis (40 proposals), M. and B. Katz (18 proposals), and the Interfaith Center for Corporate Responsibility (17 proposals).

^d Mixed proposals are those sponsored with sponsors from more than one of the three categories. The majority of these are sponsored by the United Shareholders Association (4 proposals).

Table 2

Comparison of the total assets, net sales, and market value of common equity of the N = 133 proposal firms versus the N = 126 no-proposal firms^a

	<u>Proposal Firms</u>	<u>No-Proposal Firms</u>	<u>Difference (p-value)^b</u>
<u>Total Assets</u>			
Mean	34,062.38	14,301.73	0.0001
Median	14,148.90	7,667.40	0.0003
Std. Dev.	52,402.58	20,033.92	
<u>Net Sales</u>			
Mean	16,156.22	6,447.71	0.0001
Median	8,072.61	4,701.25	0.0001
Std. Dev.	25,363.20	7,964.44	
<u>Market Value of Equity</u>			
Mean	13,695.44	6,638.16	0.0001
Median	6,048.80	4,006.94	0.0160
Std. Dev.	18,919.73	7,263.34	
<u>Market-to-Book Ratio</u>			
Mean	3.25	3.61	0.7361
Median	2.11	1.96	0.7530
Std. Dev.	6.70	10.70	

^a 116 of the 133 matches were based on 4-digit SIC codes, 7 were based on 3-digit SIC codes, and 10 were based on 2-digit SIC codes.

^b Two-tailed p-values from t-tests (for means) and Wilcoxon matched-pair sign-rank tests (for medians).

Table 3

Definition of variables used in the filing decision, voting outcomes, and withdrawal decision analyses

Dependent Variables

PROPOSAL	An indicator variable equal to 1.0 if the firm's proxy statement includes a shareholder proposal on executive compensation.
VOTE	For firms with compensation proposals that were put to a vote, the percentage of votes supporting the proposal.
WITHDRAW	For firms who received an allowable shareholder proposal on executive compensation, an indicator variable equal to 1.0 if the proposal was withdrawn by the sponsor prior to the annual meeting vote.

Structure of Executive Compensation

COMP	The sum of (CEO base salary, bonus, other cash compensation, stock options valued using Black Scholes, stock appreciation rights, restricted stock awards, and long-term incentive plans), measured in the fiscal year preceding the year in which the shareholder proposal was filed, in millions of dollars.
PAYFORPERF	The sensitivity of CEO pay to firm performance, as measured by Kevin Murphy for the United Shareholder's Association (1993).
POSPRESS	Number of positive popular press references to the firm's executive compensation policies in the calendar year preceding the calendar year in which the proxy was filed.
NEGPRESS	Number of negative popular press references to the firm's executive compensation policies in the calendar year preceding the calendar year in which the proxy was filed.
MVE	The market value of common equity at the end of the fiscal year preceding the year in which the proxy was filed, in millions of dollars.

Firm Performance

ROS	Operating returns on sales over the fiscal year preceding the year in which the shareholder proposal was filed, measured as income before interest, taxes, depreciation, and amortization, divided by sales.
SALESGR	Rate of change in sales over the two fiscal years preceding the year in which the proposal was filed.
ABPERF	Market-adjusted abnormal returns cumulated over the fiscal year preceding the year in which the shareholder proposal was filed.

Alternative Monitoring Mechanisms

NONIND	Indicator variable equal to 1.0 if a non-independent director sits on the compensation committee.
CHAIR&CEO	Indicator variable equal to 1.0 if the CEO also holds the position of Chairman of the Board of Directors.
CEOTENURE	Number of years that the CEO has held the position of CEO.
ENTRENCH	Indicator variable equal to 1.0 if the firm has adopted at least four of the ten anti-shareholder rights provisions identified by Gordon and Pound (1993).

Table 3 continued

Definition of variables used in the filing decision, voting outcomes, and withdrawal decision analyses

Composition of the Shareholder Base

INSTHLD	Percentage of outstanding common shares held by institutional investors at the end of the calendar quarter nearest in time to the end of the fiscal year preceding the year in which the shareholder proposal was filed.
OUTDIRHLD	The percentage of outstanding common shares held by outside directors.
PASSIVE	Indicator variable equal to 1.0 if the firm is a member of the S&P 500.

Proposal Sponsor/Type

PUBLICINSTI	Indicator variable equal to 1.0 if the proposal was sponsored by a public institution.
PRIVATEINSTI	Indicator variable equal to 1.0 if the proposal was sponsored by a private institution.
GADFLY	Indicator variable equal to 1.0 if the proposal was sponsored by an individual investor.
DUM92	An indicator variable equal to 1.0 if the proposal was filed in 1992.

Differenced Variables

DIFCOMP	Proposal firm's COMP minus the COMP of the control firm.
DIFROS	Proposal firm's ROS minus the ROS of the control firm.
DIFABPERF	Proposal firm's ABPERF minus the ABPERF of the control firm.
DIFSALESGR	Proposal firm's SALESGR minus the SALESGR of the control firm.

Table 4

Descriptive statistics for the dependent and independent variables used in the filing decision, voting outcomes, and withdrawal decision analyses^a

	<u>Mean</u>	<u>Std. Dev.</u>	<u>Median</u>	<u>Minimum</u>	<u>Maximum</u>
<i><u>Dependent Variables</u></i>					
PROPOSAL	0.513	0.501	1	0	1
VOTE ^b	13.475	7.701	12.0	1.9	33.2
WITHDRAW ^b	0.189	0.390	0	0	1.000
<i><u>Structure of Executive Compensation</u></i>					
COMP	2.599	2.629	1.695	0.102	19.426
PAYFORPERF	0.186	0.488	0.050	0	5.180
POSPRESS	0.093	0.316	0	0	2
NEGPRESS	0.089	0.347	0	0	3
MVE	10,321	13,903	5,037	0	75,917
<i><u>Firm Performance</u></i>					
ROS	0.229	0.163	0.191	-0.113	1.00
SALESGR	0.229	0.374	0.287	-0.780	1.153
ABPERF	0.065	0.330	0.013	-0.506	2.430
<i><u>Alternative Monitoring Mechanisms</u></i>					
NONINDEPENDENT	0.444	0.498	0	0	1
CHAIR&CEO	0.756	0.430	1	0	1
CEOTENURE	6.070	5.680	5	0	48
ENTRENCH	0.046	0.211	0	0	1
<i><u>Shareholder Base</u></i>					
INSTHLD	50.825	16.983	52.100	0	86.750
OUTDIRHLD	0.219	0.451	0.060	0	3.68
PASSIVE	0.761	0.428	1	0	1
<i><u>Proposal Sponsor/Type</u></i>					
PUBINSTI ^b	0.050	0.219	0	0	1
PRIVINSTI ^b	0.020	0.141	0	0	1
GADFLY ^b	0.890	0.314	0	0	1
DUM92	0.150	0.359	0	0	1
<i><u>Differenced variables</u></i>					
DIFCOMP	0.803	3.118	0.400	-11.581	13.077
DIFROS	-0.045	0.164	-0.007	-0.707	0.210
DIFSALESGR	-0.382	0.445	-0.364	-1.416	0.400
DIFABPERF	0.010	0.408	-0.014	-1.146	1.558

^a Variables are defined in Table 3.

^b By definition, data for these variables is only available for the subsample of proposal firms.

^a All variables are defined in Table 3.

^b Correlations are based on the $N = 259$ firms in the filing decision analysis.

^c Correlations are based on the $N = 100$ firms used in the voting analysis.

Table 6

Probit model of the decision to file a shareholder proposal on executive compensation using data for N = 133 proposal firms and N = 126 no-proposal firms over the period 1992-95

$$(1) \Pr(\text{Proposal}_i) = \sum \alpha_k \text{Structure of Executive Compensation}_i + \sum \beta_k \text{Firm Performance}_i + \sum \delta_k \text{Alternative Monitoring Mechanisms}_i + \sum \gamma_k \text{Shareholder Base}_i + \varepsilon_i$$

	<u>Predicted Sign</u>	<u>Equation 1^a</u>	
Constant	?	1.851 (.0012)	
<u>Structure of Executive Compensation^b</u>			
COMP	+	0.015 (.7459)	
PAYFORPERF	-	.099 (.5961)	
POSPRESS	-	0.692 (.1302)	
NEGPRESS	+	1.114 (.0021)	**
MVE	+	0.037 (.0012)	**
<u>Firm Performance^b</u>			
ROS	-	-0.837 (.3045)	
SALESGR	-	-3.346 (.0001)	****
ABPERF	-	0.527 (.1765)	
<u>Alternative Monitoring Mechanisms^b</u>			
NONINDEPENDENT	+	0.025 (.8991)	
CHAIR&CEO	+	-0.259 (.2680)	
CEOTENURE	+	0.008 (.7023)	
ENTRENCH	+	0.671 (.2600)	
<u>Shareholder Base^b</u>			
INSTHLD	+	-0.023 (.0033)	**
OUTDIRHLD	-	-0.151 (.5588)	
PASSIVE	+	-0.014 (.9569)	

Table 6 continued

Probit model of the decision to file a shareholder proposal on executive compensation using data for N = 133 proposal firms and N = 126 no-proposal firms over the period 1992-95

Number of Observations	259
Pseudo R ²	0.37

^a Two-tailed p-values from a Chi-squared test appear in parentheses below the coefficient estimates. *, **, ***, **** indicates significance at the 0.10, 0.01, 0.001, and 0.0001 level.

^b Variables are defined in Table 3.

Table 7

Ordinary least squares analysis of voting outcomes using data for N = 100 shareholder proposals on executive compensation filed over the period 1992-95

$$(2) \text{ Vote} = \sum \alpha_k \text{ * Structure of Executive Compensation}_i + \sum \beta_k \text{ * Firm Performance}_i + \sum \delta_k \text{ * Alternative Monitoring Mechanisms}_i + \sum \gamma_k \text{ * Shareholder Base}_i + \sum \lambda_k \text{ * Proposal Sponsor/Type}_i + \varepsilon_i$$

	<u>Predicted Sign</u>	<u>Equation 2^a</u>	
Constant	?	28.227 (.0001)	****
<u>Structure of Executive Compensation^b</u>			
DIFCOMP	+	-0.000 (.3059)	
PAYFORPERF	-	-0.894 (.4542)	
POSPRESS	-	-2.280 (.2472)	
NEGPRESS	+	1.482 (.4697)	
<u>Firm Performance^b</u>			
DIFROS	-	3.114 (.4659)	
DIFSALESGR	-	0.010 (.9956)	
DIFABPERF	-	-4.292 (.0106)	*
<u>Alternative Monitoring Mechanisms^b</u>			
NONIND	+	0.583 (.6745)	
CHAIR&CEO	+	-1.535 (.3219)	
CEOTENURE	+	-0.086 (.5734)	
ENTRENCH	+	3.346 (.2010)	

Table 7 continued

Ordinary least squares analysis of voting outcomes using data for N = 100 shareholder proposals on executive compensation filed over the period 1992-95

<u>Shareholder Base^b</u>			
INSTHLD	+	-0.063	
		(.1618)	
OUTDIRHLD	-	-6.534	
		(.0803)	*
PASSIVE	+	-4.973	
		(.0050)	**
<u>Proposal Sponsor/Type^b</u>			
PUBLIC	-	8.532	
		(.0632)	*
PRIVATE	+	2.922	
		(.5986)	
GADFLY	-	-6.851	
		(.0397)	*
DUM92	?	2.082	
		(.2577)	
Number of Observations		100	
Adjusted R ²		0.38	

^a Variables are defined in Table 3.

*, **, ***, **** Significant at the 0.10, 0.01, 0.001, and 0.0001 level in a two-tailed test.

Table 8

Probit model of the decision to withdraw a shareholder proposal on executive compensation using data for N = 22 withdrawn proposals and N = 100 non-withdrawn proposals over the period 1992-95

$$(3) \Pr(\text{Withdraw}_i) = \sum \alpha_k \text{Structure of Executive Compensation}_i + \sum \beta_k \text{Firm Performance}_i + \sum \delta_k \text{Alternative Monitoring Mechanisms}_i + \sum \gamma_k \text{Shareholder Base}_i + \sum \lambda_k \text{Proposal Sponsor/Type}_i + \epsilon_i$$

	<u>Equation 3^a</u>
Constant	-1.717 (.1822)
<u>Structure of Executive Compensation^b</u>	
DIFCOMP	0.000 (.8885)
PAYFORPERF	0.119 (.7297)
POSPRESS	0.721 (.2048)
NEGPRESS	0.034 (.9412)
<u>Firm Performance^b</u>	
DIFROS	4.179 (.0433) *
DIFSALESGR	0.301 (.5546)
DIFABPERF	0.022 (.9666)
<u>Alternative Monitoring Mechanisms^b</u>	
NONINDEPENDENT	0.257 (.5176)
CHAIR&CEO	0.386 (.4169)
CEOTENURE	0.068 (.0170) *
ENTRENCH	-0.217 (.7309)
<u>Shareholder Base^b</u>	
INSTHLD	-0.013 (.3015)
OUTDIRHLD	1.808 (.0157) *
PASSIVE	2.525 (.0070) **

Table 8 continued

Probit model of the decision to withdraw a shareholder proposal on executive compensation using data for N = 22 withdrawn proposals and N = 100 non-withdrawn proposals over the period 1992-95

<i>Proposal Sponsor/Type</i> ^b	
PUBLIC	-0.698 (.3499)
PRIVATE	-8.306 (.9998)
GADFLY	-2.428 (.0003) ***
DUM92	-1.088 (.1908)
Number of Observations	122
Pseudo R ²	0.42

^a Variables are defined in Table 3.

*, **, ***, **** Significant at the 0.10, 0.01, 0.001, and 0.0001 level in a two-tailed test.