

# Market Valuation of Anticipated Governance Changes: Evidence from Contentious Shareholder Meetings

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## **Abstract:**

We define annual shareholder meetings as contentious if one or more ballot items are likely to obtain sufficient shareholder votes to induce a firm to implement governance changes. Using a sample of almost 28,000 meetings between 2003 and 2012, we find that abnormal stock returns over the 40-day period prior to contentious meetings are significantly positive and higher than prior to non-contentious meetings. These higher abnormal returns persist after controlling for firm-specific news and proxies for risk factors and are more pronounced in firms with poor past performance. Our results are consistent with investors viewing an increase in the probability of shareholder vote-induced governance changes as value creating, on average.

*JEL Classification:* G34, G38, J33, M12

*Keywords:* Shareholder votes, shareholder activism, disclosures, annual meetings, corporate governance

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A previous draft was circulated with the title: “Stock Returns Prior to Contentious Shareholder Votes”. We thank Yonca Ertimur, Paul Fischer, Paul Healy, Gaizka Ormazabal (discussant), Shiva Rajgopal, Oded Rozenbaum (discussant) and seminar/conference participants at Columbia Business School, Harvard Business School, HEC Lausanne, Michigan State University, Rutgers University, University of Delaware, University of Zurich, the 2015 Lisbon Accounting Conference Catolica/Nova and the 2016 Conference on Investor Protection, Corporate Governance, and Fraud Prevention at George Mason University. We also thank Ethan Rouen for excellent research assistance. All errors remain our own.

## Introduction

Over the last decade, shareholder activism via voting has increasingly affected firms' governance practices (see Ferri, 2012, for a review).<sup>1</sup> Shareholder votes in favor of (against) proposals opposed (supported) by management have become more frequent. Even when non-binding, firms have become more responsive to such votes. Despite the important policy implications, whether greater shareholder voice has beneficial or detrimental effects on firm value remains an open and debated question.

We investigate this question by examining the stock price reaction to a substantial increase in the probability of shareholder vote-induced governance changes. Based on the evidence in prior studies, we posit that such increase occurs as a result of “contentious” annual meetings, defined as meetings with at least one ballot item that is expected to obtain sufficient shareholder votes to induce a firm to implement governance changes. Our definition of a contentious item varies by item type (e.g., director elections, management proposals and shareholder proposals) because prior research finds that the voting outcome that triggers a firm's response varies by item type. For example, firms tend to only implement shareholder proposals when more than 50% of the votes are cast in favor (Ertimur, Ferri and Stubben 2010). Therefore, we classify a shareholder proposal as contentious if historically that type of proposal has received at least 45% of the votes.<sup>2</sup>

The increase in the probability of governance changes as a result of a contentious meeting is largely anticipated, since investors know the ballot items ahead of the vote. Thus, if the market

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<sup>1</sup> Ferri (2012) defines activism via voting as a “low-cost” tool of activism in contrast to activism via ownership, where the power to influence the firm typically derives from the costly acquisition of a significant equity stake, such as hedge fund activism and proxy contests (Brav, Jiang, Partnoy and Thomas 2008; Klein and Zur 2009; Fos 2015). Activism via ownership is not an option for a large class of investors (e.g. diversified funds) and may be prohibitively costly to implement in large firms.

<sup>2</sup> We classify a management proposal as contentious if historically that type of proposal has received at least 20% of the votes against, relying on the evidence that firms usually respond to voting dissent above 20%. In the case of director elections, we define a meeting as contentious if more than one third of directors up for election receive a withhold recommendation from Institutional Shareholder Services (ISS), suggesting that the recommendation targets an entire committee or board. In choosing this definition, we rely on the evidence that withhold recommendations issued against an entire committee or board are associated with a greater amount of votes withheld and greater likelihood of firm's responsiveness (Ertimur, Ferri and Oesch 2014). See Section 2.2 for details on our measures and their rationale, as well as alternative definitions.

expects that these changes will affect firm value, we should observe a price reaction in the period leading up to the annual meeting, as information regarding the increase in the probability of such changes becomes available. In particular, we examine stock returns over the 40-day window prior to the meeting, to capture the time between the release of the proxy statement (typically the first document detailing the ballot items) and the meeting. During this time important information is released that affects investors' expectations about the voting outcome and thus the likelihood of subsequent governance changes (see discussion in Section 2.3). In other words, the “contentious” nature of the meeting is revealed. While our definition of contentious meeting is based on the expected voting outcome, prior studies identify past performance as another key determinant of the likelihood of governance changes. Hence, we expect the results to be more pronounced for poorly performing firms and partition the sample accordingly.

Using a sample of almost 28,000 annual meetings of Russell 3000 firms between 2003 and 2012, we find that firms facing contentious meetings experience significantly positive 40-day cumulative abnormal returns (CAR) from 1.3% to 2.3%, depending on the type of ballot item. This pattern does not hold in the adjacent 40-day windows (i.e. from day -80 to -40 relative to the meeting and from day 0 to +40), suggesting that these returns are related to the contentious meeting. As predicted, the results are more pronounced for the subset of poorly performing firms (defined as those with negative abnormal returns over the 12-month period prior to the 40-day window) where the 40-day CAR range from 2.8% to 5.0%. More importantly, the 40-day CAR before contentious meetings are significantly higher than before non-contentious meetings with differences ranging from 1.0% to 1.7% in the full sample and 1.7% to 3.4% in the subset of poorly performing firms. Notably, the magnitude of CAR (and the difference relative to non-contentious meetings) increases with the degree of contentiousness of the meeting. For example, it is higher when there are multiple contentious ballot items and when we tighten the definition of a contentious item to capture a greater increase in the probability of vote-induced governance changes.

Firms facing contentious meetings may be in the process of undertaking value-increasing actions to restructure their investment, financing and payout policies in response to shareholder

dissatisfaction (as evidenced by the upcoming contentious vote). These actions may manifest themselves in better-than-expected reported earnings or management forecasts, disclosure of value-increasing initiatives in 8-K filings (e.g., new product releases, restructurings), announcements of stock repurchases and positive tone in conference calls during the 40-day period prior to the meeting. Management may also strategically time the release of positive news ahead of a contentious meeting to favorably influence shareholders (Dimitrov and Jain 2011). Finally, there may be positive firm-specific stock returns as the result of other agents. For example, 13-D filings by activist hedge funds who may be more likely to target such firms so as to exploit shareholders' discontent (Brav et al. 2008; Klein and Zur 2009; Gow, Shin and Srinivasan 2014). In other words, the CAR prior to contentious meetings may reflect firm-specific news rather than the expectation of vote-induced governance changes.

However, our evidence is not consistent with this alternative explanation. Both in the full sample and among poorly performing firms, univariate tests suggest no difference between contentious and non-contentious meetings in the 40-day period before the meeting in terms of magnitude of earnings surprise and management forecast surprise. We also find no difference in terms of frequency and information content (i.e. 3-day CAR) of 8-K filings, repurchase announcements and 13-D filings by activist hedge funds. The only exception is conference calls, which have a slightly more positive tone prior to a contentious meeting. As it is impractical to identify and control for every potential value-relevant event in the 40-day window, as proxy for the cumulative effect of any such events we examine the magnitude of sell-side analysts' forecast revisions and the frequency of buy recommendations, under the assumption that analysts will react to all value-relevant events affecting the firm. Again, we find no differences between contentious and non-contentious meetings.

Next, we perform a multivariate test by regressing the 40-day CAR on our proxy for contentious meetings and a set of variables capturing the firm-specific disclosures and events discussed above. We also control for firm characteristics potentially associated with both the likelihood of a contentious meeting and abnormal returns (e.g., size, past returns and book-to-market ratio) and include year-quarter fixed effects. Finally, in order to avoid the confounding

effect of differences in persistent firm characteristics, we re-run the analysis including only contentious and non-contentious meetings of the *same* firms. Across all of these tests, both in the full sample and among poorly performing firms, the indicator for contentious meetings remains positive and significant at 1.3-1.5%. We also extend the window from the 40-day period prior to the meeting to the 80-day period centered on the meeting. We do so to capture the possibility that firms with contentious meetings anticipate (delay) the disclosure of good (bad) news that would otherwise be released after (prior) the meeting. If this was the case, we would observe higher returns prior to the meeting but no difference in returns over the longer window (relative to firms with non-contentious meetings). However, the higher returns for contentious meetings persist over the longer window. Thus, it does not appear that the higher returns before contentious meetings are driven by more positive firm-specific news or their strategic timing.

Our evidence is consistent with abnormal returns prior to contentious meetings reflecting the expected effect of subsequent governance changes induced by shareholder votes. As in similar work, a caveat to our interpretation is that the abnormal returns may reflect an omitted risk factor. However, such a factor would need to be present in our 40-day period, but not in the adjacent periods and also be somehow correlated to, but not driven by, the contentious votes.

Our study contributes to the growing body of research on shareholder activism via voting. While most studies focus on the drivers of voting outcomes and the subsequent firm's response, we offer a novel approach to assessing the valuation effect of vote-induced governance changes by exploiting the fact that such changes are partially anticipated before the annual meeting and that we can identify when investors' expectations of such changes are revised.<sup>3</sup> Our approach is close in spirit to Cuñat, Gine and Guadalupe (2012). Both studies aim to examine the stock price reaction to an increase in the probability of vote-induced governance changes. However, Cuñat et

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<sup>3</sup> Most empirical studies address this question indirectly by examining the stock price reaction to regulatory changes enhancing or reducing shareholder voice, with mixed findings (Becker, Bergstresser and Subramaniam 2013; Cai and Walkling 2011; Ferri and Maber 2013; Larcker, Ormazabal and Taylor 2011; Cohn, Gillan and Hartzell 2014). Examples of studies examining determinants of shareholder votes and firm's responses in various settings include Del Guercio, Seery and Woidtke (2008), Cai, Garner and Walkling (2009), Fischer, Gramlich, Miller and White (2009), Ertimur et al. (2010, 2013), Ertimur, Ferri and Muslu (2011), Armstrong, Gow and Larcker (2013), Ferri and Oesch (2014), Iliev and Lowry (2015) and Malenko and Shen (2015).

al. (2012) examine the market response at the annual meeting, when the vote takes place. Using regression discontinuity, they show that the market responds to close votes (where the outcome and thus the likelihood of subsequent governance changes is uncertain until the vote occurs) but not to those that pass or fail by a large margin. They argue that, in the latter case, the market must have already anticipated the outcome. In our study, we create a proxy for such anticipation (contentious meetings) and investigate whether it actually occurs in the period prior to the vote. Further, we examine a broad range of potentially contentious votes while they focus only on shareholder proposals which represent a fairly small portion of ballot items (2.8% in our sample) and tend to be submitted only at large, S&P 500 firms.<sup>4</sup>

Combined, Cuñat et al. (2012) and our study suggest that investors expect contentious votes to have a positive effect on firm value (via the governance changes made in response to the vote) with some of the effect anticipated prior to the meeting (our study) and some taking place at the time of the vote (for close votes on shareholder proposals; Cuñat et al. 2012).

Our finding that “votes matter” (in terms of effect on firm value) is also broadly consistent with the evidence of substantial vote trading around the proxy record date in equity loan markets reported by Christoffersen, Geczy, Musto and Reed (2007). They document that vote trading correlates with support (opposition) for shareholder (management) proposals and that it is higher in poorly performing firms and when the vote is (ex-post) closer. Similarly, Aggarwal, Saffi and Sturgess (2015) examine the securities lending market and find that investors restrict lendable supply and/or recall loaned shares prior to the proxy record date to exercise voting rights. The recall of shares is higher in firms with poor performance and weak governance, and when there are more ‘important’ proposals on the ballot (e.g., antitakeover-related measures). In addition, they document that higher recall is associated with more (less) support for shareholder (management)

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<sup>4</sup> Cuñat et al. (2012) examines shareholder proposals only because there is a clear threshold (e.g., 50% of the votes cast) at which the probability of implementation is known to “jump” (Ertimur et al. 2010), which allows for the use of regression discontinuity design (RDD). Under RDD, the estimation relies on comparing “close-call” shareholder proposals (i.e. those just above and below the passing threshold), which represent a small portion of all shareholders proposals (9.3% in our sample) and tend to focus on a subset of governance provisions, further raising concerns of generalizability. As noted by Gow, Larcker and Reiss (2015), the causal effect estimated with RDD is a local estimate and may be different from the effect at points away from the discontinuity.

proposals at the subsequent vote. These results support the hypothesis that shareholders value their vote, particularly when the vote can result in governance changes.<sup>5</sup>

Our study also adds to a vast research on corporate governance (e.g. DeFond and Hung 2004; Dey 2008), and, especially, to the literature on the value relevance of governance policies (Larcker, Richardson and Tuna, 2007). In the 1990s, researchers documented an association between governance quality and subsequent returns (e.g., Gompers, Ishii and Metrick 2003). Bebchuk, Cohen and Wang (2013) find that this association disappeared in the subsequent decade and provide evidence consistent with investors "learning" the value of governance provisions and incorporating it into stock prices. By showing that investors anticipate the value of expected governance changes, our findings are consistent with Bebchuk et al. (2013) and suggest that shareholder votes at the annual meeting act as a focal point in this learning process. More generally, our evidence highlights the importance of accounting for the anticipated effects of shareholder activism and governance changes when estimating their impact on firm value.

Finally, our study contributes to the literature examining firms' disclosures around specific events. In particular, we extend to 'regular' annual meetings the body of research examining information flow and disclosure practices around proxy contests (DeAngelo 1988; Collins and DeAngelo 1990; Alexander, Chen, Seppi and Spatt 2010; Baginski, Clinton and McGuire 2014). In this respect, the paper more closely related to ours is Dimitrov and Jain (2011). In a sample of 26,000 annual meetings between 1996 and 2005, they document that, in the 40 days prior to the annual meeting, there is a significant stock price increase for firms with poor prior-year performance. They attribute this finding to managers' strategically announcing good news prior to annual meetings, presumably in an attempt to placate shareholders and avoid embarrassing protests at the meeting.<sup>6</sup> Consistent with this explanation, this price increase completely reverses in the 40

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<sup>5</sup> Balachandran, Joos and Weber (2012) analyze firms' decision to adopt equity-based compensation plans with or without shareholder approval and find evidence consistent with voting rights serving as an effective control mechanism. In a similar vein, Dao, Raghunandan and Dasaratha (2012) find that shareholder voting on auditor selections results in less restatements and lower abnormal accruals.

<sup>6</sup> For example, they find that in the 40-day period poorly performing firms report higher earnings surprises and management forecast surprises (relative to the rest of the subsequent year and relative to well performing firms in the

days following the annual meeting. In this paper, we explore an additional, novel governance-based explanation for the stock price increase, namely that the increase reflects investors' expectations of governance changes as a result of the upcoming annual meeting. After controlling for strategic news reporting, we find strong evidence that, at poorly performing firms, meetings with contentious ballot items (our proxy for the likelihood of vote-induced governance changes) are preceded by a significant stock price increase relative to meetings without contentious ballot items. Importantly, we also find that the higher returns do not disappear in the 40 days following the contentious meeting, providing additional support that strategic reporting of good news is not driving our results.<sup>7</sup>

## **1. Sample selection and research design issues**

### *1.1 Sample selection and measurement of stock returns*

Our initial sample includes 220,620 ballot items at 28,729 annual meetings of Russell 3000 firms between 2003 and 2012, as reported in the ISS Voting Analytics database. For each item, the database includes: the voting outcome, an indicator for whether the item represents a management proposal (214,332 items; of which 160,500 relate to director elections) or a shareholder proposal (6,288 items; of which 3,782 deal with governance issues and 2,506 with social/environmental issues), the topic of the management and shareholder proposal and the voting recommendations of management and ISS. Not surprisingly, management typically recommends in favor of all management proposals and against shareholder proposals (if management was in favor, the proposal would have been adopted and withdrawn before the vote). ISS recommends against management proposals 11.6% of the times (12.2% for director elections and 9.6% for other management proposals) and in favor of shareholder proposals 60.8% of the times (78.5% for

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same 40-day period). Also, these patterns are more pronounced for the subset of firms that change their earnings announcement date (which in previous years was scheduled after the annual meeting) to a date prior to the meeting.

<sup>7</sup> Dimitrov and Jain (2011) cover a sample period when contentious shareholder votes were infrequent and largely inconsequential (Karpoff 2001; Del Guercio et al. 2008; Ertimur et al. 2010). In contrast, our sample period is characterized by the increasing impact of shareholder votes on governance practices, leading us to examine whether the pre-meeting pattern of stock returns reflects expected changes in governance as a result of such votes.

governance-related shareholder proposals and 34.1% for proposals dealing with social or environmental issues).

To avoid the ‘small denominator’ effect on the measurement of stock returns, similar to Dimitrov and Jain (2011) we focus on firms with a stock price greater than \$1 and with no more than 50 missing daily returns over the 251 trading days around the annual meeting. This results in a final sample of 27,834 annual meetings. For each of these meetings, we compute stock returns over the 40-day windows ending on the annual meeting date using four measures: size-adjusted CAR (the sum of daily size-adjusted returns, based on NYSE/AMEX size deciles), market-adjusted CAR (the sum of daily market-adjusted returns, based on a value-weighted index), size-adjusted B&H (for each firm, the buy-and-hold returns less the buy-and-hold returns of firms in the same NYSE-AMEX size decile) and market-adjusted B&H (for each firm, the buy-and-hold returns less the buy-and-hold returns of the value-weighted index). We focus on market- and size-adjusted returns to enhance comparability with Dimitrov and Jain (2011), the only other study examining returns prior to annual meeting (in section 3.5 we examine the robustness of our findings to the use of returns adjusted for Fama-French factors). In computing CAR, if a firm’s daily return is missing we set it to zero.<sup>8</sup>

### *1.2 Identifying contentious meetings*

We classify a meeting as contentious if there is a ballot item that is expected to obtain sufficient votes to induce the firm to implement governance changes.<sup>9</sup> Prior research shows that both voting outcomes and the percentage of votes necessary to trigger a firm’s response differ depending on the type of ballot item. Thus, we separately analyze three types of items: director elections, management proposals (other than director elections) and shareholder proposals.

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<sup>8</sup> In their sample, Dimitrov and Jain (2011) find that the average size-adjusted CAR over the 251 trading days centered around the annual meeting is 2.8201% (rather than zero), reflecting perhaps a sample selection bias (coverage by ISS) or the limitations of using size as a proxy for risk. To correct for this, they adjust each firm’s daily size-adjusted returns by 0.01124% (2.8201%/251 days). We observe a similar phenomenon in our sample and perform an analogous downward adjustment for each of our four measures. While this adjustment affects the level of returns reported in the following analyses, it does not affect our inferences on the differences in returns between contentious and non-contentious meetings—the focus of our study.

<sup>9</sup> Our definition tries to identify ex-ante contentious items based on the expected voting outcome. We do not use ex-post actual voting results because they may be affected by the 40-day returns.

### 1.2.1 Contentious director elections

At each annual meeting, management submits a proposed list of nominees for the board of directors. In firms with annual elections, all directors must be elected every year. In firms with classified boards, only a fraction of directors (typically one-third) are elected each year. In uncontested elections, each nominee is virtually guaranteed to be re-elected.<sup>10</sup> Yet, the voting outcome has economic consequences (Del Guercio et al. 2008; Cai et al. 2009; Fischer et al. 2009). For example, Ertimur, Ferri and Oesch (2014) document that when a substantial percentage of votes (more than 20%) are withheld from one or more directors, about half of the firms respond by making governance changes that explicitly address the underlying concern (e.g., changing the composition of key board committees, executive pay practices or takeover defenses).

The key determinant of votes withheld is a ‘withhold’ recommendation from ISS, the most influential proxy advisor.<sup>11</sup> As documented by Ertimur et al. (2014), such a recommendation is associated with 20% more votes withheld and there are virtually no cases of votes withheld in excess of 20% without a withhold recommendation. Also, about half of the firms respond to a withhold recommendation by making governance changes, with the rate of responsiveness increasing with the percentage of votes withheld. Finally, withhold recommendations issued against an entire committee or board are associated with higher votes withheld (25-30%, versus 15% for recommendations issued against individual directors).

Based on this evidence, we define a meeting as contentious if an entire committee or board is targeted by a withhold recommendation. Because we do not have access to the rationale behind ISS recommendations, we define a meeting as contentious if more than one-third of the directors up for election receives a withhold recommendation (resulting in 14.9% of the meetings classified

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<sup>10</sup> Under the plurality voting standard (adopted by virtually all firms until 2004) a director is elected as long as she receives one vote in favor. Starting in 2004, a number of firms have adopted either a “plurality plus resignation” standard, where a director that fails to receive a majority of the votes cast, while technically elected, must submit her resignations to the board (who may decide whether or not to accept them); or, less frequently, a majority voting standard, where a director failing to receive a majority of the votes cast is not elected. In practice, cases where directors lose their seat as a result of the election outcome remain very rare (Ertimur, Ferri and Oesch 2015).

<sup>11</sup> The recommendations of Glass Lewis & Co, the second most influential proxy advisors, have only a marginal impact on shareholder votes on director elections (~3-5%, see Choi et al. 2009; Ertimur et al. 2014).

as contentious). Alternatively, we define a meeting as contentious if at least two directors receive a withhold recommendation from ISS (resulting in 15.3% of the meetings classified as contentious). Both definitions aim at identifying withhold recommendations likely to be at the committee- or board-level. For a typical board with a classified structure (e.g., nine members, three up for election each year), these two definitions are basically equivalent. However, for a board with annual elections, the former definition is more likely to capture committee-level and board-level concerns. For sensitivity, we also present the results defining a meeting as contentious if at least one director receives a withhold recommendation (resulting in 28.3% of the meetings classified as contentious).

### *1.2.2 Contentious management proposals*

At most annual meetings, shareholders vote on director elections and a variety of other management proposals.<sup>12</sup> These proposals rarely fail (less than 1% in our sample) and are usually approved with large voting support (e.g., Morgan and Poulsen 2001; Armstrong et al. 2013). Due to this rarity, voting opposition is likely to get the boards' attention.

Compared to director elections and shareholder proposals, there is less empirical evidence on firms' responsiveness to shareholder votes on management proposals. The only exception is Ertimur, Ferri and Oesch (2013) who find that more than half of the firms receiving a 20% vote against say on pay proposals make changes to their compensation plans explicitly in response to the vote. Hence, to capture the percentage of votes likely to trigger a firm's response, we use a 20% threshold. Previous studies also show that voting patterns depend on the type of management proposals. Based on this evidence, we classify a meeting as contentious if there is a type of management proposal that historically has received more than 20% voting opposition. This definition results in 2.0% of all management proposals and 3.7% of all meetings being classified

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<sup>12</sup> Based on the classification provided in the ISS Voting Analytics dataset, the most common proposals are: auditor ratifications (43%), proposals to approve/amend equity incentive plans (14%), say on pay proposals (9%), proposals on the frequency of say on pay (5%), proposals to approve/amend executive incentive bonus plans (4%) and proposals to increase authorized common stock (2%). The remaining 23% is comprised of over 190 types of proposals.

as contentious. Because the number of meetings classified as contentious varies substantially depending on the voting threshold used, we also present results using 15% and 25%.<sup>13</sup>

The most common management proposals classified as contentious are proposals to approve/amend stock option plans (55%), followed by proposals to approve a stock option repricing (17%), to increase authorized (or authorize a new class of) preferred stock (8%) and to adopt a poison pill (6%). Fourteen other types of proposals account for the remaining 14%.

### *1.2.3 Contentious shareholder proposals*

Under Rule 14a-8 of the Securities Exchange Act of 1934, shareholders are allowed to submit proposals on a number of topics, typically in the form of non-binding resolutions. In our sample, about 60% of these proposals deal with governance issues such as anti-takeover provisions, shareholder rights, board composition and executive pay. The rest focus on social and environmental issues. For many decades, shareholder proposals have been largely inconsequential. Most were filed by individual investors, rarely obtained significant voting support and, even when they did, were ignored by boards (Karpoff 2001). However, after the corporate governance scandals of 2001-2002, the frequency of and voting support for governance-related shareholder proposals have rapidly increased and boards have become more responsive to winning proposals (Levit and Malenko, 2011). In particular, prior studies document a significant “jump” in the probability of implementation if the proposal passes (with the passing threshold usually set at 50% of the votes cast). For example, Ertimur et al. (2010) report that between 1997 and 2004 the probability of implementation for proposals that pass (fail to pass) is 31.1% (3.2%), with an increase to 40% in later years. Similarly, Cuñat et al. (2012) estimate a 31% increase in the probability of implementation for shareholder proposals that pass.

Previous studies also show that voting patterns vary systematically with the type of shareholder proposals. Based on this evidence, we define a meeting as contentious if there is a shareholder

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<sup>13</sup> When using a 25% voting threshold, only 1.46% of the meetings are classified as contentious. A 15% voting threshold results in 34.7% of the meetings classified as contentious. This degree of sensitivity occurs because some frequent types of management proposals historically average between 15% and 20% (e.g., proposals to approve/amend omnibus stock plans) and between 20% and 25% (e.g., proposals to amend the stock option plan).

proposal on a specific governance-related topic that historically has received more than 45% voting support (and thus, with a significant likelihood to pass and be subsequently adopted). This definition results in 24.8% (41.1%) of all shareholder proposals (governance-related shareholder proposals) and 4.7% of all meetings in our sample being classified as contentious. Among contentious shareholder proposals, the most common are proposals to declassify the board (30%), followed by proposals to adopt a majority voting standard for director elections (22%), enhance shareholders' power to call a special meeting (13%), and require shareholder approval to adopt a poison pill (11%), with ten other types of proposals accounting for the remaining 24%.

For comparison purposes, we also present results where a meeting is defined as contentious if there is at least one governance-related shareholder proposal (regardless of its expected voting support) and based on voting thresholds lower than 45% (namely, 30% and 40%). We also repeat the analysis for the subset of firms with at least one shareholder proposal. This effectively compares the returns of contentious and non-contentious meetings while excluding meetings without any shareholder proposal.

To sum up, for each type of shareholder and management proposals, we use the voting history for that type of proposal as a proxy for expected voting outcome. For director elections, since past votes withheld do not predict future votes withheld, we use instead the presence of an ISS withhold recommendation. For all three ballot items, we identify the voting outcome likely to induce the firm to make governance changes based on the evidence in prior studies.

#### *1.2.4 The role of past performance*

Our definition of contentious meeting is based on the expected voting outcome because that outcome has been shown to be a key determinant of the likelihood of governance changes. Prior studies show past performance is another key determinant of governance changes (Ertimur et al. 2010, 2014). Since poorly performing firms are under greater shareholder pressure to reform, these two determinants may combine to drive boards to make changes. Rather than trying to build past performance directly into our definition of contentious meetings, we separately examine its effect by partitioning our results based on firms' past performance. We conjecture that investors expect a higher likelihood of vote-induced governance changes when there are contentious ballot items

*and* past performance is worse. As a corollary, we expect the magnitude of the effect to be smaller, or perhaps even zero, for firms with strong prior performance as these firms would be viewed as less likely to respond to shareholder votes.

### *1.3 The 40-day pre-meeting window*

On the day of the annual meeting, there is a “shock” to the probability of governance changes only in the (relatively infrequent) case of close-call shareholder proposals, where the voting outcome is uncertain (Cuñat et al. (2012)). For all other ballot items, investors form expectations regarding both the voting outcome and the firm’s subsequent response sometime prior to the annual meeting. We argue that these expectations are likely to develop between the release of the proxy statement and the annual meeting. To enhance comparability of stock returns across firms and for consistency with prior research (Dimitrov and Jain 2011), we use a window of 40 trading days (40-day window). This is because proxy statements usually begin to be filed two months (about 40 trading days) before the annual meeting. In our sample, 96% of proxy filing dates fall within this 40-day window with mean and median at 27 trading days.<sup>14</sup>

#### *1.3.1 Information flow around the proxy filing date*

The release of a proxy statement is the logical starting date as proxy statements list the ballot items and provide important details about each item (e.g., proponents’ and boards’ positions on any shareholder proposals; identity of the shareholder submitting the proposal; rationale behind management proposals). Proxy statements also contain information that may inform investors about the likelihood of a contentious vote. For example, details about executive compensation and equity incentive plans may help investors determine if a high percentage of votes will be withheld from compensation committee members, or cast against (in favor of) a compensation-related management (shareholder) proposal. Similarly, information about directors’ characteristics and performance (e.g., independence, other seats held and meeting attendance) may speak to the likelihood of a contentious vote on director elections. For example, Ertimur et al. (2015) report that “affiliated” directors, “busy” directors and directors failing to attend at least 75% of the

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<sup>14</sup> Interestingly, Dimitrov and Jain (2011) note that the pattern of pre-meeting positive returns begins around 30 trading days prior to the annual meeting, though they do not link this observation to the timing of the proxy filing.

meetings receive a negative recommendation from ISS and a high percentage of votes are withheld from them. Proxy statements include information relevant to assess whether a director violates these ISS criteria. In brief, for most items on the ballot, the proxy statement represents the first “news” and provides contextual information that may affect the perceived likelihood of a contentious vote (and thus the probability of subsequent governance changes).

For our purposes, though, it is not necessary that proxy statements be the *first* news regarding a potentially contentious vote. For some ballot items, proxy statements may be preempted by other sources (Gillan and Starks 2007). For example, sometimes activists publicly disclose a list of firms targeted by their shareholder proposals before proxy season begins. In these cases, the targeted firms’ stock price may already incorporate expectations about the proposal’s success before the proxy statement is released.<sup>15</sup> However, the proxy statements still provide additional information about the likelihood of a contentious vote. For example, the inclusion of the proposal in the proxy informs shareholders that the proposal was not withdrawn (e.g., because management agreed to its adoption) and thus will be voted upon.<sup>16</sup> Importantly, as discussed earlier, the proxy includes new contextual information that will affect investors’ expectations about the likely outcome of the proposal, including any actions taken by the board to address the concern underlying the proposal.

In other words, the probability of shareholder vote-induced governance changes does not need to be 0% at the time the proxy statement is filed. In certain cases, the probability will be greater than zero and already reflected in the stock price because of information released prior to the 40-day window. These occurrences will bias against detecting a large price reaction during the 40-

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<sup>15</sup> This has been the case when a single proponent submits the same proposals to multiple firms to obtain visibility and promote market-wide adoption of a governance provision. Examples are proposals to expense stock options (Ferri and Sandino 2009), adopt say on pay (Ferri and Weber 2009) and introduce proxy access (NYC Comptroller 2015). While these proponents released their list of target firms before the proxy season, other activists often joined in and submitted similar proposals at other firms without pre-announcing them. Thus, not all proposals in these categories are pre-announced. Another example of a proxy statement being partially preempted is the case of a shareholder proposal already submitted the previous year, not adopted, and re-submitted again (Ertimur et al. 2010).

<sup>16</sup> In 2013 and 2014, about one-third of all shareholder proposals were withdrawn before the proxy filing date (EY 2014). Thus, the fact that activists pre-announce their intention to submit a proposal does not imply that the proposal will appear in the proxy statement. Submitted shareholder proposals may also not appear in the proxy statement because excluded by the firm due to a violation of substantive or procedural requirements of Rule 14a-8 (see Soltes, Srinivasan and Vijayaraghavan, 2014, for details).

day window. However, they do not invalidate our approach as long as the proxy statement (and, more generally, the 40-day window, as we discuss next) provides *incremental* information that affects investors' perceptions of the probability of governance changes.

### 1.3.2 *Information flow between proxy filing date and annual meeting date*

The proxy statement represents only one piece of information about the upcoming vote. Before the annual meeting takes place, public and private communications by firms, institutional investors and proxy advisors also provide information about the likelihood of a contentious vote and subsequent governance changes.

Shortly after the proxy statement is filed (usually within three weeks), ISS and Glass Lewis release a report with their voting recommendations for the meeting. Their recommendations are a key determinant of voting outcomes (Malenko and Shen 2015). These reports are sent to their clients that include over 2,000 institutional investors (GAO 2007). Also, the business press often picks up these recommendations, particularly in the most controversial cases (Reuters 2012). It is plausible to assume that within a few days from the report release, key market participants know of these recommendations and the underlying rationale and can use this information in forming expectations about voting outcome and likely firm's response to the vote.

In some cases, management responds to shareholder proposals and proxy advisors' recommendations by submitting additional information to shareholders (via amended proxy filing) to clarify its position and criticize proponents' arguments or proxy advisors' methodologies and conclusions (Ertimur et al. 2013; Larcker, McCall and Ormazabal 2013). In other cases, management may discuss the contentious item and signal how it plans to respond to the vote in public venues or private conversations with institutional investors and proxy advisors.<sup>17</sup>

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<sup>17</sup> There is evidence of increasing boards' engagement with institutional investors and proxy advisors before contentious votes, mostly via private communications and meetings (New York Times, 2014). An Ernst & Young report shows that about half of the S&P 500 firms disclose engagement with investors on governance issues (EY 2014). As noted by Delaware Vice-Chancellor Leo Strine, "powerful CEOs come on bended knee to Rockville, Maryland, where ISS resides, to persuade the managers of ISS of the merits of their views about issues like proposed mergers, executive compensation and poison pills" (Strine 2005).

Meanwhile, activists will try to engage with management and/or rally other voting shareholders around their position on ballot items via public as well as private communications. Because of the clustering of annual meetings between April and June, during the 40-day window investors often learn about the voting outcomes of similar items at peer firms and/or about peer firms' response to the vote (or its threat). Finally, during the weeks prior to a contentious vote, business press and governance blogs cover the most controversial cases. All of this information may affect investors' expectations about the likelihood of vote-induced governance changes.

There are a number of reasons why we focus on cumulative returns over the 40-day window rather than on returns around individual events that may affect the probability of vote-induced governance changes. First, some of these events may involve private communications unobservable to researchers (e.g., between institutional investors, between management and institutional investors, between proxy advisors and their institutional clients, between firms and proxy advisors). Second, the potentially relevant events differ across firms and across item types (e.g., amended proxy material is more frequent for say on pay proposals than other items). Such events also tend to be quite idiosyncratic, making them difficult to identify in a large sample study. Third, the relevance of each type of events (in terms of its impact on the probability of governance changes) differs across firms and across items. For example, sometimes a proxy advisor report contains new information if the recommendation and/or its rationale are partly unexpected. Other times, the content of such reports is fully anticipated based on the proxy advisor's voting guidelines and the information in the proxy statement.<sup>18</sup> Fourth, individual events may be contaminated (e.g., proxy statements contain multiple pieces of information). Finally, it would be difficult and subjective to determine the direction of the impact of each individual event on the probability of governance changes.<sup>19</sup>

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<sup>18</sup> For example, under its proxy voting guidelines, ISS will issue a negative recommendation on a say on pay proposal if the firm includes excise tax gross-ups and modified single triggers in severance agreements entered into or amended during the year prior to the vote (Ertimur et al. 2013). Because these provisions are disclosed in the proxy statement, the negative recommendation should be fully anticipated prior to the release of the ISS report.

<sup>19</sup> In spite of the above caveats, for descriptive purposes in unreported tests we examine returns around the release of proxy statements (an identifiable event common to all our sample firms) and find evidence of higher abnormal returns around proxy filing dates preceding contentious meetings.

## 2. Empirical analysis: stock returns before contentious meetings

### 2.1 Stock returns before annual meetings: the role of past performance

Using an earlier sample period, Dimitrov and Jain (2011) document positive abnormal returns during the 40-day period prior to the annual meetings and find that this result is driven by poorly performing firms. A similar pattern holds in our sample period. As shown in Table 1, on average our sample firms have significantly positive abnormal returns during the 40-day period prior to the meeting. For example, the size-adjusted (market-adjusted) CAR over the 40-day window prior to the meeting are 0.661% (0.750%). The size-adjusted (market-adjusted) buy-and-hold returns are 0.925% (1.030%).<sup>20</sup>

The result is driven by poorly performing firms. In particular, we split our sample based on whether the 12-month market-adjusted buy-and-hold returns ending 40 days prior to the annual meeting are positive (*Past Winners*) or negative (*Past Losers*), following the definition in Dimitrov and Jain (2011). The pre-meeting 40-day size-adjusted (market-adjusted) CAR are significantly positive at 1.634% (1.777%) for *Past Losers* while slightly negative at -0.311% (-0.276%) for *Past Winners*. The difference at 1.945% (2.053%) is statistically significant at the 1% level. The results are similar using buy-and-hold returns. As in Dimitrov and Jain (2011), the pre-meeting CAR increase as past performance deteriorates. For example, firms in the bottom two deciles of performance experiencing a positive size-adjusted CAR of 4.06% and 2.71%, respectively (untabulated). Because the results are qualitatively similar across all four measures of returns, in the rest of the study we tabulate only the results based on size-adjusted CAR (hereinafter CAR) and note any differences when using alternative measures.

### 2.2 Stock returns prior to annual meetings: the role of contentious votes

In this section, we examine whether contentious meetings are more likely to be preceded by abnormal returns. As explained in Section 2, we define a meeting as contentious if there are ballot items for which significant shareholder pressure (as reflected in their votes) and thus a firm's

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<sup>20</sup> In unreported tests, similar to Dimitrov and Jain (2011) we find that this pattern is present for most of the sample years and is similar for meetings held from November to April and those held from May to October, suggesting that it is not driven by the "Sell in May" effect documented by Bouman and Jacobsen (2002).

response are likely. To do so, we distinguish and separately analyze three types of items that shareholders vote upon: director elections, management proposals (other than director elections) and shareholder proposals. We further partition each item based on firm performance to capture the notion that the pressure to implement governance changes is likely to be higher for poorly performing firms.

### 2.2.1 *Contentious director elections*

Table 2 presents the results of a univariate comparison of 40-day pre-meeting CAR between contentious and non-contentious meetings, based on the definition of contentious director elections detailed in Section 2.2.1. Panel A shows that the pre-meeting CAR for contentious meetings are positive and significant, with the magnitude increasing from 1.356% to 2.098% as we tighten the definition of contentious. Importantly, CAR before contentious meetings are also significantly higher than for non-contentious meetings (at the 1% level) with the difference increasing from 0.988% to 1.704% as we tighten the definition of contentious.

In Panel B, we perform a similar analysis for the sub-sample of *Past Losers*. For both contentious and non-contentious meetings, the magnitude of the 40-day pre-meeting CAR is larger among *Past Losers* than in the full sample, confirming the important role of past performance. Also, within *Past Losers*, the difference in pre-meeting CAR between contentious and non-contentious meetings is greater than in the full sample. This difference increases from 1.666% to 2.713% as we tighten the definition of contentious. In contrast, among *Past Winners*, the 40-day CAR prior to contentious meetings are generally not significantly different from zero or non-contentious meetings (Panel C). The difference in returns between poorly and well performing firms (within the subset with contentious meetings) is consistent with the notion that poorly performing firms are under greater pressure (and thus more likely) to implement governance changes.

### 2.2.2 *Contentious management proposals*

Table 3 presents the results of a univariate comparison of 40-day pre-meeting CAR between contentious and non-contentious meetings using the definition of contentious management proposals detailed in Section 2.2.2. The results are similar to those of contentious

director elections. As shown in Panel A, the 40-day CAR before contentious meetings are positive and significant at 2.342% and are significantly higher than for non-contentious meetings. The difference is 1.722%, significant at the 1% level. This effect is driven by poorly-performing firms, where we expect a greater likelihood of governance changes. The difference in pre-meeting CAR between contentious and non-contentious meetings for *Past Losers* is 3.427%, significant at 1% (see Panel B). In contrast, Within *Past Winners*, the difference is much smaller (ranging from 0.856% to 1.092%) and significant only when using the 15% and 20% threshold (Panel C). In both Panels A and B, the difference in pre-meeting CAR between contentious and non-contentious meetings increases as voting thresholds are increased (e.g., 15%, 20% and 25%), i.e. as more contentious items are on the ballot.

Combined, these findings suggest that the higher the probability of governance changes (i.e. higher voting thresholds, lower past performance), the higher the pre-meeting returns. In unreported tests, we also augment the definition of contentious by imposing the additional condition of the presence of a negative ISS recommendation. The fraction of meetings classified as contentious drops from 3.7% to 1.6% but our inferences are generally unchanged.

### 2.2.3 Contentious shareholder proposals

Table 4 reports the results for contentious shareholder proposals (as defined in Section 2.2.3). In the full sample (Panel A), CAR prior to contentious meetings are generally positive and significant. However, they are only significantly higher than non-contentious meetings when using the 45% voting threshold and when limiting the sample to firms with shareholder proposals.<sup>21</sup> As with director elections and management proposals, the results are stronger in the sample of *Past Losers* (Panel B). CAR before these contentious meetings are positive, significant and increase steadily as we raise the threshold from 30% to 45%. When using the 45% (40%) threshold, the difference in pre-meeting CAR between contentious and non-contentious meetings is economically and statistically significant at 1.840% (1.195%) increasing to 2.609% (1.744%) when we limit the sample to firms with shareholder proposals. We do not observe the same pattern

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<sup>21</sup> Contrary to Dimitrov and Jain (2011), we do not find that the mere presence of a shareholder proposal is associated with higher pre-meeting returns.

among *Past Winners*, where, if anything, returns before contentious meetings are sometimes negative and lower than before non-contentious meetings (Panel C).<sup>22</sup>

As for director elections and management proposals, these findings suggest that the higher the probability of governance changes (i.e. higher voting thresholds, lower past performance), the higher the pre-meeting returns. In unreported tests, we augment the definition of contentious shareholder proposals by imposing the additional condition of a favorable ISS recommendation (a strong predictor of the voting outcome). The fraction of meetings classified as contentious drops only slightly from 4.7% to 4.5%, since virtually all the proposal types with historically high voting support are those supported by ISS. Our inferences are unchanged.

Overall, our analyses in Tables 2 to 4 suggest a positive association between pre-meeting abnormal returns and our proxy for the likelihood of subsequent governance changes (contentious ballot items and poor past performance).

### *2.3 From contentious ballot items to contentious meetings*

One concern with the above findings is that our sample of firms with contentious director elections, management proposals and shareholder proposals may overlap. To examine whether each item type has an incremental effect, we regress the 40-day pre-meeting CAR on our three indicators for contentious items. Because our evidence of positive returns ahead of contentious meetings is driven by poorly performing firms, we mostly focus on the subset of *Past Losers*, but tabulate also the results for *Past Winners* and for the full sample. Consistent with the univariate analysis, for *Past Losers* we find that all three coefficients are positive and significant at the 1% or 5% level, with magnitudes ranging from 2.1% to 3.3% (see Table 5 Panel A). This suggests that the association between each of the three contentious items and the 40-day pre-meeting CAR is not driven by the presence of the other two. The coefficients are also significant, but smaller, for the full sample and generally insignificant for *Past Winners*.

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<sup>22</sup> One potential explanation is that investors perceive an increase in the likelihood of implementation of the shareholder proposals submitted at well performing firm as value-destroying, on average. However, the results are weaker when we use a higher threshold (45%). Hence, we suggest caution in the interpretation of this result.

Given that all three contentious item types are preceded by positive CAR, in the rest of the paper we capture the contentious nature of the meetings with a single indicator variable: *Contentious Meeting*. This variable is equal to one if there is a contentious director election (i.e. more than one third of directors receiving a negative recommendation), contentious management proposal (i.e. with historical voting dissent of more than 20%) or contentious shareholder proposal (i.e. with historical voting support of more than 45%). The variable is equal to zero if none of the three item types are contentious. The coefficient of *Contentious Meeting* is positive and significant at 0.031 among *Past Losers* and at 0.017 in the full sample (see Table 5 Panel B), suggesting that the 40-day CAR prior to contentious meetings are, on average, 3.1% higher than before non-contentious meetings among *Past Losers* and 1.7% higher in the full sample.

Next we examine whether the coefficient on *Contentious Meeting* varies cross-sectionally with factors associated with the likelihood of vote-induced governance changes. Unfortunately, little is known on what these factors are. Prior studies (e.g., Ertimur et al. 2010, 2014) suggest that boards' responsiveness to shareholder votes is higher when past performance is poorer and shareholder pressure, as reflected in the voting outcome, is stronger. Our results in the previous section are already consistent with these conjectures, since they show that the 40-day CAR increase as we tighten the contentious measures based on the expected voting outcome and are higher for poorly performing firms. To further explore the role of past performance, in Panel C we focus on *Past Losers* and interact our *Contentious Meeting* indicator with two indicators that denote past stock performance below and above the sample median (based on one-year abnormal returns prior to the 40-day window). The coefficient for firms with below-median stock returns indicates an incremental 40-day CAR of 5.1% (see column 2), whereas the coefficient is not significantly different from zero for firms with above-median stock returns. The difference between the two coefficients is significant at the 1% level (untabulated). This is consistent with the notion that poorly performing firms (even within *Past Losers*) are under higher pressure to respond to the votes.

Becht, Franks, Grant and Wagner (2015) document greater returns when hedge fund activism results in multiple governance changes. We conjecture that the presence of multiple contentious

items will increase pressure on boards and increase investors' expectations of governance changes. In column 3 we create two indicators, *Contentious Meeting-Single Item* and *Contentious Meeting-Multiple Items*, denoting whether there are one or multiple contentious ballot items, respectively. Consistent with our conjecture, the coefficient for meetings with multiple items is higher: 5.7% vs. 2.9% (difference significant at the 1% level; untabulated).

Overall, these cross-sectional tests are consistent with the notion that the 40-day CAR prior to contentious meetings are higher when the perceived probability of shareholder vote-induced governance changes is higher.

### **3. Alternative explanations**

In this section, we discuss alternative explanations for the findings in Section 3. In particular, we examine whether the documented pattern in pre-meeting stock returns reflects the systematic release of favorable news by (or about) the firm or certain firm characteristics, rather than the market valuation of anticipated governance changes. We also investigate whether the higher returns before contentious meetings disappear after the meeting, as one may expect if the difference in pre-meeting returns merely reflects the early release (delay) of positive (negative) news by firms facing contentious meetings.

#### *3.1 Firm-specific news*

Because we focus on the 40-day pre-meeting window, we need to control for other firm-specific events occurring in the same window that potentially correlate with our *Contentious Meeting* variable. Such events include news disclosed by the firm itself and by outside entities.

For news released by the firms, we examine earnings announcements, management forecasts, conference calls, stock repurchases and 8-K filings.<sup>23</sup> Firms facing a contentious meeting may be in the process of undertaking a number of actions to restructure their investment, financing and

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<sup>23</sup> Collectively, these events account for a significant portion of the variation in longer-window stock returns (Beyer et al. 2010). Furthermore, their properties and information content tend to vary with corporate governance. For example, better governed firms issue more frequent and precise management forecasts (Ajinkia et al. 2005; Karamanou and Vafeas 2005), and earnings elicit stronger market and analyst reactions during proxy contests (Collins and DeAngelo 1990).

payout policies in response to increasing shareholder dissatisfaction. These actions may manifest themselves in better-than-expected reported earnings or management forecasts, disclosure of specific value-increasing initiatives in 8-K filings (e.g., new product releases, restructurings), announcements of stock repurchases and/or positive tone in conference calls.<sup>24</sup> Besides, management knows ahead of time whether there will be contentious items on the ballot.<sup>25</sup> Thus, the release of positive news prior to contentious meetings may be the result of strategic timing (e.g., management shifting earnings from the prior quarter or borrowing earnings from next quarter; Dimitrov and Jain 2011), perhaps to influence the vote.

In other words, it is possible that firms facing contentious meetings experience higher pre-meeting returns not because of expected governance changes after the vote, but because the threat of a contentious meeting (or the shareholder pressure likely correlated with a contentious meeting) gives them incentive to better perform (or strategically report better performance), signal better prospects and/or take more value-increasing actions relative to other firms.

A second type of news events that may affect firm value are the result of other agents' actions (e.g., competitors' actions, regulatory developments, reports released by credit rating agencies). Of particular concern are events with a positive effect on stock returns *and* that are more likely to affect firms facing contentious meetings as such events could explain our evidence of higher 40-day CAR prior to contentious meetings. An obvious candidate is the filing of a 13-D form by a hedge fund activist during the 40-day window. Prior studies document a strong, positive market reaction around 13-D filing dates (e.g., Brav et al. 2008; Klein and Zur 2009; Gow et al. 2014). It is plausible that hedge funds would target firms facing contentious meetings in order to exploit

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<sup>24</sup> Announcements of stock repurchases are typically reported in 8-K filings. However, we examine them separately because they are a particularly effective channel for management to signal confidence about future prospects and because of their significant impact on stock prices.

<sup>25</sup> Shareholder proposals must be submitted to the firm 120 days before the proxy statement is mailed to shareholders. As for director elections and other management proposals, management knows long before the proxy filing date any proposals that it intends to submit. Also, management knows whether there were events that may trigger a negative vote on director elections and management proposals once they are disclosed in the proxy statement (e.g., poor directors' attendance at board meetings, controversial compensation provisions).

shareholders' discontent. Hence, we report the frequency of, and market reaction around, 13-D filings before contentious and non-contentious meetings.

Rather than trying to separately identify other third-party events, we try to capture their cumulative effect by examining sell-side analysts' outputs during the 40-day window. To the extent that analysts react to value-relevant news regarding the firm, we can use analysts' forecast revisions and recommendations as a means to control for the effect of these events. Another benefit of using analysts' outputs is that they provide a way to capture the information content of hard-to-quantify events. While we can proxy for the information content of earnings announcements and management forecasts, respectively, with earnings surprise and guidance surprise, it is difficult to quantify the information content in 8-K filings (e.g., new product releases, divestitures, changes in the management team). Analysts' forecast revisions and recommendations are a way (albeit an imperfect one) to quantify such information content. Besides, analysts' output reflects independent information production by the analysts and is a channel through which management may convey information to the market. Because of all these reasons, and given their impact on stock returns (Asquith, Mikhail and Au 2005), it is important to examine whether analysts' forecast revisions and recommendations are generally more positive before contentious meetings and, thus, potentially explain the higher 40-day pre-meeting CAR.

Table 6, Panel A, reports the results of our analysis.<sup>26</sup> Because our evidence of positive returns ahead of contentious meetings is driven by poorly performing firms, we tabulate the results for the subset of *Past Losers*, where concerns with alternative explanations are highest. However, the inferences are similar when examining the full sample (untabulated). Overall, we find no evidence of more positive news prior to contentious meetings in terms of *Earnings surprise* and management forecast surprise (*Guidance surprise*)—both defined relative to analysts' consensus forecast—, magnitude of analysts' revisions of earnings forecasts (for horizons ranging from one

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<sup>26</sup> Variables and data sources are defined in detail in the Appendix. The sample size for each analysis depends on data availability. For example, *Guidance surprise* can only be computed for firms issuing guidance. *Conference call tone* is only available for firms holding conference calls and with conference call transcripts in Thomson Street Events. We winsorize earnings and guidance surprises, and analyst forecast revisions at 1% each tail to reduce the effect of outliers. However, all our inferences remain unaffected if we do not winsorize (not tabulated).

quarter to three years) and frequency of buy and/or strong buy analysts' recommendations. In unreported tests, for the subset of firms with available data we also find no differences in terms of changes in analysts' recommendations. If anything, analysts seem to offer a slightly less optimistic assessment of future prospects for firms with contentious meetings.<sup>27</sup>

We find no difference between contentious and non-contentious meetings in terms of number of 8-K filings and frequency of repurchase announcements (*Share Buyback*) and *13D Filing*. In unreported tests, we find no significant differences in the frequency of different types of 8-Ks. In particular, we do not find a higher frequency of 8-K filings with Item 8.01 "Other Events".<sup>28</sup> This is a discretionary item for reporting any event deemed of importance to investors, such as new product releases, and represents about 25% of all 8-K filings (Lerman and Livnat 2010).

To better capture their information content, we also look at the market reaction around these events. The 3-day mean CAR around *Share Buyback*, 13-D filings and 8-K filings is, respectively, 1.91%, 1.15% and 0.44% before contentious meeting and 1.64%, 0.68% and 0.01% before non-contentious meetings. These differences are not statistically significant, except for 8-K filings. However this difference is significant only at the 10% level and the difference in medians (untabulated) is not significant.<sup>29</sup>

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<sup>27</sup> The #8-K filings figure reported in Table 6 refers to all firms, including those with no 8-K filings during the 40-day window. 85.0% (87.0%) of the firms with (without) a contentious meeting have at least one 8-K filing. Contingent upon having at least one 8-K filing, there continues to be no difference in the number of 8-K filings (2.27 vs. 2.28). The data on *Earnings surprise* and *Guidance surprise* refers to the subset of firms, respectively, issuing an earnings announcement (82.1% vs 79.9%) and providing guidance (22.0% vs. 26.3%) during the 40-day period. As for analysts' data, 16.55% of firms with contentious meetings have no analyst coverage versus 12.53% of firms with non-contentious meeting. Accordingly, they are less likely to have an analyst report in the 40-day period (76.1% vs. 81.2%) but contingent on having one, they tend to have a slightly higher number of analysts' reports (5.93 vs. 5.50).

<sup>28</sup> Each 8-K must assign the reported event to one of nine topics ("Sections") and, within that topic, to a specific item number, following a classification provided by the Securities and Exchange Commission (<http://www.sec.gov/answers/form8k.htm>).

<sup>29</sup> In the case of 8-K filings, rather than the 3-day CAR centered on the filing date, we compute the CAR between the underlying event date and the 8-K filing date. This is because an 8-K may be filed up to four days after an underlying event (though it is usually filed within two days; see Lerman and Livnat 2010). The underlying event may have been publicly disclosed (e.g., the 8-K refers to a press release issued two days earlier) or not (e.g., the 8-K refers to a board meeting that took place two days earlier). We try to capture both possibilities by measuring CAR from the event date to the filing date. To avoid the confounding effect of concurrent earnings announcement, we exclude 8-Ks related to earnings announcements (which are typically reported as Item 2.01 in an 8-K filing). Finally, we sum the CAR across all 8-K filings by the same firm, excluding overlapping days. The final CAR figures are comparable across contentious

Interestingly, we find evidence that firms facing contentious meetings use more positive language during conference calls around earnings announcements (*Conference call tone*). This is based on the number of positive minus negative tone words from the lists provided by Loughran and McDonald (2011), scaled by total words. To the extent that the tone of conference calls proxies for the general tone used by management in all communications (public and private) during the 40-day period, this finding may suggest that “soft” disclosures are one channel used by management to communicate positive news prior to a contentious meeting.

Finally, we consider the possibility that firms facing contentious meetings may become targets for acquisition. If so, the higher pre-meeting returns may reflect expectations of an imminent or rumored takeover. However, in untabulated tests, we find no statistical difference between firms with and without contentious meetings in terms of the likelihood of being acquired within 12 months after the meeting (1.67% vs. 1.84%). Besides, we find that subsequently acquired firms continue to under-perform during the 40-day pre-meeting period. Therefore, expectations of a takeover do not seem to drive our findings.

Overall, based on the analysis in Table 6 Panel A, it does not appear that positive firm-specific news is likely to explain the higher CAR before contentious meetings documented in Section 3.<sup>30</sup> Nevertheless, we will control for their effect in our multivariate analysis.

### *3.2 Firm characteristics and risk factors*

Another alternative explanation for our findings in Section 3 is that the higher pre-meeting returns reflect some firm characteristic associated with the likelihood of contentious meetings and higher stock returns. Of particular concern is past performance. As noted earlier in Section 3.1, pre-meeting returns are higher for *Past Losers* that have the worst past performance (i.e., firms in the bottom two deciles of past performance). If contentious votes are more likely at firms with the

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and non-contentious meetings as the number of trading days used for the CAR computations is similar (5.13 for contentious meetings and 5.09 for non-contentious meetings).

<sup>30</sup> This result is not inconsistent with Dimitrov and Jain (2011). They compare earnings surprises and management forecast surprises between poorly-performing and well-performing firms before and after annual meetings. Instead, we compare firms with contentious and non-contentious meetings *within* the subset of poorly-performing firms. In untabulated tests, Dimitrov and Jain (2011) find no difference in earnings surprises and management forecast surprises between firms with and without a shareholder proposal *within* the subset of poorly-performing firms.

worst performance (e.g., Gillan and Starks 2000), our results may be driven by past performance rather than by the contentious nature of the meeting. Similar concerns apply to other firm characteristics that are associated with risk such as size and growth, if these characteristics differ between contentious and non-contentious firms and are also systematically associated with pre-meeting returns. Table 6 Panel B confirms the importance of controlling for past performance, even within the subset of *Past Losers*. We find that contentious meetings are preceded by worse performance as measured by buy-and-hold abnormal returns over the 12-month period prior to the 40-day window, though the difference in returns is not economically large. In contrast, there are no differences in size (as measured by the natural log of total assets) and growth options (as measured by the market-to-book ratio). Nonetheless, we include these variables in the multivariate analysis that follows.

### 3.3 Determinants of 40-day CAR before the annual meeting: a multivariate analysis

Table 7 reports the results of an OLS regression of 40-day pre-meeting CAR on our *Contentious Meeting* indicator and the control variables capturing the factors examined in Section 4.1 and 4.2. In all models, we control for year-quarter fixed effects: that is, we include forty indicators for each calendar quarter-year between 2003 and 2012, to capture both time trends in returns and the fact that most annual meetings occur in the second quarter.<sup>31</sup> We cluster standard errors by firm and year-quarter to account for cross-sectional and time-series correlations across error terms (Petersen 2009; Gow, Taylor and Ormazabal 2010). In column 1 we present the results for the full sample, in column 2 for the *Past Losers* and in column 3 for the *Past Winners*.<sup>32</sup>

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<sup>31</sup> Controlling for year and quarter fixed effects is important if there is a disproportionately high number of contentious meetings in year and quarters where pre-meeting returns happen to be particularly high *and* this occurs for reasons unrelated to expected governance changes.

<sup>32</sup> For continuous variables only available in certain subsets, we use indicator variables to denote when they are non-missing and set the continuous variable to zero if they are missing. For example, *Earnings Surprise Indicator* equals one if the firm has an earnings announcement and data available to compute *Earnings Surprise*. Otherwise, it equals zero and *Earnings Surprise* is also set to zero. *Guidance Indicator*, *Conference Call Indicator*, *Forecast Revision Indicator*, and *Recommendation Indicator* are similarly defined. Also, with regard to analysts-related measures, results are similar if we use instead the *Forecast revision* for one quarter ahead and 2- or 3- year ahead instead of 1-year ahead. Results are also similar if we use *Strong Buy* instead of *Buy* recommendations.

Across the three columns, we find a strong positive association between the 40-day CAR and proxies for positive firm-specific news. The coefficients of *Earnings surprise*, *Guidance surprise*, *Forecast revision* and *Buy recommendation* are positive and statistically significant. The value relevance of these items is consistent with prior research (Beyer et al. 2010). The coefficient of *13-D filing* is also positive and significant, as in prior research on hedge fund activism (e.g., Brav et al. 2008). There is a positive association between *Conference call tone* and 40-day CAR (after controlling for the magnitude of the earning surprise) suggesting that soft disclosures provide incremental value-relevant information to investors (Li 2010; Loughran and McDonald 2011). Growth options and size are generally negatively related to the pre-meeting CAR, while past performance is not significant. Importantly, both in the full sample and among *Past Losers*, the coefficient of *Contentious Meeting* remains positive and significant, respectively at 0.013 (p-value= 0.04) and 0.015 (p-value= 0.02). For *Past Winners*, consistent with the univariate analyses, the coefficient is positive (0.005) but not significant (p-value= 0.29).

In Panel B, we re-run the analysis to include only firms with at least one contentious meeting over the sample period, effectively comparing CAR before contentious meeting-years and non-contentious meeting-years at the *same* firms. This ensures that the stock returns pattern we attribute to the nature of the meeting is not the effect of systematic differences between the set of firms facing contentious meetings and those never facing a contentious meeting during the sample period. The coefficient of *Contentious Meeting* for the full sample and for *Past Losers* remains positive and significant at, respectively, 0.014 and 0.013, while the coefficient of *Past Winners* becomes marginally significant (p-value=0.10).

### *3.4 Are returns before contentious meetings the result of strategic news timing?*

As discussed earlier, it does not appear that positive abnormal returns prior to contentious meetings are due to an unusual release of good news before such meetings. Table 6 fails to identify differences in the frequency and content of firm disclosures and other news between firms facing contentious meetings and other firms during the (-40,0) window. Table 7 explicitly controls for these disclosure events in the multivariate analysis. Figg. 1 and 2 also do not seem to denote any obvious price reversal.

Nonetheless, to further investigate the possibility of strategic disclosure, we replicate our multivariate tests using an extended 80-day window (i.e. from -40 to +40) centered on the annual meeting date, as in Dimitrov and Jain (2011). If firms facing contentious meetings strategically accelerate the release of good news that would be otherwise released shortly after the meeting and/or defer bad news that would have been released prior to the meeting, then we should observe no results (i.e. no differences in returns between contentious and non-contentious meetings) over the extended time period (as all news is now captured for all firms). That is, the *Contentious Meeting* indicator for the (-40,+40) window should not be significantly different from zero. Our results are not consistent with the alternative theory of strategic disclosure. Instead, as shown in Table 8, Panel A, for both the full sample and the subset of *Past Losers*, the indicator continues to be positive and statistically significant. In fact, the result is slightly larger in magnitude (particularly for *Past Losers*), perhaps reflecting a further increase in the expected likelihood of governance changes shortly after the vote. Similarly, when we restrict the analysis to firms with at least one contentious meeting during the sample period, the effect documented in the pre-meeting period carries through in comparable magnitude and statistical significance (see Table 8, Panel B).

Overall, our tests suggest that the higher pre-meeting returns for poorly performing firms facing a contentious meeting (i.e. firms experiencing a substantial increase in the likelihood of vote-induced governance changes) are not driven by strategic timing of disclosure or firm characteristics and do not reverse immediately after the meeting. Our findings are consistent with investors viewing an increase in the likelihood of governance changes induced by shareholder votes as value enhancing, on average.

### *3.5 Do returns before contentious meetings reflect a risk factor?*

As in similar work, a caveat to our interpretation of the results is that the abnormal returns may reflect a risk factor. While it is impossible to fully rule out a risk explanation, four considerations make it unlikely. First, our multivariate analyses control for firm characteristics typically viewed as proxies for risk factors (size, book-to-market, past performance). Second, as noted earlier, our results hold when we compare contentious and non-contentious meetings at the same firms, suggesting that time-invariant risk factors are unlikely to drive our findings. Third, we re-run the

tests in Table 7 using abnormal returns adjusted for Fama-French risk factors as dependent variable (instead of size-adjusted abnormal returns). More specifically, we estimate the following model for each annual meeting in our sample, using daily data over the calendar year preceding the meeting:

$$R_i - R_f = \alpha + \beta_1(R_{mkt} - R_f) + \beta_2SMB + \beta_3HML + \beta_4UMD + \varepsilon$$

Where  $R_i$  is the daily return for firm  $i$ ,  $R_f$  the risk-free rate,  $R_{mkt}$  the CRSP value-weighted market return, and  $SMB$ ,  $HML$  and  $UMD$  the size, book-to-market and momentum factors. We use the estimated  $\alpha$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$  to compute expected returns on a given day for firm  $i$ 's shares. We then subtract the expected CAR from the actual CAR to obtain a four-factor-adjusted daily return, and add it up over the [-40;0] period.<sup>33</sup> As shown in Table 9, the coefficient on *Contentious Meeting* remains positive and significant both in the full sample (Panel A) and for the subset of firms with at least one contentious meeting (Panel B). The magnitude is the same as the size-adjusted returns for past losers (1.3%), but smaller for the full sample (0.9%).

Finally, we examine returns in the periods immediately contiguous to our period of study. Figures 1, 2 and 3 plot the CAR for the 40-day window prior to the meeting and the two adjacent windows, i.e. (-80,-41) and (+1,+40), respectively for the full sample, for *Past Losers* and for *Past Winners*. Examining the full sample, Fig.1 shows that the 40-day CAR before contentious meetings, at 1.86%, are higher than in the prior and subsequent 40-day windows (respectively, 0.08% and -0.30%). The differences are statistically significant at the 1% level (untabulated). Turning to *Past Losers*, we can only examine the window subsequent to the contentions meetings as the returns prior to the (-40,0) window are used to define the group (and are therefore negative by definition). As shown in Fig.2, the (-40,0) CAR before contentious meetings, at 3.78%, are higher than in the subsequent 40-day window (0.28%), with the difference statistically significant at the 1% level (untabulated). This evidence suggests that the difference in returns between contentious and non-contentious meetings is unique to the window immediately prior to the

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<sup>33</sup> Our conclusions remain unaffected when we vary the estimation period (for example, the 365-day window ending 40 trading days prior to the annual meeting) or exclude the intercept ( $\alpha$ ) from the expected returns (untabulated).

meeting. Hence, for an omitted risk factor to explain our results, it would need to be present in our 40-day period, but not in the adjacent periods and also be somehow correlated to, but not driven by, the contentious votes.

#### **4. Conclusions**

We examine whether annual meetings with contentious ballot items are preceded by abnormally high returns. Using a sample of almost 28,000 annual meetings between 2003 and 2012, we construct a number of proxies for the contentiousness of the meetings based on the expected voting outcome of ballot items and the likelihood of subsequent governance changes. We find that the 40-day abnormal returns before contentious meetings are significantly positive and higher than before non-contentious meetings, particularly for poorly-performing firms (presumably under greater pressure to respond to the shareholder vote). The results hold in a multivariate setting after controlling for firm-specific news, strategic timing of news and a number of firm characteristics. Our findings suggest that investors view an increase in the probability of vote-induced governance changes as value creating, on average. A caveat is that our approach, by construction, focuses on contentious shareholder votes that took place and thus cannot capture investors' perceptions of governance changes induced by the mere threat of a contentious shareholder vote. Our study contributes to the growing body of research on shareholder activism and its effect on firm value.

## Appendix: Variable Definitions

Variable	Definition <sup>a</sup>
<i>Past Winners (Losers)</i>	Firms with a positive (negative) buy-and-hold market-adjusted return over the 12-month period ending 40 days prior to the annual shareholder meeting, where the market return is based on the CRSP value-weighted index. Buy-and-hold returns are winsorized at the 1 <sup>st</sup> and 99 <sup>th</sup> percentile.
<i>Size-adjusted CAR</i>	Sum of daily returns over a 40-day window minus daily returns on the firm's NYSE/AMEX/NASDAQ market capitalization decile (as per CRSP) over the same period.
<i>Market-adjusted CAR</i>	Sum of daily returns over a 40-day window minus daily returns on the CRSP value-weighted market index over the same period.
<i>Size-adjusted B&amp;H</i>	40-day buy-and-hold return minus the buy-and-hold return on the firm's NYSE/AMEX/NASDAQ market capitalization decile (as per CRSP) over the same period.
<i>Market-adjusted B&amp;H</i>	40-day buy-and-hold return minus the buy-and-hold return on the CRSP value-weighted market index over the same period.
<i>Contentious Director Election</i>	Indicator equal to one if more than one-third of the directors up for election at the annual meeting receive a withhold recommendation from ISS
<i>Contentious Management Proposal</i>	Indicator equal to one if at the annual meeting there will be a vote on a type of management proposal averaging more than 20% voting opposition in our sample period.
<i>Contentious Shareholder Proposal</i>	Indicator equal to one if at the annual meeting there will be a vote on a type of shareholder proposal averaging more than 45% voting support in our sample period.
<i>Contentious Meeting</i>	Indicator equal to one if either Contentious Director Elections Contentious Management Proposal or Contentious Shareholder Proposal are equal to one. <i>Contentious Meeting – Single Item (Multiple Items)</i> is equal to one if only one (more than one) between Contentious Director Election, Contentious Management Proposal and Contentious Shareholder Proposal is equal to one.
<i>Earnings Surprise Indicator</i>	Indicates whether there is data available to compute <i>Earnings Surprise</i> .
<i>Earnings Surprise</i>	Actual reported EPS minus the most recent analyst consensus forecast, scaled by stock price as of the end of the latest fiscal period. Both actual and forecast are from I/B/E/S. <i>Earnings surprise</i> is winsorized at the 1 <sup>st</sup> and 99 <sup>th</sup> percentile.

<i>Guidance Indicator</i>	Indicates whether the firm issued guidance, as per FirstCall.
<i>Guidance Surprise</i>	Management EPS forecast minus the most recent analyst consensus forecast for the same horizon, scaled by stock price as of the end of the latest fiscal period. Management forecasts are from FirstCall and analyst forecasts from I/B/E/S. For management forecasts, the midpoint is used for range forecasts, and the lower or upper bound for open-ended range forecasts. Annual forecasts are divided by four. <i>Guidance surprise</i> is winsorized at the 1 <sup>st</sup> and 99 <sup>th</sup> percentile.
<i>Conference Call Indicator</i>	Indicates whether the firm held an earnings conference call, as per Thomson StreetEvents.
<i>Conference Call Tone</i>	Number of positive words minus the number of negative words in the firm's earnings conference call, divided by total words. Positive and negative words are based on Loughran and McDonald (2011) and available at <a href="http://www3.nd.edu/~mcdonald/Word_Lists.html">http://www3.nd.edu/~mcdonald/Word_Lists.html</a> . Conference call transcripts are obtained from Thomson StreetEvents.
<i># 8-K filings</i>	Number of Form 8-K filings, as retrieved from the SEC EDGAR system.
<i>Share Buyback</i>	Indicates whether the firm announced its intent to buy back shares during the 40-day window before the annual meeting, as per Thomson SDC.
<i>Forecast Revision Indicator</i>	Indicates whether there is data available to compute <i>Forecast Revision</i> .
<i>Forecast Revision</i>	Average EPS forecast based on the most recent forecast issued by each analyst minus the previous average EPS forecast issued by the same analysts (up to a year prior to the annual shareholder meeting), scaled by stock price as of the end of the most recent fiscal period. '1-quarter', '1-year', '2-year', '3-year' are based on I/B/E/S forecast period indicators (FPI) 6, 1, 2, 3, respectively.
<i>Recommendation Indicator</i>	Indicates whether there is data available to compute <i>Buy Recommendations</i> .
<i>(Strong) Buy Recommendation</i>	Proportion of analyst recommendations that are either a 'Buy' or 'Strong Buy' (only 'Strong Buy'), based on the I/B/E/S 1-5 scale, where 1=Strong Buy and 2=Buy.
<i>13-D Filing</i>	Indicator equal to one if a 13-D form (or amendment to 13-D form) is filed during the 40-day window before the annual meeting, as per Audit Analytics.
<i>Past Returns</i>	12-month buy-and-hold market-adjusted returns ending 40 days before the annual shareholder meeting.
<i>Firm Size</i>	Natural logarithm of total assets as of the end of the previous fiscal year.

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*Book-to-Market*                      Book value of shareholders' equity divided by market capitalization of equity as of the end of the previous fiscal year.

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<sup>a</sup> Unless otherwise stated, the unit of analysis is the 40-day window prior to an annual shareholder meeting.

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**Table 1: Stock Returns prior to Annual Shareholder Meetings**

This table reports mean stock returns prior to annual shareholder meetings for Russell 3,000 firms between 2003 and 2012. Returns are measured over the 40-trading-day window ending on the annual shareholder meeting. They are either cumulative abnormal returns (CAR) or buy-and-hold returns (B&H) and are adjusted either for size (based on the CRSP market capitalization deciles) or market (based on the CRSP value-weighted index) returns. The first column reports the results for the full sample. In the second and third columns the sample is split between Past Losers and Past Winners based on whether the 12-month buy-and-hold market-adjusted returns ending 40 days prior to the annual meeting are negative or positive. \*\*\*, \*\*, \* indicates means or differences significantly different from zero at the 0.01, 0.05 or 0.10 level, respectively.

	Full Sample (N=27,834)	Past Losers (N=13,871)	Past Winners (N=13,943)	Difference Past Losers – Past Winners
Size-adjusted CAR (%)	0.661 ***	1.634 ***	-0.311 **	1.945 ***
Market-adjusted CAR (%)	0.750 ***	1.777 ***	-0.276 **	2.053 ***
Size-adjusted B&H (%)	0.925 ***	2.179 ***	-0.325 **	2.504 ***
Market-adjusted B&H (%)	1.030 ***	2.357 ***	-0.293 **	2.650 ***

**Table 2: Stock Returns prior to Contentious Annual Shareholder Meetings – Director Elections**

This table reports mean stock returns prior to annual shareholder meetings for Russell 3,000 firms between 2003 and 2012. Returns are cumulative abnormal returns (CAR) adjusted for size (based on the CRSP market capitalization deciles) over the 40-trading-day window ending on the annual shareholder meeting. We compare mean returns prior to annual meetings classified as contentious to non-contentious ones, based on the presence of a contentious director election. We present the results using three definitions of contentious director elections based on whether ISS issues a withhold recommendation for at least one director, two directors, or more than one third of directors up for election. Panel A includes the full sample while Panel B and Panel C include, respectively, only Past Losers and Past Winners (as defined in Table 1). The sample size for this analysis is 27,651 firm-meetings versus 27,834 in Table 1 because in some cases we cannot determine whether the director election is contentious or not due to lacking or incomplete information in the ISS Voting Analytics dataset. \*\*\*, \*\*, \* indicate differences in means significantly different from zero at the 0.01, 0.05 and 0.10 level, respectively. † indicates mean returns that are not significantly different from zero at the 0.10 level.

Panel A: Full sample

Contentious if there is a negative ISS recommendation for...	Contentious	Non-contentious	Contentious	Non-contentious	Difference
	N	N	CAR Size %	CAR Size %	
At least one director	7,803	19,848	1.356	0.368	0.988***
At least two directors	4,213	23,438	1.841	0.432	1.409***
More than 1/3 of directors	4,110	23,541	2.098	0.394	1.704***

Panel B: Past Losers

Contentious if there is a negative ISS recommendation for...	Contentious	Non-contentious	Contentious	Non-contentious	Difference
	N	N	CAR Size %	CAR Size %	
At least one director	3,905	9,883	2.803	1.137	1.666***
At least two directors	2,172	11,616	3.631	1.231	2.400***
More than 1/3 of directors	2,102	11,686	3.908	1.195	2.713***

**Table 2 – Cont'd**

## Panel C: Past Winners

Contentious if there is a negative ISS recommendation for...	Contentious N	Non- contentious N	Contentious CAR Size %	Non- contentious CAR Size %	Difference
At least one director	3,884	9,959	-0.108 <sup>†</sup>	-0.396	0.288
At least two directors	2,033	11,810	-0.040 <sup>†</sup>	-0.363	0.323
More than 1/3 of directors	2,002	11,841	0.215 <sup>†</sup>	-0.405	0.620*

**Table 3: Stock Returns prior to Contentious Annual Shareholder Meetings – Management Proposals**

This table reports mean stock returns prior to annual shareholder meetings for Russell 3,000 firms between 2003 and 2012. Returns are cumulative abnormal returns (CAR) adjusted for size (based on the CRSP market capitalization deciles) over the 40-trading-day window ending on the annual shareholder meeting. We compare mean returns prior to annual meetings classified as contentious to non-contentious ones based on the presence of a contentious management proposal. We define as contentious a type of management proposal that has historically averaged more than 20% voting opposition (middle row in the table). We also present the results using a 15% (top row) and 25% (bottom row) voting threshold. Panel A includes the full sample, while Panels B and C include, respectively, only Past Losers and Past Winners (as defined in Table 1). The sample size for this analysis is 25,147 firm-meetings versus 27,834 in Table 1. The difference is because some meetings have missing information regarding management proposals in the ISS Voting Analytics dataset (our results are similar if we re-classify these meetings as non-contentious and use all 27,834 observations in Table 1). \*\*\*,\*\*,\* indicate differences in means significantly different from zero at the 0.01, 0.05 and 0.10 level, respectively. † indicates mean returns that are not significantly different from zero at the 0.10 level.

Panel A: Full sample

Management proposals	Contentious N	Non- contentious N	Contentious CAR Size %	Non- contentious CAR Size %	Difference
Historical dissent >15%	8,701	16,446	1.134	0.445	0.689***
Historical dissent > 20%	931	24,216	2.342	0.620	1.722***
Historical dissent > 25%	362	24,785	3.411	0.644	2.767**

**Table 3 – cont'd**

## Panel B: Past Losers

Management proposals	Contentious N	Non- contentious N	Contentious CAR Size %	Non- contentious CAR Size %	Difference
Historical dissent > 15%	4085	8,458	2.482	1.307	1.175***
Historical dissent > 20%	431	12,112	4.998	1.571	3.427***
Historical dissent > 25%	205	12,338	5.874	1.620	4.254**

## Panel C: Past Winners

Management proposals	Contentious N	Non- contentious N	Contentious CAR Size %	Non- contentious CAR Size %	Difference
Historical dissent > 15%	5863	8,368	0.562	-0.284	0.856***
Historical dissent > 20%	784	13,347	1.096	0.004 <sup>†</sup>	1.092*
Historical dissent > 25%	179	14,052	0.466 <sup>†</sup>	0.059 <sup>†</sup>	0.407

**Table 4: Stock Returns prior to Contentious Annual Shareholder Meetings – Shareholder Proposals**

This table reports mean stock returns prior to annual shareholder meetings for Russell 3,000 firms between 2003 and 2012. Returns are cumulative abnormal returns (CAR) adjusted for size (based on the CRSP market capitalization deciles) over the 40-trading-day window ending on the annual shareholder meeting. We compare mean returns prior to annual meetings classified as contentious to non-contentious ones based on the presence of a contentious shareholder proposal. We define as contentious a type of shareholder proposal that has historically averaged more than 45% voting support. We also present the results using a 30% and 40% threshold and based on a definition where a meeting is contentious if there is at least one governance-related shareholder proposal up for a vote (first row). Panel A includes the full sample, while Panels B and C include, respectively, only Past Losers and Past Winners (as defined in Table 1). \*\*\*, \*\*, \* indicate differences in means significantly different from zero at the 0.01, 0.05, 0.10 level, respectively. † indicates mean returns that are not significantly different from zero at the 0.10 level.

Panel A: Full sample

Shareholder proposals	Contentious N	Non- contentious N	Contentious CAR Size %	Non- contentious CAR Size %	Difference
At least one proposal	2,306	25,528	0.640	0.663	-0.023
Historical support > 30%	1,703	26,131	0.721	0.657	0.064
Historical support > 40%	1,534	26,300	0.762	0.655	0.107
Historical support > 45%	1,309	26,625	1.252	0.632	0.620
<i>Within subset of firms targeted by shareholder proposals</i>					
Historical support > 30%	1,703	1,271	0.721	0.296†	0.425
Historical support > 40%	1,534	1,440	0.762	0.301†	0.461
Historical support > 45%	1,309	1,665	1.252	-0.021†	1.273**

**Table 4 – cont'd**

## Panel B: Past Losers

Shareholder proposals	Contentious	Non-	Contentious	Non-	Difference
	N	contentious	CAR Size %	contentious	
		N	CAR Size %	CAR Size %	
At least one proposal	1,174	12,697	2.078	1.592	0.486
Historical support > 30%	862	13,009	2.465	1.579	0.887
Historical support > 40%	773	13,098	2.762	1.567	1.195*
Historical support > 45%	654	13,217	3.387	1.547	1.840**
<i>Within subset of firms targeted by shareholder proposals</i>					
Historical support > 30%	862	632	2.465	1.177	1.288
Historical support > 40%	773	721	2.762	1.018	1.744**
Historical support > 45%	654	840	3.387	0.778 <sup>†</sup>	2.609***

## Panel C: Past Winners

Shareholder proposals	Contentious	Non-	Contentious	Non-	Difference
	N	contentious	CAR Size %	contentious	
		N	CAR Size %	CAR Size %	
At least one proposal	1,333	14,416	-0.511	0.105 <sup>†</sup>	-0.616*
Historical support > 30%	989	14,760	-0.728	0.105 <sup>†</sup>	-0.833**
Historical support > 40%	889	14,860	-0.963	0.114 <sup>†</sup>	-1.077***
Historical support > 45%	782	14,967	-0.598 <sup>†</sup>	0.087 <sup>†</sup>	-0.685*
<i>Within subset of firms targeted by shareholder proposals</i>					
Historical support > 30%	989	811	-0.728	0.212 <sup>†</sup>	-0.940*
Historical support > 40%	889	911	-0.963	0.337 <sup>†</sup>	-1.300**
Historical support > 45%	782	1018	-0.598 <sup>†</sup>	-0.080 <sup>†</sup>	-0.518

**Table 5: Stock Returns prior to Contentious Annual Shareholder Meetings – Regression Analysis**

This table reports OLS regression results for the analysis of stock returns in the 40-day window preceding annual shareholder meetings for Russell 3,000 firms between 2003 and 2012. The first column reports the results for the full sample. In the second and third columns the sample is split between Past Losers and Past Winners (defined as in Table 1). The dependent variable is size-adjusted CAR (defined as in Table 1-4). *Contentious Director Election* is an indicator equal to one if more than one-third of the directors up for election receive a withhold recommendation from ISS. *Contentious Management Proposal* is an indicator equal to one if at the annual meeting there will be a vote on a type of management proposal that has historically averaged more than 20% voting opposition. *Contentious Shareholder Proposal* is an indicator equal to one if there will be a vote on a type of shareholder proposal that has historically averaged more than 45% voting support. *Contentious Meeting* is equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal are equal to one. *Contentious Meeting – Below (Above) Median Past Returns* is equal to one if Contentious Meeting is equal to one and the one-year abnormal stock returns prior to the 40-day window are below (above) the sample median. *Contentious Meeting – Single Item* is equal to one if only one between Contentious Director Election, Contentious Management Proposal and Contentious Shareholder Proposal is equal to one. *Contentious Meeting – Multiple Items* is equal to one if more than one between Contentious Director Election, Contentious Management Proposal and Contentious Shareholder Proposal are equal to one. \*\*\*, \*\*, \* indicate coefficients significantly different from zero at the 0.01, 0.05 and 0.10 level, respectively.

Panel A: The role of contentious ballot items

	<i>Full Sample</i>		<i>Past Losers</i>		<i>Past Winners</i>	
	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
Intercept	0.003**	0.02	0.010***	<.01	-0.004***	<.01
Contentious Director Election	0.019***	<.01	0.030***	<.01	0.007*	0.08
Contentious Management Proposal	0.016**	0.02	0.033***	<.01	0.002	0.84
Contentious Shareholder Proposal	0.008*	0.09	0.021**	0.01	-0.005	0.23
N	24,967		12,463		12,487	
Adjusted R <sup>2</sup>	0.0017		0.0041		0.0001	

**Table 5 – cont’d**

Panel B: The role of contentious meetings

	<i>Full Sample</i>		<i>Past Losers</i>		<i>Past Winners</i>	
	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
Intercept	0.003**	0.02	0.010***	<.01	-0.004***	<.01
Contentious Meeting	0.017***	<.01	0.031***	<.01	0.004	0.31
N	24,967		12,463		12,487	
Adjusted R <sup>2</sup>	0.0016		0.0039		0.0001	

Panel C: Past Losers – Cross-sectional analysis

	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
Intercept	0.010***	<.01	0.010***	<.01	0.010***	<.01
Contentious Meeting	0.031***	<.01				
Contentious Meeting – Below Median Past Returns			0.051***	<.01		
Contentious Meeting – Above Median Past Returns			0.002	0.70		
Contentious Meeting – Single Item					0.029***	<.01
Contentious Meeting – Multiple Items					0.057***	<.01
N	12,463		12,463		12,463	
Adjusted R <sup>2</sup>	0.0039		0.0041		0.0146	

**Table 6: Firm-specific News Prior to Contentious Meetings – Univariate Results**

This table reports the frequency and information content of firm-specific news in the 40-day window prior to the annual meeting, separately for contentious and non-contentious meetings. A meeting is defined as contentious if either Contentious Director Elections, or Contentious Management Proposals or Contentious Shareholder Proposals are equal to one (see Table 5 and Appendix for definitions). The sample consists of 12,766 annual meetings of Past Losers, i.e. firms experiencing negative market-adjusted buy-and-hold returns over the 12-month period ending 40 days prior to the annual meeting.

Under *Firm-initiated Disclosures*, Panel A reports mean earnings surprises for firms with an earnings announcement and analyst consensus forecast data available, mean guidance surprise for firms that issue quantitative EPS forecasts, mean disclosure tone for firms that hold a conference call, the mean number of Form 8-K filings, the mean 3-day CAR around 8-K filings, the frequency of share buyback announcements and the mean 3-day CAR around share buyback announcements. Under *Analyst Output*, Panel A reports mean analysts' forecast revisions for horizons ranging from one quarter to three years and the frequency of buy and/or strong buy recommendations. Under *Other Events*, Panel A reports the frequency of 13-D filings and the mean 3-day CAR around 13D filings.

Panel B reports mean levels of firm characteristics for contentious and non-contentious meetings. Firm characteristics include the 12-month buy-and-hold market adjusted return ending 40 days prior to the annual meeting (*Past Return*), the natural logarithm of total assets (*Firm Size*), and the ratio of book shareholder equity to market capitalization (*Book-to-Market*). See Appendix for detailed variable definitions. \*\*\*, \*\*, \* indicate significance at the 0.01, 0.05, 0.10 level, respectively.

Panel A: Information content of firm-specific news

Variable (in %)	N		Mean		Difference	p-value
	Contentious	Non-contentious	Contentious	Non-contentious		
<i>Firm-initiated Disclosures</i>						
Earnings Surprise	1,718	5,997	-0.169	-0.133	-0.036	0.59
Guidance Surprise	521	2,051	-0.001	0.040	-0.041	0.28
Conference Call Tone	1,574	5,452	0.411	0.337	0.074**	0.03
8-K Filings (#)	2,994	9,772	1.933	1.989	-0.056	0.10
3-Day CAR			0.444	0.009	0.435*	0.09
Share Buyback	2,994	9,772	2.639	2.968	-0.329	0.33
3-Day CAR			1.910	1.642		0.65

**Table 6 – cont'd**

Variable (in %)	N		Mean		Difference	p-value
	Contentious	Non-contentious	Contentious	Non-contentious		
Forecast Revision 1-quarter	1,431	5,153	0.194	0.138	0.056	0.21
Forecast Revision 1-year	1,545	5,236	-0.317	-0.167	-0.150**	0.04
Forecast Revision 2-year	1,470	5,025	0.096	-0.008	0.104	0.42
Forecast Revision 3-year	720	2,574	-0.256	-0.042	-0.214	0.31
Strong Buy Recommendation	1,297	4,540	19.72	19.63	0.09	0.94
Buy Recommendation	1,297	4,540	41.19	43.84	-2.65**	0.05
<i>Other Events</i>						
13-D Filing	2,994	9,772	9.152	8.023	1.129	0.18
3-Day CAR			1.146	0.675		0.54

**Panel B: Firm Characteristics**

Variable	N		Mean		Difference	p-value
	Contentious	Non-contentious	Contentious	Non-contentious		
Past Returns (%)	2,994	9,772	-25.679	-23.291	-2.388***	<.01
Firm Size	2,933	9,595	7.226	7.193	0.033	0.42
Book-to-Market	2,926	9,563	0.635	0.626	0.009	0.66

**Table 7: OLS Regression of Determinants of 40-day pre-meeting CAR**

Table 7 reports the OLS regression results. The dependent variable is the CAR computed over the 40-day window prior to the annual meeting. In Panel A, the sample includes all observations in our sample from 2003 to 2011 (column 1), split between annual meetings preceded by below-median (column 2) and above-median stock returns (column 3). *Contentious Meeting* is an indicator equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal is equal to one (see Table 5 for definitions). In Panel B, only firms with at least one contentious meeting are included, also split between those preceded by below-median (column 2) and above-median (column 3) stock returns. Control variables include measures of the information content of firm-initiated disclosures (*Earnings Surprise*, *Guidance Surprise*, *Conference Call Tone*, *# 8-K Filings*, *Buyback*), analyst outputs (*Forecast Revision*, *Buy Recommendation*), and other events (*13D Filing*) as reported in Table 6 Panel A. The remaining variables (*Past Return*, *Firm Size*, and *Book-to-Market*) are defined in Table 6 Panel B. For continuous variables only available in certain subsets, we use indicator variables to indicate that they are non-missing and set the continuous variable to zero if they are not. For example, *Earnings Surprise Indicator* equals one if the firm has an earnings announcement and data available to compute *Earnings Surprise*. Otherwise, it equals zero and *Earnings Surprise* is also set to zero. *Guidance Indicator*, *Conference Call Indicator*, *Forecast Revision Indicator* and *Recommendation Indicator* are similarly defined. See Appendix for detailed variable definitions. Regression standard errors are clustered by firm and year-quarter. \*\*\*, \*\*, \* indicate significance at the 0.01, 0.05, 0.10 level, respectively.

**Panel A: All firms**

Dependent Variable: 40-day Size-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Meeting	0.013**	0.04	0.015**	0.02	0.005	0.29
Earnings Surprise Indicator	-0.018***	<.01	-0.002	0.80	-0.025***	<.01
Earnings Surprise <sup>a</sup>	2.794***	<.01	1.252***	<.01	5.402***	<.01
Guidance Indicator	-0.018**	0.03	-0.012**	0.04	-0.011**	0.01
Guidance Surprise <sup>a</sup>	7.407***	<.01	8.746***	<.01	5.887***	<.01
Conference Call Indicator	0.007**	0.01	0.006	0.10	0.001	0.76
Conference Call Tone <sup>a</sup>	1.064***	<.01	1.084**	0.03	1.278***	<.01
# 8-K Filings	0.001	0.71	-0.001	0.71	0.001	0.43
Share Buyback	-0.005	0.54	0.011	0.35	-0.014	0.15
Forecast Revision Indicator	0.009	0.19	0.002	0.63	-0.001	0.76
Forecast Revision <sup>a</sup>	1.575***	<.01	1.569***	<.01	2.227***	<.01
Recommendation Indicator	-0.005	0.42	-0.018***	<.01	0.002	0.73
Buy Recommendation <sup>a</sup>	0.033***	<.01	0.063***	<.01	0.014*	0.08
13-D Filing	0.025**	0.01	0.017***	0.01	0.021***	0.01

Past Returns	-0.018	0.33	-0.125	0.18	-0.004	0.59
Firm Size	-0.005***	<.01	-0.001	0.91	-0.006***	<.01
Book-to-Market	0.026***	<.01	0.020***	<.01	0.010***	<.01
Fixed effects	Year- Quarter		Year- Quarter		Year- Quarter	
N	22,401		11,002		11,399	
Adjusted R <sup>2</sup>	0.073		0.181		0.082	

<sup>a</sup> Set to zero if unavailable to maintain constant sample size.

### Panel B: Firms with at least one contentious meeting during the sample period

Dependent Variable: 40-day Size-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Meeting	0.014**	0.03	0.013*	0.06	0.009	0.10
Earnings Surprise Indicator	-0.022***	<.01	-0.009	0.25	-0.027***	<.01
Earnings Surprise <sup>a</sup>	2.697***	<.01	1.376***	<.01	5.076***	<.01
Guidance Indicator	-0.020**	0.03	-0.017**	0.03	-0.010*	0.05
Guidance Surprise <sup>a</sup>	6.955***	<.01	9.730***	<.01	4.745***	<.01
Conference Call Indicator	0.007*	0.05	0.006	0.30	0.003	0.57
Conference Call Tone <sup>a</sup>	0.925**	0.01	1.165**	0.03	0.880***	<.01
# 8-K Filings	0.002	0.96	-0.001	0.51	0.002	0.35
Share Buyback	-0.007	0.83	0.006	0.58	-0.014	0.28
Forecast Revision Indicator	0.013*	0.06	0.010	0.13	0.002	0.70
Forecast Revision <sup>a</sup>	1.551***	0.01	1.447***	<.01	2.235***	<.01
Recommendation Indicator	-0.001	0.88	-0.010	0.11	0.002	0.75
Buy Recommendation <sup>a</sup>	0.027***	<.01	0.056***	<.01	0.010	0.31
13-D Filing	0.033**	0.03	0.027*	0.08	0.027***	0.01
Past Returns	-0.022	0.23	-0.132	0.17	-0.007	0.35
Firm Size	-0.005***	<.01	-0.002	0.69	-0.005***	<.01
Book-to-Market	0.022***	<.01	0.016***	<.01	0.006	0.10
Fixed effects	Year- Quarter		Year- Quarter		Year- Quarter	
N	15,093		7,423		7,670	
Adjusted R <sup>2</sup>	0.074		0.190		0.071	

**Table 8: OLS Regression of Determinants of 80-day CAR around meeting**

Table 8 reports the OLS regression results. The dependent variable is the CAR computed over the 80-day window centered around the annual meeting. In Panel A, the sample includes all observations in our sample from 2003 to 2011 (column 1), split between annual meetings preceded by below- (column 2) and above-median stock returns (column 3). *Contentious Meeting* is an indicator equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal is equal to one (see Table 5 for definitions). In Panel B, only firms with at least one contentious meeting are included, also split between those preceded by below- (column 2) and above-median (column 3) stock returns. Control variables include measures of the information content of firm-initiated disclosures (*Earnings Surprise*, *Guidance Surprise*, *Conference Call Tone*, *# 8-K Filings*, *Buyback*), analyst outputs (*Forecast Revision*, *Buy Recommendation*), and other events (*13D Filing*). The remaining variables (*Past Return*, *Firm Size*, and *Book-to-Market*) are defined in Table 6 Panel B. For continuous variables only available in certain subsets, we use indicator variables to indicate that they are non-missing and set the continuous variable to zero if they are not. For example, *Earnings Surprise Indicator* equals one if the firm has an earnings announcement and data available to compute *Earnings Surprise*. Otherwise, it equals zero and *Earnings Surprise* is also set to zero. *Guidance Indicator*, *Conference Call Indicator*, *Forecast Revision Indicator* and *Recommendation Indicator* are similarly defined. See Appendix for detailed variable definitions. Regression standard errors are clustered by firm and year-quarter. \*\*\*, \*\*, \* indicate significance at the 0.01, 0.05, 0.10 level, respectively.

Panel A: All firms

Dependent Variable: 80-day Size-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Meeting	0.018**	0.01	0.023***	<.01	0.007	0.22
Earnings Surprise Indicator	-0.037***	<.01	-0.031**	0.03	-0.044***	<.01
Earnings Surprise <sup>a</sup>	4.434***	<.01	4.104***	<.01	5.018***	<.01
Guidance Indicator	-0.023**	0.03	-0.023**	0.02	-0.018**	0.01
Guidance Surprise <sup>a</sup>	10.699***	<.01	10.431***	<.01	10.841***	<.01
Conference Call Indicator	0.011	0.20	0.014*	0.07	-0.004	0.49
Conference Call Tone <sup>a</sup>	2.291***	<.01	2.182**	0.01	2.385***	<.01
# 8-K Filings	0.001	0.51	0.000	0.87	0.001	0.10
Share Buyback	-0.012	0.16	0.006	0.67	-0.020*	0.07
Forecast Revision Indicator	0.017*	0.02	0.019**	0.04	0.007	0.16
Forecast Revision <sup>a</sup>	2.144***	<.01	2.528***	<.01	2.646***	<.01
Recommendation Indicator	-0.008	0.33	-0.017*	0.08	-0.002	0.78
Buy Recommendation <sup>a</sup>	0.058***	<.01	0.088***	<.01	0.033***	<.01
13-D Filing	0.017**	0.02	0.010	0.13	0.014**	0.05

Past Returns	-0.027	0.15	-0.087	0.40	-0.014	0.13
Firm Size	-0.013***	<.01	-0.011**	0.02	-0.012***	<.01
Book-to-Market	0.031	0.18	0.021	0.23	0.001	0.90
Fixed effects	Year- Quarter		Year- Quarter		Year- Quarter	
N	22,468		11,071		11,397	
Adjusted R <sup>2</sup>	0.086		0.162		0.084	

<sup>a</sup> Set to zero if unavailable to maintain constant sample size.

### Panel B: Firms with at least one contentious meeting during the sample period

Dependent Variable: 80-day Size-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Meeting	0.017**	0.02	0.017**	0.03	0.011	0.10
Earnings Surprise Indicator	-0.040***	<.01	-0.038**	0.03	-0.042***	<.01
Earnings Surprise <sup>a</sup>	4.563***	<.01	4.391***	<.01	4.806***	<.01
Guidance Indicator	-0.025***	<.01	-0.027***	0.01	-0.016***	0.01
Guidance Surprise <sup>a</sup>	10.218***	<.01	11.444***	<.01	9.227***	<.01
Conference Call Indicator	0.011	0.26	0.014	0.15	-0.002	0.82
Conference Call Tone <sup>a</sup>	2.334***	<.01	2.233***	0.01	2.283***	<.01
# 8-K Filings	0.001	0.26	-0.000	0.79	0.002**	0.01
Share Buyback	-0.012	0.24	0.001	0.51	-0.024*	0.10
Forecast Revision Indicator	0.022***	<.01	0.024***	0.01	0.009*	0.07
Forecast Revision <sup>a</sup>	1.803***	0.01	2.179***	<.01	2.407***	<.01
Recommendation Indicator	-0.003	0.80	-0.011	0.40	0.002	0.83
Buy Recommendation <sup>a</sup>	0.051***	<.01	0.084***	<.01	0.025**	0.03
13-D Filing	0.022**	0.05	0.017	0.16	0.020**	0.02
Past Returns	-0.033*	0.09	-0.119	0.27	-0.015	0.11
Firm Size	-0.014***	<.01	-0.012***	0.01	-0.012***	<.01
Book-to-Market	0.032	0.23	0.021	0.29	-0.004	0.75
Fixed effects	Year- Quarter		Year- Quarter		Year- Quarter	
N	15,137		7,469		7,668	
Adjusted R <sup>2</sup>	0.087		0.176		0.076	

**Table 9: OLS Regression of Determinants of 40-day pre-meeting CAR**

Table 9 reports the OLS regression results. The dependent variable is the CAR computed over the 40-day window prior to the annual meeting minus the expected CAR based on the daily loadings on the four Fama-French factors (market, size, book-to-market, and momentum) estimated over a 365-day period ending on the annual meeting date. In Panel A, the sample includes all observations in our sample from 2003 to 2011 (column 1), split between annual meetings preceded by below-median (column 2) and above-median stock returns (column 3). *Contentious Meeting* is an indicator equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal is equal to one (see Table 5 for definitions). In Panel B, only firms with at least one contentious meeting are included, also split between those preceded by below-median (column 2) and above-median (column 3) stock returns. Control variables include measures of the information content of firm-initiated disclosures (*Earnings Surprise*, *Guidance Surprise*, *Conference Call Tone*, *# 8-K Filings*, *Buyback*), analyst outputs (*Forecast Revision*, *Buy Recommendation*), and other events (*13D Filing*) as reported in Table 6 Panel A. The remaining variables (*Past Return*, *Firm Size*, and *Book-to-Market*) are defined in Table 6 Panel B. For continuous variables only available in certain subsets, we use indicator variables to indicate that they are non-missing and set the continuous variable to zero if they are not. See Appendix for detailed variable definitions. For brevity, coefficients on control variables are not tabulated. Regression standard errors are clustered by firm and year-quarter. \*\*\*, \*\*, \* indicate significance at the 0.01, 0.05, 0.10 level, respectively.

**Panel A: All firms**

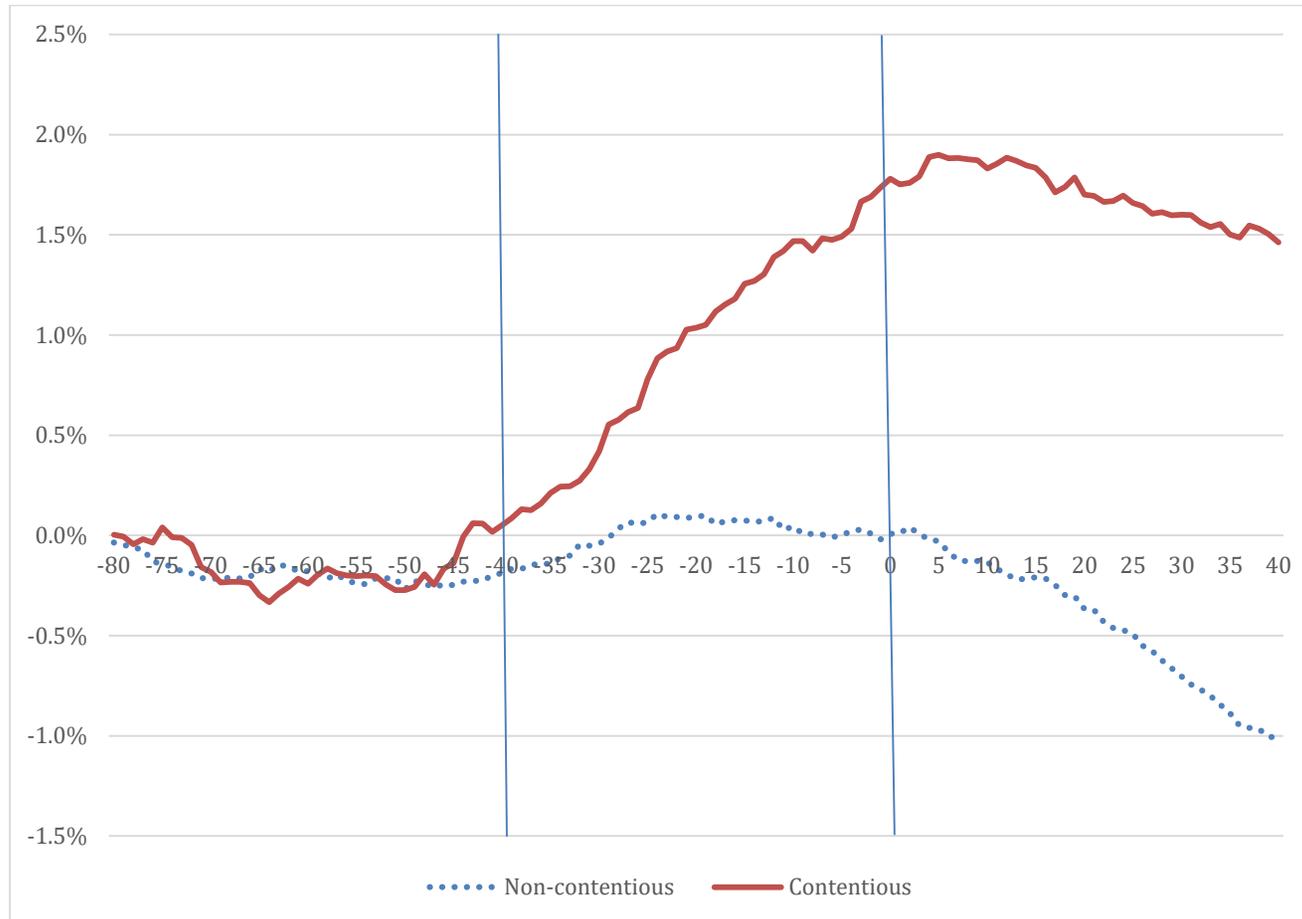
Dependent Variable: 40-day Fama-French-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Meeting	0.009**	0.05	0.013**	0.02	0.000	0.99
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	21,564		10,565		10,999	
Adjusted R <sup>2</sup>	0.115		0.176		0.122	

**Panel B: Firms with at least one contentious meeting during the sample period**

Dependent Variable: 40-day Fama-French-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Meeting	0.010*	0.05	0.013*	0.06	0.003	0.35
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	14,560		7,146		7,414	
Adjusted R <sup>2</sup>	0.126		0.171		0.140	

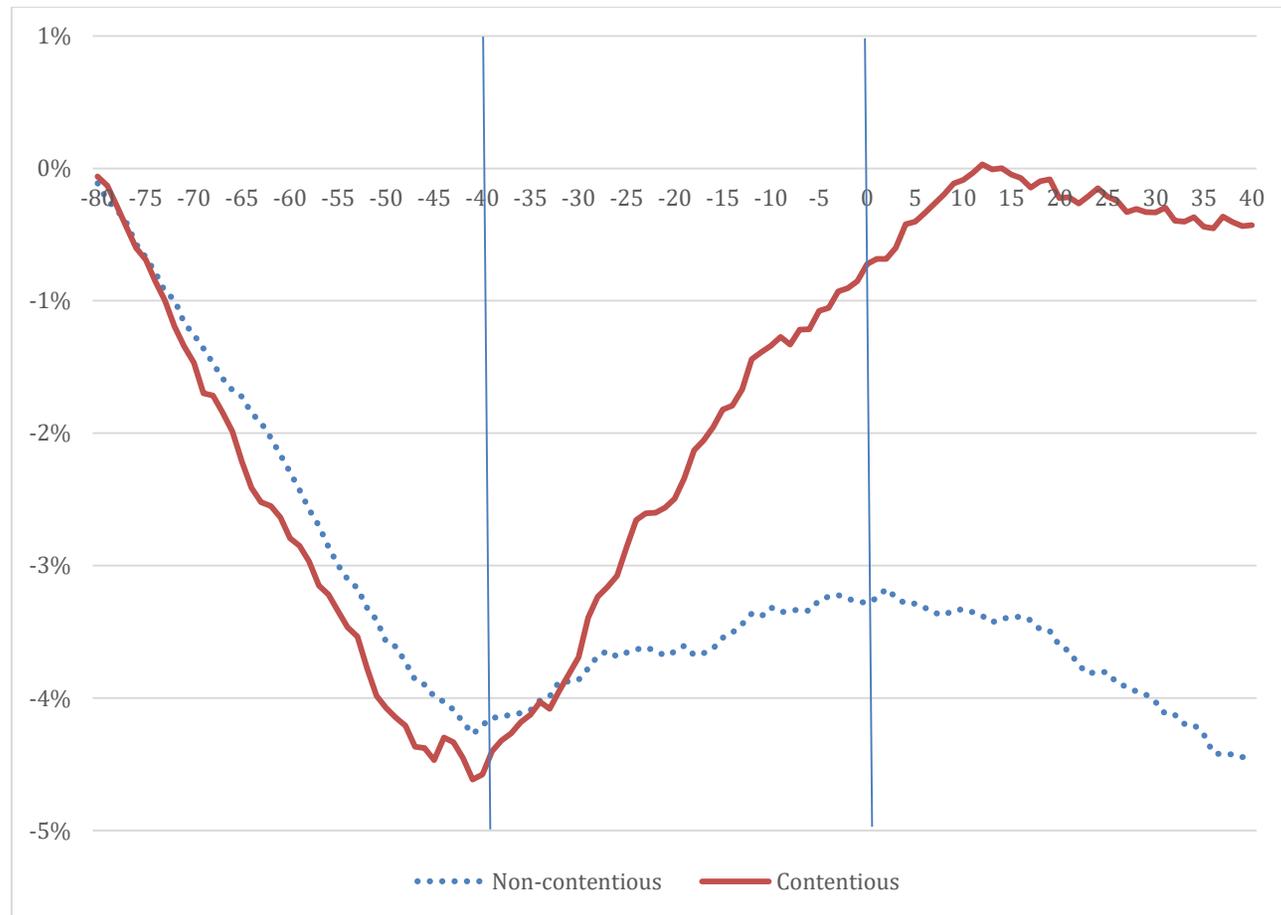
**Figure 1: Size-adjusted CAR from day -80 to +40 around contentious and non-contentious annual meetings – Full Sample**

Figure 1 plots equal-weighted mean cumulative daily size-adjusted CAR from day -80 to +40 around annual meetings for Russell 3,000 firms between 2003 and 2012. The solid line indicates contentious meetings (as defined in Table 5), and the dotted line non-contentious meetings (i.e., the rest of the sample).



**Figure 2: Size-adjusted CAR from day -80 to +40 around contentious and non-contentious annual meetings – Past Losers**

Figure 2 plots equal-weighted mean cumulative daily size-adjusted CAR from day -80 to +40 around annual meetings for Russell 3,000 firms between 2003 and 2012 that are preceded by below-sample-median stock returns over the 12 months prior to day -40. The solid line indicates contentious meetings (as defined in Table 5), and the dotted line non-contentious meetings (i.e., the rest of the sample).



**Figure 3: Size-adjusted CAR from day -80 to +40 around contentious and non-contentious annual meetings – Past Winners**

Figure 3 plots equal-weighted mean cumulative daily size-adjusted CAR from day -80 to +40 around annual meetings for Russell 3,000 firms between 2003 and 2012 that are preceded by above-sample-median stock returns over the 12 months prior to day -40. The solid line indicates contentious meetings (as defined in Table 5), and the dotted line non-contentious meetings (i.e., the rest of the sample).

