Shareholder Activism and CEO Pay

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Abstract: We study the determinants and consequences of compensation-related activism using a sample of 134 vote-no campaigns and 1,198 shareholder proposals related to executive pay between 1997 and 2007. The frequency of compensation-related shareholder proposals and vote-no campaigns has increased substantially after 2002, fueled by greater union pension fund activism and growing investor concerns with executive pay. Shareholders target firms with abnormally high CEO pay and lend greater voting support to proposals in such firms, suggesting a sophisticated understanding of CEO pay figures. Voting shareholders do not support proposals that try to micromanage CEO pay and instead favor proposals related to the pay setting process. The greater voting support for these proposals translates to higher implementation rates by targeted firms. Finally, there is a $7.3 million reduction in total CEO pay for firms with abnormally high CEO pay that are targeted by compensation-related vote-no campaigns. The reduction in CEO pay is $2.3 million in firms targeted by proposals sponsored by institutional proponents and calling for greater link between pay and performance. Our findings inform the current debate on the adoption of a "say on pay" shareholder vote on executive pay.

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1. Introduction

We examine the determinants and consequences of compensation-related shareholder activism on CEO pay. In recent years CEO pay has become the subject of unprecedented scrutiny, due to its alleged role in the accounting scandals of 2000-2002 and revelations of option backdating (Heron and Lie 2007). Concerns with executive pay have intensified as the recent financial crisis unfolded, with pay packages being blamed for encouraging excessive risk-taking and perhaps contributing to the collapse of the financial sector (Bhagat and Romano 2009).

The ensuing reform debate has focused on a proposal to mandate an annual advisory shareholder vote on the executive compensation report, a "say on pay" vote, following UK and other countries (Cai and Walkling 2007; Ferri and Maber 2009).[1] While the merits (or lack thereof) of say on pay are hotly debated, we know little about the effectiveness of alternative mechanisms currently available to shareholders to publicly express their dissatisfaction with and influence executive pay at US firms. Studies from the 1990s conclude that compensation-related shareholder proposals submitted under SEC rule 14a-8 have no impact on CEO pay (Johnson and Shackell 1997; Thomas and Martin 1999).[2] However, there have been numerous changes in compensation-related shareholder activism since the 1990s. In particular, while shareholder proposals in the 1990s were mostly sponsored by individuals, a more sophisticated and vocal player, union pension funds, became the dominant proponent after 2002 and introduced new

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[1] In the United States, a bill mandating say on pay was approved by the House of Representatives in April 2007 and then stalled in the Senate, where it was introduced by then Senator Obama. As the financial crisis intensified, support for say on pay became more widespread. Firms receiving government funds under the Troubled Asset Relief Program are now required to hold an annual advisory say on pay vote and Congress is examining The Shareholders Bill of Rights Act of 2009, which (among other things) would mandate say on pay and an advisory vote on golden parachute arrangements for all US public firms. For a summary of the history of say on pay and the arguments made for and against say on pay see Ferri and Weber (2009).

[2] Johnson and Shackell (1997) and Thomas and Martin (1999) analyze, respectively, 169 and 168 compensation-related proposals submitted between 1992 and 1995 and between 1993 and 1997. They show that most of the pay-related proposals in the early 1990s were sponsored by individual shareholders and called for lower CEO pay, increased compensation disclosure, and independence of the compensation committee.

types of proposals calling for enhanced shareholder voting rights on CEO pay, more transparent reporting and tighter linkage between pay and performance. As a result, the frequency of and voting support for compensation-related shareholder proposals have increased dramatically (Gillan and Starks 2007). In addition, vote-no campaigns became a more widely-used tool to obtain changes in executive pay. In some high-profile cases (e.g. Home Depot, Pfizer), these campaigns contributed to the ouster of CEO and board members. These developments call for a re-examination of the effect of compensation-related activism in recent years to inform the policy and academic debate on the role of shareholder voice in monitoring executive pay.

Using a sample of 1,332 shareholder activism events related to executive pay over the 1997-2007 period (134 vote-no campaigns and 1,198 shareholder proposals), we first study the *determinants of the likelihood of being targeted by compensation-related activism*, to infer the criteria used by activists in choosing target firms. After controlling for known determinants (e.g. size, performance, governance), we find that activists target firms with higher levels of CEO total pay. For example, moving from the 1st to the 3rd quartile of the CEO total pay distribution increases the predicted probability of being targeted by about 9% (from 29.9% to 38.4%). The impact of CEO pay, particularly equity pay, on the likelihood of targeting decision has become significantly stronger after 2002, consistent with a change in investor sentiment over executive compensation and stock options after the accounting scandals. When we split CEO total pay in a predicted component based on economic determinants and a residual component (proxy for "excess" CEO pay), we find that both are positively associated to the probability of being targeted. We interpret these findings as evidence that while activists on average are sophisticated enough to identify excess CEO pay firms, they also target firms with high (but not abnormal) levels of CEO pay, perhaps to bring greater visibility to their initiatives or because of concerns

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with social equity. Further tests show that only institutional investors focus on excess CEO pay, consistent with their higher degree of sophistication relative to individual investors, and that firms targeted by vote-no campaigns have higher predicted and excess CEO pay relative to firms targeted by shareholder proposals, suggesting that vote-no campaigns are used in the most egregious cases and by more sophisticated activists.

Next, we examine the *determinants of the voting outcome* on compensation-related shareholder proposals to infer the criteria voting shareholders use to support or oppose changes to compensation policies. We find that proposals aimed at affecting the pay setting *process* (e.g. proposals requesting shareholder approval of certain compensation items)—which we label *Rules of the Game* proposals—receive the highest voting support, often resulting in majority votes. Support for proposals aimed at influencing the *output* of the pay setting process (e.g. proposals to use performance-based vesting conditions in equity grants)—which we label as *Pay Design* proposals—is lower, but has been increasing in recent years. Proposals directed at shaping the *objective* of the pay setting process (e.g. proposals to link executive pay to social criteria or to abolish incentive pay)—labeled as *Pay Philosophy* proposals and mostly filed by individuals and religious funds—have consistently received little support. We also find that voting support for compensation proposals is higher in firms with excess CEO pay but not in firms with high predicted CEO pay, suggesting that shareholder votes reflect a sophisticated understanding of CEO pay figures and do not depend solely on proposal types.

Finally, we examine the *consequences* of compensation-related activism. We focus on whether firms implement pay-related proposals and whether there is an overall effect on CEO pay. We show that, similar to other shareholder proposals (Ertimur, Ferri and Stubben, 2009), the rate of implementation for pay-related proposals is generally low (5.3%) but increases

substantially when the proposal receives a majority vote (32.2%) and we confirm this result in a multivariate setting. With respect to the overall effect on CEO pay, we document a decrease in excess CEO pay for firms targeted by vote-no campaigns. This decrease is driven by firms with excess CEO pay before the campaign and amounts to a $7.3 million reduction (corresponding to a 38% decrease) in CEO total pay. As for shareholder proposals, we find evidence of a moderating effect on CEO pay—a $2.3 million reduction—only in firms targeted by *Pay Design* proposals sponsored by institutional proponents—again, a result driven by firms with excess CEO pay. These results hold after controlling for mean reversion in CEO pay.

From a policy perspective, our findings provide support for an advisory say on pay vote. First, there is no indication that special interest groups pushing for radical changes or trying to micromanage executive pay have hijacked shareholder votes—a concern expressed by critics of say on pay. By and large, shareholders have judiciously used their voting power to have a say on the pay *process* rather than on pay itself by selectively supporting proposals giving them approval power on extraordinary compensation items (e.g. large golden parachutes), whilst rejecting proposals rigidly dictating level or structure of pay. Second, stronger voting support for compensation proposals in firms with excess CEO pay suggests that advisory "say on pay" votes have the ability to capture the quality of CEO pay practices, contrary to claims that shareholders lack the required specific knowledge (Bainbridge 2008). Third, and perhaps most importantly, vote-no campaigns are generally more effective than shareholder proposals in curbing excess CEO pay. A say on pay vote shares the advantages of a vote-no campaign without its key drawback. Specifically, similar to a vote-no campaign, a say on pay vote *i*) directly questions directors' performance (and, thus, may affect their reputation), and *ii*) enables shareholders to express their general dissatisfaction with CEO pay rather than with a single issue. As such, a say

on pay vote may force a broad dialogue between investors and boards on all aspects of CEO pay, before and after the annual meeting, without putting activists in the difficult position to micromanage specific aspects of CEO pay through 500-word "yes or no" proposals. At the same time, unlike a vote-no campaign, a say on pay vote channels shareholders' dissatisfaction outside the context of a director election, thereby allowing shareholders to press for changes to executive pay while retaining otherwise valuable directors. An annual say on pay vote is likely to allow greater activism on executive pay matters by those institutional investors concerned with CEO pay but reluctant to compromise their relation with boards by engaging in vote-no campaigns.

In addition to informing the policy debate, our study contributes to the literature on executive pay and the emerging literature on the governance role of shareholder voice. Studies on the effectiveness of alternative monitoring mechanisms on executive pay have focused on the role of institutional ownership (Hartzell and Starks 2003; Almazan, Hartzell and Starks 2005, Dikolli, Kulp and Sedatole 2009), hedge fund activism (Brav, Jiang, Partnoy and Thomas 2008), press coverage (Core, Guay and Larcker 2008) and regulatory actions such as increased board independence, new compensation disclosure and option expensing (Brown and Lee 2007; Chhaochharia and Grinstein 2009; Grinstein, Yehuda and Weinbaum 2009). We extend this line of research by providing evidence on the role of direct, public expressions of shareholder voice on executive pay. As for the literature on shareholder voice, recent studies have highlighted the greater impact of shareholder votes (e.g. shareholder proposals, director elections) on governance practices (Ertimur et al. 2009; Thomas and Cotter 2007; Del Guercio, Seery and Woidtke 2008; Cai, Garner and Walkling 2009). Our study extends this work to examine the impact of shareholder votes on executive pay. In doing so, it contributes to the reform debate about shareholder voting rights and proxy rules (Bebchuk 2005; Bainbridge 2006; SEC 2007).

The paper proceeds as follows. Section 2 discusses the institutional background and related literature. Section 3 describes the sample selection and the characteristics of compensation-related activism. Then, we present our findings on determinants of targeting decision (Section 4), determinants of voting outcome (Section 5), and consequences of compensation-related activism (Section 6), followed by concluding remarks in Section 7.

2. Institutional Background and Related Literature

2.1 Shareholder Proposals

Under Rule 14a-8 of the Securities Exchange Act of 1934, any shareholder continuously holding shares worth $2,000 (or 1% of the market value of equity) for at least one year is allowed to include one (and only one) proposal with a 500-word supporting statement in the proxy distributed by the company for its annual meeting. These proposals request a vote in favor or against a particular issue from all shareholders and must be submitted at least 120 days before the proxy is mailed to the shareholders. The company may ask the Securities and Exchange Commission (SEC) to exclude a proposal if it violates certain conditions.[3] Alternatively, the company may persuade the proponent to withdraw the proposal by agreeing to it (or to other concessions). Proposals that are neither excluded nor withdrawn are included in the proxy—together with a statement by the board explaining its opposition—and voted upon at the annual meeting by all shareholders of record as of a given date indicated in the proxy materials.

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[3] Rule 14a-8(i) stipulates that firms may request the exclusion of proposals that are not a proper action for shareholders under the company's state law, proposals that address ordinary business matters, proposals that would result in the violation of state or federal laws, proposals related to a personal claim or grievance, proposals that are materially false or misleading, proposals of limited relevance (e.g., related to operations accounting for less than 5% of the company's total assets), proposals that the company has no authority to implement, proposals related to an election for membership on the company's board of directors, and proposals that request specific amounts of cash and stock dividends. A proposal may also be excluded if it is essentially similar to another proposal already included in the proxy, if it is already substantially implemented by the company, or if it conflicts with one of the management proposals to be submitted to shareholders at the same meeting. Finally, the company may request an exclusion of proposals already submitted in the past that received less than a certain percentage of votes in favor (3% if presented once, 6% if presented twice, 10% if presented three times). See http://www.sec.gov/interps/legal/cfslb14.htm.

Among the reasons for shareholder proposal exclusion, two are particularly relevant for our study. First, proposals may be excluded if they deal with a matter related to the company's "ordinary business." Over time, the SEC has taken a more liberal stance on the interpretation of this provision. In particular, since 1992 the SEC has allowed proposals on executive pay, originally deemed to be dealing with "ordinary business" (Johnson and Shackell 1997). Second, proposals may be excluded if considered improper under the company's state laws. Generally, proposals that would be binding on the company are regarded as improper, reflecting states' aversion to limit a board's ability to exercise business judgment and its fiduciary role. As a result, almost all shareholder proposals are written in the form of a recommendation to the board and are *non-binding*, even if approved at the annual meeting.[4]

Studies from the 1980s and 1990s largely conclude that shareholder proposals are ineffective in eliciting change and improving performance at target firms (Black 1998; Karpoff 2001; Romano 2001; Gillan and Starks 2007). However, in the post-Enron period there is growing evidence shareholder proposals impact governance practices.[5]

2.2 Vote-No Campaigns

Vote-no campaigns are organized efforts by shareholders to convince other shareholders to withhold their vote from one or more directors that are up for election at the targeted firms'

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[4] The vote is binding if the proposal calls for a bylaw change. With respect to executive pay, proposals calling for bylaw amendments are rare. In 1998, the SEC issued a no-action letter essentially permitting Shiva Corporation to omit a shareholder proposal for a binding bylaw amendment that would have prohibited the company from repricing stock options without shareholder approval. The SEC reasoned that this proposal raised matters of ordinary business and was therefore excludable. However, in December 1998, in a subsequent ruling on a similar proposal (filed by the State of Wisconsin Investment Board at General Datacomm Industries) the SEC informed the company that it could not exclude the proposal as pertaining to the company's ordinary business operations, in light of "the widespread public debate concerning option repricing and the increased recognition that this issue raises significant policy issues" (Thomas and Martin, 1999). Virtually none of the executive pay proposals analyzed in this study require bylaw changes and, thus, almost all of them are advisory in nature.

[5] For example, the presence of a shareholder proposal increases the likelihood of firms' decision to de-classify their boards (Guo, Kruse and Nohel 2008), remove poison pills (Akyol and Carroll 2006) and expense employee stock options (Ferri and Sandino 2009). Thomas and Cotter (2007) and Ertimur et al. (2009) document that after 2002 boards have become significantly more responsive to shareholder proposals winning majority votes.

upcoming annual meeting (Grundfest 1993; Thomas and Martin 1999; Del Guercio et al. 2008). Vote-no campaigns *i*) are organized through press releases, letters to other shareholders and internet communications, *ii*) may name a subset of the directors up for election or target the entire slate, and *iii*) may raise specific issues or express overall dissatisfaction with the board. Typically directors on the firms' board slate run unopposed and a mere plurality of votes is sufficient for them to be elected (i.e., even if the majority of the votes are withheld from a director, he/she would not be ousted). While the recent trend toward majority voting has given vote-no campaigns more "teeth" (Cai and Walkling 2007; Sjostrom and Sang Kim 2007), cases where directors were not elected due to a failure to win a majority vote remain rare. Hence, vote-no campaigns have been largely symbolic events, similar to nonbinding shareholder proposals. Nevertheless, a large enough number of votes withheld communicates widespread dissatisfaction with the incumbent management/board and may therefore act as a catalyst for change. Consistent with this argument, Del Guercio et al. (2008) find operating performance improvements and abnormal disciplinary CEO turnover at firms targeted by vote-no campaigns.

3. Sample Selection and Characteristics of Compensation-Related Shareholder Activism

3.1 Sample Selection and Classification of Shareholder Proposals

Our sample consists of 1,332 shareholder activism events related to executive pay at firms in the Standard & Poor's (S&P) 1500 index over the 1997-2007 period. These events include 134 vote-no campaigns and 1,198 shareholder proposals.

We first identify 356 publicly announced vote-no campaigns through a keyword search in Factiva and Lexis Nexis, and the reports published by proxy voting agencies (e.g. RiskMetrics, Georgeson). We then read through each article and code as compensation-related those 134 vote-

no campaigns that explicitly mention executive pay as one of the reasons behind the campaign, whether they target only compensation committee members or all directors up for election.

We obtain the sample of 1,198 compensation-related shareholder proposals from RiskMetrics, which collects data on shareholder proposals and their voting results for S&P 1500 firms. We read the proposals from the proxy statements and classify them into 95 distinct proposal types. We then aggregate proposal types in progressively broader groups, ultimately identifying three key categories—*Rules of the Game, Pay Philosophy* and *Pay Design* (see Appendix 1 for a more detailed breakdown and Appendix 2 for examples of each category). The *Rules of the Game* category captures proposals aimed at affecting the pay setting *process*, such as proposals calling for greater independence of the compensation committee (Independence), better disclosure of executive pay (Disclosure), more transparent reporting of executive pay in financial statements (Reporting), shareholder approval of all or specific components of executive compensation (Shareholder Approval). The second category, *Pay Philosophy*, includes proposals directed at shaping the *objective* of the pay setting process such as proposals to link CEO pay to social criteria, cap the CEO-to-worker-pay ratio or abolish incentive pay. The third category, *Pay Design*, contains proposals aimed at influencing the *output* of the pay setting process, such as proposals to include performance-based vesting conditions in equity grants.[6] Finally, we also categorize the proposals into five groups based on their proponent—*Individuals*, *Union Pension*

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[6] The classification is not always obvious. Consider two examples. The first is a set of proposals for a "commonsense compensation plan" launched in 2004 by a union pension fund, the United Brotherhood of Carpenters and Joiners of America. These proposals (see Appendix 2) called for a cap on salary, bonus, restricted stock grants (no more than $1 million each) and severance payments (one time salary and bonus). While they implicitly dictate a certain pay design (bonus and stock grants up to 100% of salary; no use of stock options), we classify them as *Pay Philosophy* because they essentially call for a cap on the level of CEO pay and set limits to the role of incentive pay. The second example is a set of proposals to introduce performance-based vesting conditions in equity grants. While we classify these proposals as *Pay Design*—in that they specifically call for the use of a specific feature in equity grants—, they tend to be "principle-based" in nature (and, thus, similar in spirit to *Rules of the Game* proposals) in that they do not advocate specific performance measures or targets, but call instead for a general principle—vesting should be linked to performance criteria.

Funds, *Public Pensions*, *Religious Organizations* and *Other Shareholder Groups* (investment advisors, investment management firms and mutual funds).

3.2 Frequency and Composition of Compensation-Related Shareholder Activism

Figure 1 illustrates an increase in the frequency of and voting support for compensation-related shareholder proposals over time. There are approximately 66 proposals per year in the 1997-2002 period (with, on average, 16.2% votes in favor) compared to about 160 proposals per year in the 2003-2007 period (with, on average, 28.9% votes in favor). 17.7% of all compensation proposals won a majority vote in 2003-2007, versus only 1.8% in 1997-2002. By comparison, there were an average of 42 compensation-related proposals each year between 1992 and 1995, with an average voting support of 13% and no cases of majority votes (Johnson and Shackell 1997). Figure 1 also shows that compensation proposals have become a greater fraction of all governance proposals over time (34% in 2003-2007 versus 24% in 1997-2002) and in 2007, for the first time, have received greater voting support. These data confirm the increased importance of executive pay in the corporate governance arena.

Table 1 Panel A presents the frequency of and voting support for compensation-related shareholder proposals by proposal type and proponent identity. *Rules of the Game* proposals are the most frequent and enjoy the highest voting support, particularly after 2002 (nearly all majority votes are from this category). *Pay Design* proposals have almost tripled in frequency and doubled in voting support after 2002, making them the second most frequent and most supported category, while *Pay Philosophy* proposals have been roughly stable in terms of frequency and (extremely low) voting support.

The key insight from Panel A is that shareholders tend to support "principle-based" proposals such as *Rules of the Game* proposals over proposals aimed at "micromanaging"

executive pay by dictating its design or level. Three pieces of evidence in Appendix 1 provide further support for this inference. First, within *Rules of the Game* proposals, those requesting shareholder approval for extraordinary elements of pay (e.g. golden parachutes) or for the overall compensation policy ("say on pay" proposals) have received substantially larger support than proposals requesting shareholder approval of ordinary pay elements (e.g. bonuses)—underlining shareholders' reluctance to be involved in routine aspects of CEO pay. Second, the most successful *Pay Design* proposals—proposals to include performance-based vesting criteria in equity plans—tend to be "principle-based" in nature, in that they do not dictate the specific performance criteria. Finally, the most visible attempt to micro-manage CEO pay—the "commonsense pay" proposals submitted by a union fund at 26 firms in 2004 (*Pay Philosophy* category)—has failed to win support (only 8% votes in favor). These proposals were a comprehensive attempt to dictate both design and level of CEO pay (for details see footnote 6 and example in Appendix 2).

This evidence has also implications for the debate on mandating advisory "say on pay" votes in the US. There is no indication in our data that shareholder votes have been successfully hijacked by special interest groups pushing for radical changes or trying to micromanage executive pay, one of the concerns expressed by critics to "say on pay." By and large, shareholders have judiciously used their voting power to have a say on the pay process (rather than on pay itself) and selectively supported "principle-based" proposals.

Panel A also shows a marked increase in activism by *Union Pension Funds*, who filed 61% of the proposals between 2003 and 2007 (at an average of 97 per year), versus only 23% between 1997 and 2002 (at an average of 15 per year), making them the most frequent proponent

(48%) over the sample period, followed by *Individuals* (36%).[7] Proposals filed by *Union Pension Funds* also receive larger voting support, particularly in the 2003-2007 period.

Panel B displays a breakdown of proposal types by proponent identity. Almost 90% of the proposals filed by *Union Pension Funds* deal with either *Rules of the Game* (particularly Reporting and Shareholder Approval proposals) or *Pay Design*, and include a number of new initiatives, such as proposals to expense stock options or to adopt "say on pay." In contrast, almost all of the "radical" proposals to eliminate incentive pay (*Pay Philosophy* category) are submitted by *Individuals. Religious Organizations* have mostly submitted proposals to link CEO pay to social criteria or cap the CEO-to-worker pay ratio.

Figure 2 presents the frequency of compensation-related vote-no campaigns over the sample period. There are very few compensation-related vote-no campaigns during the first part of our sample period. In contrast there are about approximately 25 campaigns per year starting in 2004 with a spike in 2006 (37 campaigns). The percentage of votes withheld from directors in these firms averages about 20% over the sample period, representing a fairly high level of shareholder dissatisfaction (the percentage of votes withheld across all firms is about 5%; see Cai et al. 2009; Fisher, Gramlich, Miller and White 2009). Similar to Del Guercio et al. (2008), most vote-no campaigns in our sample are promoted by public pension funds, followed by other investment groups (mutual fund managers, private investors, hedge funds), with the rest being promoted by proxy voting firms, union pension funds and TIAA-CREF.

4. Determinants of the Targeting Decision

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[7] Union pension funds are generally index funds. As such, they hold very small ownership positions in individual firms, reducing their power to elicit change through behind-the-scene negotiations with boards. After experiencing significant losses around the accounting scandals in 2001-2002, union pension funds have intensified their corporate governance activities and tried to establish themselves as sophisticated players in the investment community, so as to attain greater involvement in strategic corporate decisions that may affect the value of their investments. See Schwab and Thomas (1998), Ferri and Weber (2009), Ferri and Sandino (2009) and Prevost, Rao and Williams (2009) for a more detailed discussion of unions' objectives as shareholders and the potential conflicts with their interests as employees' representatives.

4.1 Research Design

To examine the determinants of the targeting decision, we first collapse the 1,332 compensation-related events into 951 firm-year observations (427 distinct firms, 71% of which are in the S&P 500).[8] Then, in order to construct a control sample, for each targeted firm-year observation, we select the three firms from the S&P 1500 that are *i*) in the same Fama-French industry, *ii*) not targeted by compensation-related shareholder activism, and *iii*) closest in size and book-to-market value to the target firm.[9] We drop (few) targeted firm-year observations that do not have a match and duplicate control firms that match to more than one targeted firm in a given year. The final sample for multivariate analysis includes 821 (1,405) firm-year observations for the targeted (control) sample.[10] We combine these samples and estimate the following pooled firm-year level logistic regression with standard errors clustered by firm:

$$Pr(Targeted_t) \ = \alpha_0 + \alpha_1 \ CEO \ Total \ Pay_{t-1} + \beta \ Control \ Variables_{t-1} + \varepsilon \qquad (1)$$

The dependent variable, *Targeted_t*, is an indicator variable equal to one if the firm is targeted by a compensation-related shareholder proposal and/or vote-no campaign at the year *t* annual meeting and zero otherwise. As a starting point, our variable of interest is *CEO Total Pay_{t-1}*—the CEO's total compensation for year *t-1* (the most recent fiscal year ending before the shareholder meeting). $\alpha_1 > 0$ would suggest that shareholders target firms with higher CEO pay. In subsequent tests, we replace *CEO Total Pay_{t-1}* with other compensation-related variables.

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[8] Note that a firm may be targeted by more than one compensation-related shareholder proposal in a given year. For example, in 2007 Apple Computer was targeted by four proposals dealing with various compensation-related issues Also, a firm targeted by a compensation-related shareholder proposal may also be targeted by a compensation-related vote no campaign. This was the case for Apple Computer during the 2004 proxy season.

[9] In particular, for each targeted firm, we retain the three control firms with the smallest deviation score from the targeted firm in terms of size (market capitalization) and book-to-market. Following, Huang and Stoll (1996), we compute the deviation score as: Deviation=$[(Size_T – Size_C)/(Size_T+Size_C)]^2$ + $[(BM_T – BM_C)/(BM_T+BM_C)]^2$ where subscripts 'T' and 'C' represent targeted and potential control firms.

[10] In untabulated tests, we repeat our analyses using the entire S&P 1500 (with industry and year fixed effects). The results are qualitatively similar. Notably, the pseudo R-square in the logit regressions is substantially larger (around 30%), due to the greater explanatory power of firm size when smaller firms are included in the control sample.

The control variables capture other characteristics found to be associated with the likelihood of being targeted by shareholder proposals or vote-no campaigns (Karpoff 2001; Thomas and Cotter 2007; Del Guercio et al. 2008): size (*Market Capitalization$_{t-1}$*), performance (*Return on Assets$_{t-1}$* and *Abnormal Returns$_{t-1}$*), ownership structure (*% of Institutional Ownership$_{t-1}$* and *% of Executive Ownership$_{t-1}$*), board characteristics (*CEO Chairman$_{t-1}$*, *Board Size$_{t-1}$*, *% of Independent Directors$_{t-1}$* and *Ownership by Independent Directors$_{t-1}$>=1%*) and a shareholder rights index developed by Bebchuk, Cohen and Ferrell (2009) (*Entrenchment Index$_{t-1}$*).

4.2 Results

Table 2 provides univariate tests of differences between targeted and control firms. Consistent with prior studies (Karpoff, Malatesta and Walkling 1996; Thomas and Cotter 2007; Del Guercio et al. 2008; Ertimur et al. 2009), targeted firms are larger and have worse performance (particularly in terms of stock performance). The evidence on the univariate relation between targeting and governance is mixed, depending on the variables analyzed (targeted firms have lower ownership by institutions and executives, higher frequency of CEO-Chair duality but higher entrenchment index). Most relevant to our study, they also have higher total CEO pay.

Table 3, Panel A, Model (1) presents the determinants of the targeting decision in a multivariate setting, based on Equation (1). The results show that, on average, compensation-related activism is directed at firms with higher levels of CEO pay, even after controlling for size and other targeting criteria. The association between *CEO Total Pay* and the probability of being targeted is positive and significant (α_1=0.04, p-value<0.01). This association is also economically significant. The predicted probability of being targeted increases from 29.9% to

38.4% when we move from the 1st quartile ($2.9 million) to the 3rd quartile ($12.3 million) of the *CEO Total Pay* distribution (while keeping the other variables at the mean).[11]

As for the control variables, consistent with prior studies, we find that larger and poorly performing firms are more likely to be targeted by compensation-related activism. We also find that the likelihood of being targeted is higher for firms with greater percentage of independent directors, perhaps because activists expect such boards to be more responsive.[12]

In Model (2), we examine whether activists target firms based on the structure of CEO pay, by replacing *CEO Total Pay* with its two main components, namely *CEO Cash Pay* (salary plus bonus) and *CEO Equity Pay* (the value of annual grants of equity awards). The coefficients of both *CEO Cash Pay* and *CEO Equity Pay* are positive and significant.

Next, we examine the degree of "sophistication" and "sensationalism" employed by activists in choosing which firms to target. Following Core et al. (2008), we perform two tests. First, in Model (3) we split *CEO Total Pay* into two components: *CEO Predicted Total Pay* and *CEO Residual Total Pay*. *CEO Predicted Total Pay* aims to capture the level of "expected" CEO total pay given its economic determinants,[13] while *CEO Residual Total Pay* (the difference

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[11] The results are similar if we replace *CEO Total Pay* with its average over the previous three years, or with the aggregate pay of top five executives. We also perform two tests to explore the role of CEO compensation vis-à-vis the compensation of the other top executives. First, we include in Equation (1), in addition to *CEO Total Pay*, a variable measuring the average total pay of non-CEO executives. The variable is not associated with the targeting decision (note, though, that its correlation with *CEO Total Pay* is 0.64, p-value<0.01). Second, we replace *CEO Total Pay* with the ratio of the aggregate compensation of the top-five executive team to *CEO Total Pay*. Bebchuk, Cremers and Peyer (2008) define this variable as a proxy for CEO "centrality" and show that it is correlated with lower accounting profitability and a greater tendency to reward the CEO for luck. While this variable has a significant positive association with the probability of being targeted, the relation becomes insignificant when we also include *CEO Total Pay* in Equation (1).

[12] The coefficient of *Entrenchment Index* is negative and significant. There is an explanation for this apparently counterintuitive result. The *Entrenchment Index* captures provisions that limit shareholder voting power and protect the firm from hostile takeovers (Bebchuk et al. 2009). Firms with high *Entrenchment Index* are more likely to be targeted by shareholder proposals that focus on these provisions than by proposals that deal with CEO compensation (recall from Section 2 that each shareholder can submit only one proposal at the annual meeting). In fact, when we drop control firms targeted by other governance-related proposals and re-estimate Equation (1), the coefficient of *Entrenchment Index* becomes insignificant (untabulated).

[13] Similar to Core et al. (2008), *CEO Predicted Total Pay* is computed by taking the exponent of the predicted value for each firm from a regression of the natural logarithm of total CEO compensation on proxies for economic

between *CEO Total Pay* and *CEO Predicted Total Pay*) aims to capture the "excessive" portion of CEO pay.[14] Second, in Model (4), we augment Equation (1) with *CEO Exercised Options*, an indicator variable equal to one if the CEO exercised any stock options during the year *t-1*. Core et al. (2008) interpret a positive coefficient on *CEO Residual Total Pay* as evidence of a sophisticated approach in selecting target firms, and a positive coefficient on *CEO Predicted Total Pay* or *CEO Exercised Options* as evidence of sensationalism and lack of sophistication.[15]

The results show that the coefficients of both *CEO Predicted Total Pay* and *CEO Residual Total Pay* are significantly positive (Model 3), while the coefficient of *CEO Exercised Options* is significantly *negative* (Model 4)—perhaps because option exercises (which usually occur after a 3-5 year vesting schedule) proxy for positive long-term stock performance not fully captured by the *Abnormal Returns* variable (recall that activists are less likely to target well performing firms).[16] These findings suggest that activists are sophisticated in that they take into account *CEO Residual Total Pay*. However, the results are ambiguous as to the role of

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determinants of CEO pay. In particular, we estimate the following annual cross-sectional regressions for all firms in the ExecuComp database: $ln(CEO\ Total\ Pay_t) = \alpha_0 + \alpha_1\ ln(CEO\ Tenure_t) + \alpha_2\ ln(Sales_{t-1}) + \alpha_3\ S\&P500_{t-1} + \alpha_4$ *Book-to-Market$_{t-1}$* $+ \alpha_5\ Stock\ Returns_t + \alpha_6\ Stock\ Returns_{t-1} + \alpha_7\ ROA_t + \alpha_8\ ROA_{t-1} + Industry\ Fixed\ Effects + \varepsilon$ where *CEO Tenure$_t$* is the number of years the CEO has been at his current position as of year *t*, *Sales$_{t-1}$* is the company sales during year *t-1*, *S&P500$_{t-1}$* is an indicator variable that is equal to one if the firm is in the Standard & Poor's 500 Index in year *t-1*, *Book-to-Market$_{t-1}$* is the book market of equity scaled by market value of equity at the end of year *t-1*, *Stock Returns$_t$ (Stock Returns$_{t-1}$)* is the company's unadjusted stock return for year *t (t-1)*, *ROA$_t$* *(ROA$_{t-1}$)* is income before extraordinary items scaled by average assets during year *t (t-1)*.

[14] We exclude *Market Capitalization, Return on Assets* and *Abnormal Returns* from Model (3) because they are used to estimate *CEO Predicted Pay* (see previous footnote). When we include these variables in Model (3), the coefficients of *CEO Predicted Pay* and *CEO Residual Pay* remain positive and significant at, respectively, 0.13 (p-value<0.01) and 0.05 (p-value<0.01).

[15] The focus on option exercises is viewed as sensationalistic because option exercises reflect realized pay for past performance rather than ex ante compensation opportunity (Holstrom and Kaplan 2003). Core et al. (2008) analyze compensation-related press coverage over the 1994-2002 period and find that negative coverage is higher for firms with excessive CEO pay (suggesting a sophisticated approach and consistent with an information role of the press) but also for firms with high CEO option exercises (suggesting some degree of sensationalism and consistent with an entertainment role played by the press), while the "predicted" level of CEO pay does not seem to play a role.

[16] We also estimate a specification with a continuous variable capturing the proceeds from option exercises (defined only for firms with CEO option exercises greater than zero during the year) as well as a specification with both the indicator variable and the continuous variable. The general tenor of the results does not change: the likelihood of targeting is not positively associated with option exercises.

sensationalism, since the likelihood of targeting is positively associated with *CEO Predicted Total Pay*, but not with *CEO Exercised Options*.

To better interpret these results, we repeat our analysis by proponent identity for the sample of firms targeted by shareholder proposals, expecting a greater focus on *CEO Residual Total Pay* (*CEO Predicted Total Pay*) by more (less) sophisticated proponents. Specifically, we estimate Equation (1) separately for firms targeted by institutional proponents (*Union Pension Funds*, *Public Pensions* and *Other Shareholder Groups*)—presumably more sophisticated—and for firms targeted only by other proponents (*Individuals* and *Religious Organizations*), building two separate control samples for each group of firms (using the same criteria described in Section 4.1). Then, we perform a within-sample logit analysis to directly examine whether firms targeted by institutional proponents differ from those targeted only by other proponents.

Panel B presents the results (we do not report the control variables for ease of exposition). Consistent with the notion that institutional proponents are more sophisticated relative to other proponents, Panel B shows that: *i*) institutional proponents target firms with higher *CEO Residual Total Pay* relative to their control sample and to firms targeted only by other proponents; *ii*) other proponents target firms with higher *CEO Predicted Total Pay* but not firms with higher *CEO Residual Total Pay* (relative to their control sample). However, contrary to our expectations, firms targeted by institutional proponents also exhibit higher *CEO Predicted Total Pay*, relative not only to their control sample, but also to firms targeted only by other proponents. There may be two explanations for these findings. First, (at least some) activists may be concerned with the *level* of pay per se, because they have a different view of what constitutes "excess" CEO pay from a social equity standpoint.[17] Second, *CEO Predicted Pay*

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[17] As noted by Damon Silvers, associate general counsel of the AFL-CIO, the largest federation of labor unions: "Our view is that the level of executive pay matters. This is where we differ from many other investors. It matters

may be a proxy for visibility. Activists' initiatives have greater impact if they obtain visibility. The need for visibility is stronger for proposals aimed at pushing market-wide adoption of "best practices" and influencing the reform debate (e.g. expensing stock options, adoption of say on pay, shareholder approval of golden parachutes), which are typically sponsored by institutional investors, particularly union pension funds. Under both these explanations, activists' focus on *CEO Predicted Pay* is a deliberate choice rather than evidence of sensationalism or lack of sophistication, which is also consistent with the lack of emphasis on CEO option exercises.

4.2.1 Differences in Targeting Criteria between Shareholder Proposals and Vote-No Campaigns

To shed light on whether the results in Panel A differ across types of activism, we re-estimate the logit model in Equation (1) separately for firms targeted by vote-no campaigns and firms targeted only by shareholder proposals, building two separate control samples (with the same criteria described in Section 4.1). The results are reported in the top and middle section of Panel C. Then, we perform a within-sample logit analysis to directly examine whether firms targeted by vote-no campaigns differ from those targeted only by shareholder proposals (bottom of Panel C; we do not report the control variables for ease of exposition).

As shown in Panel C (top and middle section), the results for the compensation variables of interest are generally similar to Panel A, in that both firms targeted by shareholder proposals and firms targeted by vote-no campaigns are characterized by higher CEO pay (cash and equity, as well as predicted and residual) relative to their respective control samples. However, CEO pay variables seem to play a stronger role in vote-no campaigns. For example, the coefficients of *CEO Total Pay$_{t-1}$* imply that, in moving from the 1st to the 3rd quartile of the *CEO Total Pay$_{t-1}$* distribution (while keeping the other variables at the mean), the predicted probability of being

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because at some point it is just a waste of assets. It matters in terms of the health of the firm because it is very difficult to inspire loyalty or sacrifice on the part of the majority of employees when executives are having rewards lavished on them. And it matters because it is bad for society" (Ferri and Weber, 2009).

targeted by a shareholder proposal increases from 30.4% to 37.3%, while the predicted probability of being targeted by a vote no-campaign increases from 13.7% to 37.5%. Indeed, the within-sample analysis (bottom section of Panel C) shows that firms targeted by vote-no campaigns have higher levels of CEO compensation, in terms of total pay (Model 1), equity pay (Model 2) and predicted pay (Model 3), suggesting that investors resort to vote-no campaigns—a more confrontational form of activism—in the most egregious cases. We also find that firms targeted by vote-no campaigns have higher residual CEO compensation, consistent with greater sophistication of their sponsors. The same results hold if we compare vote-no campaigns to the sub-sample of shareholder proposals submitted by institutional proponents (untabulated).

4.2.2 Differences in Targeting Criteria over Time

Shareholder activism—whether through shareholder proposals, vote-no campaigns or hedge fund interventions—has become more frequent and effective in the aftermath of the accounting scandals in 2001-2002 (Thomas and Cotter 2007; Ertimur at al. 2009; Del Guercio et al. 2008; Brav et al. 2008; Klein and Zur 2009). Compensation-related activism has increased as well (Figures 1 and 2), fueled by the initiatives of union pension funds and the emergence of governance rating agencies (e.g. The Corporate Library) providing in-depth analyses of compensation plans. These factors may have resulted in different targeting criteria over time. To examine this question, we estimate a "stacked" version of Equation (1):

$$Pr(Targeted_t) = \alpha_0 + \alpha_1 \, CEO \ Total \ Pay_{t-1} + \alpha_2 \, After \times CEO \ Total \ Pay_{t-1} \qquad (2)$$
$$+ \, \beta \, Control \ Variables_{t-1} + \gamma \, After \times Control \ Variables_{t-1} + \varepsilon$$

where *After* is an indicator variable equal to one if the annual meeting is in the 2003 – 2007 period, and zero otherwise, and the other variables are defined as in Equation (1).

Table 3 Panel D presents the results. For ease of exposition, we separately report the coefficients of interest for 1997–2002, the incremental and total effects for 2003–2007, and suppress the results for the control variables. *CEO Total Pay* is positively associated with the likelihood of targeting in both periods (Model 1), but its effect is significantly stronger in the 2003–2007 period—the interaction term is positive and significant (α_2=0.03, p-value<0.01), consistent with greater investor concerns with executive pay in the post-Enron period.[18]

Most of these investor concerns have focused on the use of equity pay, in particular stock options. A number of studies link earnings management and accounting restatements to an excessive use of stock options (Bergstresser and Philippon 2006; Burns and Kedia 2006; Efendi, Srivastava, and Swanson 2007), which were blamed for creating "*incentives to artificially inflate reported earnings in order to keep stock prices high and rising*" (Greenspan 2002). Hence, in Model (2) we examine whether the impact of the equity and cash components of CEO pay on the likelihood of being targeted has changed over time. While the coefficient of *CEO Cash Pay* is positive and significant in both periods (with no change over time), the coefficient of *CEO Equity Pay* is positive and significant only in the 2003–2007 period and shows a significant increase over time. To provide a sense of the economic significance of this increase, moving from the 1st to the 3rd quartile of *CEO Equity Pay* (while keeping all the other variables at the mean) increases the predicted probability of being targeted from 31.8% to 33.1% in the 1997-2002 period, versus an increase from 31.4% to 40.2% in the 2003-2007 period, consistent with a change in investor sentiment over equity pay.

Model (3) presents the results for the association between the predicted and residual components of *CEO Total Pay* and the targeting decision over the two periods. While the

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[18] The difference is economically relevant. During the 1997 – 2002 period, moving from the 1st to the 3rd quartile of the *CEO Total Pay* distribution (while keeping the other variables at the mean), increases the predicted probability of being targeted from 29.3% to 33.2%, versus an increase from 29.5% to 41% during the 2003 – 2007 period.

coefficient of *CEO Predicted Total Pay* is positive and significant in both periods (with no change over time), the coefficient of *CEO Residual Total Pay* is positive and significant only in the 2003–2007 period and increases significantly over time. This suggests greater sophistication in targeting criteria over time, perhaps in an attempt to garner higher voting support or due to easier access to estimates of excess CEO pay (e.g. through The Corporate Library). The relation between targeting and CEO option exercises shows no change over time (Model 4).

Since vote-no campaigns are driven by different targeting criteria (Panel B) and occurred mostly in the 2003-2007 period (Figure 2), we also re-run the analysis in Panel C after excluding vote-no campaigns. The results are generally similar, except that the interaction term *After × CEO Residual Total Pay* is no longer significant, suggesting that the enhanced focus on excess CEO pay in 2003-2007 is largely driven by vote-no campaigns.

5. Determinants of Voting Outcome for Compensation-Related Shareholder Proposals

5.1 Research Design

In Section 4 we investigated the criteria used by shareholder activists in choosing target firms. In this section, we examine the criteria used by all shareholders when casting their votes on compensation-related proposals. For this purpose, we examine the determinants of voting outcome for our sample of 1,198 compensation-related shareholder proposals using the following OLS regression with standard errors clustered by firm:

$$\% \text{ Votes For}_t = \alpha_0 + \alpha_1 \text{ CEO Total Pay}_{t-1} + \beta \text{ Control Variables}_{t-1} + \varepsilon \qquad (3)$$

% Votes For$_t$ is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against).[19] Our initial focus is whether *CEO Total Pay$_{t-1}$* affects the voting outcome. We then replace *CEO Total Pay$_{t-1}$* with other pay-related variables.

To capture the degree of shareholder dissatisfaction with the firm's compensation and governance policies, we include the number of other compensation-related shareholder proposals voted upon at the same annual meeting *(# of Other Comp-Related Proposals$_t$)*, and three indicator variables denoting whether at the same annual meeting the firm was targeted by: *i*) a compensation-related vote-no campaign (*Comp-Related Vote-No Campaign$_t$*), *ii*) a (non-compensation) governance-related vote-no campaign (*Other Vote-No Campaign$_t$*), *iii*) one or more (non-compensation) governance-related shareholder proposals (*Other Proposal$_t$*).

Based on the evidence in Table 1 and in other studies (e.g. Ertimur et al. 2009), we also include an indicator variable for the *2003-2007 Period*, as well as indicator variables for proposal type (*Rules of the Game$_t$* and *Pay Design$_t$*) and proponent identity (*Institutional Proponent$_t$*). Finally, we include a number of variables that prior studies found to be associated with the voting outcome of shareholder proposals, namely, size, financial performance, ownership structure, board independence and an index of shareholder rights (Gillan and Starks 2000; Thomas and Cotter 2007; Ertimur et al. 2009).

To account for selection bias, in untabulated tests, we also employ a two-step Heckman model where the first step is the probability of being targeted by a compensation-related shareholder proposal (top portion of Table 3, Panel C), and the second step is the OLS regression in Eq. (3), with the inverse Mill's ratio obtained from the first-step probit regression included

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[19] The results are unchanged when we re-compute *% Votes For$_t$* as percentage of *all* votes cast, including abstention votes. Because the dependent variable is a percentage, following Bethel and Gillan (2002) in robustness tests we also use its logit transformation, i.e. *Votes For$_t$*= Log [(*% Votes For$_t$* / (1 - *% Votes For$_t$*)], with similar findings.

among the control variables in Eq. (3). Our inferences are unchanged and the coefficient of the inverse Mill's ratio is not significant, reducing concerns with selection bias.

5.2 Results

Table 4, Panel A, shows a positive and significant association between *CEO Total Pay* and the percentage of votes in favor of compensation-related proposals, after controlling for proposal type, proponent identity and firm characteristics (Model 1). In addition, *CEO Residual Total Pay* is positively associated with the votes in favor of the proposal, while the coefficients of *CEO Predicted Total Pay* and *CEO Exercised Options* are not significant (Model 3 and 4). In untabulated tests, we find that the significant coefficients of *CEO Total Pay* and *CEO Residual Total Pay* are entirely driven by the 2003-2007 period.

These findings have two implications. First, while activists target firms based on both predicted and excess CEO pay (see Section 4), voting shareholders support compensation changes only at firms with excess CEO pay, suggesting that, on average, shareholder votes reflect a sophisticated understanding of CEO pay figures.[20] This speaks favorably about the potential ability of advisory "say on pay" votes to capture the quality of CEO pay practices, contrary to claims that shareholders lack the required specific knowledge or the incentives to acquire it (Bainbridge 2008). Second, while proposal type remains the key factor in voting decisions, in recent years shareholders have begun to take into account firm-specific characteristics (e.g. CEO pay)—a trend consistent with the increased use of firm-specific (rather than universal) voting recommendations by proxy voting firms (Borrus 2004).

With respect to the control variables, Panel A shows that voting support for the proposal is positively related to the *# of Other Comp-Related Proposals*. Consistent with the evidence in

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[20] In a similar vein, Carter and Zamora (2009) document a higher percentage of votes cast against the remuneration report in UK firms with excess CEO pay; Cai et al. (2009) find a higher percentage of votes withheld from compensation committee members up for re-election in firms with excess CEO pay.

Table 1, Panel A, voting support is higher for proposals voted upon in the *2003 - 2007 Period*, for *Rules of the Game* and *Pay Design* proposals, and for proposals submitted by an *Institutional Proponent* (Gillan and Starks 2000). As in prior studies (e.g. Gordon and Pound 1993; Ertimur et al. 2009), voting support is lower at larger firms (possibly due to the higher cost of collective action in these firms and the greater resources they invest in campaigning against the proposal); higher in firms with weaker monitoring mechanisms (higher *Entrenchment Index* and lower *% of Independent Directors*); and lower in firms with higher *% of Executives' Ownership* (unsurprisingly, executives cast their shares against the proposal—if they had not opposed it, the proposal would not be put up for a vote in the first place).

Previous studies show that voting recommendations by influential proxy voting services have a significant effect on shareholder votes (e.g. Bethel and Gillan 2002; Cai et al. 2009). In our sample, votes in favor of proposals receiving a "for" recommendation from RiskMetrics (52% of the sample) are, on average, 42.9%, versus only 11.7% for proposals receiving an "against" recommendation (data available for about 75% of the sample). The value and information content of these recommendations, however, are less clear (Choi, Fisch and Kahan 2009) and critics caution against the growing influence of proxy voting firms (Gordon 2009).

To shed some light into the determinants and consequences of proxy voting services' recommendations in the context of compensation proposals we perform two tests. First, we conduct a logit analysis where we replace the dependent variable in Equation (3) with an indicator variable equal to one if RiskMetrics issues a recommendation to vote "For" the proposal (*RiskMetrics=For*). The results presented in Panel B are generally similar to Panel A, suggesting that similar factors play into RiskMetrics recommendations and shareholder voting

decisions.[21] Second, we repeat the analysis in Panel A after adding the residual from the logit regression in Panel B (*Residual RiskMetrics Recommendation "For"*) as an additional determinant. Our purpose is to understand whether RiskMetrics recommendations influence the voting outcome above and beyond the effect of other factors known to affect both recommendations and voting support. Panel C shows that the coefficient of the residual is positive and highly significant (the adjusted R^2 increases from 49% to 73%), suggesting that RiskMetrics recommendations have a significant incremental impact on voting outcome.[22]

6. Consequences of Compensation-Related Shareholder Activism

In this section we study whether and how firms respond to compensation-related shareholder activism. We first provide direct evidence on whether firms implement shareholder proposals. Then, we examine whether there is an overall effect on CEO pay.[23]

6.1 Implementation of Compensation-Related Shareholder Proposals

For each of the 1,198 compensation-related proposals, we read the subsequent year's proxy statement and code as "implemented" any proposal for which the board has taken a

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[21] The most striking difference is the *positive* and significant association between *% of Executive Ownership* and the likelihood of a "For" recommendation (Panel B), in contrast to the *negative* and significant association with the percentage of votes for (Panel A). The difference is driven by the fact that, in Panel A, the *% of Executive Ownership$_{t-1}$* mechanically captures the proportion of votes cast by executives (opposing the proposal), while in Panel B it reflects other shareholders' assessment of executive ownership in forming their voting decision. It is also noteworthy that governance variables (board independence, entrenchment index) affect the percentage of votes cast in favor of compensation proposals but do not affect RiskMetrics recommendations and that RiskMetrics is more likely to support compensation proposals in firms with higher CEO equity pay (Model 2).

[22] In untabulated tests, we also include the indicator variable *RiskMetrics=For* directly in Panel A as an additional determinant. Not surprisingly (given the results in Panel B), some of the variables lose significance, although a number of them (e.g. the type of proposal and proponents, governance variables, number of other compensation proposals) remain significant. The coefficient of *RiskMetrics=For* is positive and highly significant and implies an estimated 25% more votes in favor of compensation-proposals supported by RiskMetrics—a figure close to the estimate of 14%-21% in Bethel and Gillan (2002) and to the 20-30% indicated by practitioners (Choi et al. 2009).

[23] Another potential test is to examine the market reaction around compensation-related proposals. However, as noted by Gillan and Starks (2007), an event study around shareholder proposals is hard to design and interpret, since the announcement date cannot be uniquely identified or occurs in conjunction with other value relevant announcements. Generally, most studies have found little market reaction around potential dates of interest (e.g. proxy mailing date, annual meeting; Karpoff et al. 1996; Thomas and Cotter 2007).

significant step toward full implementation (see Appendix 3 for examples). The one-year horizon increases the likelihood that the implementation occurs in response to the proposal.

Table 5, Panel A, shows that only 64 proposals are implemented (59 in the 2003-2007 period), corresponding to a 5.3% implementation rate. The low level of responsiveness is partly justified by the limited voting support for the proposals. As noted in Table 1, Panel A, only 12.4% of the proposals won a majority vote at the annual meeting. Among the subset of proposals receiving a majority vote, the implementation rate is significantly higher at 32.2%, closer to the 40% figure reported by Ertimur et al. (2009) for a broad sample of governance-related, majority vote proposals in 2003-2004. Most cases of implementation are in the *Rules of the Game* category, with no implementations for *Pay Philosophy* proposals.

On the one hand, these figures may under-state the degree of boards' responsiveness to the proposals because firms may "partially" implement a proposal by adopting only some aspects of it (see Appendix 3). We are able to identify only 34 such cases, mostly cases where the proposal does not win a majority vote. If these "partial" implementation cases are included, the rate of implementation increases from 5.3% to 8.3% for the full sample and from 32.2% to 40.3% for the sample of majority vote proposals. On the other hand, these figures may over-state the impact of shareholder proposals on firms' actions to the extent that in some cases their adoption may be costless or de facto non-binding to the board. For example, adopting a proposal requesting shareholder approval for future golden parachutes greater than 2.99 times salary and bonus may not be immediately binding to a firm currently below the 2.99 cap or to a firm above the 2.99 cap but with no immediate plan to renegotiate its severance agreements or enter into new ones. In addition, tax rules already make it costly for firms to exceed the 2.99 limit.

In Panel B, we examine the determinants of the implementation decision using a logit model where the dependent variable is equal to one if the proposal is *i)* fully implemented (Model 1) or *ii)* fully or partially implemented (Model 2). The independent variables capture the voting outcome, proposal type, proponent identity, firm size and performance, governance and time period. The analysis confirms the importance of the voting outcome in a multivariate setting: the likelihood of implementation is higher for proposals receiving a larger percentage of votes in favor and proposals receiving a majority vote, consistent with findings in Thomas and Cotter (2007) and Ertimur et al. (2009) for a broader set of proposals over the period up to 2004. Proposals are less likely to be implemented in firms with higher executive ownership. In Model (2), using a broader definition of implementation, it also appears that responsiveness to shareholder proposals increases with board independence.

6.2 Effect of Compensation-Related Activism on CEO Pay

In this section we test whether compensation-related shareholder activism has an overall moderating effect on CEO compensation. While not all proposals and vote-no campaigns call directly for a reduction in CEO pay, they often imply that pay levels are excessive. For example, proposals to adopt performance-based vesting conditions in equity awards may imply that the payouts under the firm's current equity grant policies are currently too generous (for a given level of performance). Proposals requesting shareholder approval for golden parachutes or supplemental executive retirement plans (SERPs) may be a reaction to large payments made by firms in the past. A second reason to examine changes in CEO pay is that even when the proposals do not explicitly or implicitly call for a reduction in CEO pay, they may act as a catalyst for change. The dialogue with proponents may expand beyond the specific issue raised by the proposal (Del Guercio and Hawkins 1999) and other investors may scrutinize CEO pay

more forcefully when called to vote upon a compensation-related proposal. A third reason to look at overall changes in CEO pay is to account for the possibility that firms offset the effect of any proposal (even when implemented) by changing other aspects of the CEO pay package.

6.2.1 Research Design

Similar to Core et al. (2008), who examine the impact of negative press coverage on CEO compensation, we estimate the following OLS regression, with standard errors clustered by firm:

$$\textit{Change in CEO \% Residual Pay}_{t+1} = \alpha_0 + \alpha_1 \textit{Targeted}_t + \alpha_2 \textit{Controls}_t + \varepsilon \tag{4}$$

The dependent variable, *Change in CEO % Residual Pay$_{t+1}$*, is the difference between *CEO % Residual Pay$_{t+1}$* and *CEO % Residual Pay$_{t-1}$*. *CEO % Residual Pay$_{t+1(t-1)}$* is defined as the natural logarithm of *CEO Total Pay$_{t+1(t-1)}$* less the natural logarithm of *CEO Predicted Pay$_{t+1(t-1)}$*. Therefore, *Change in CEO % Residual Pay$_{t+1}$*, represents the change in percentage "excess" CEO pay between years *t-1* and *t+1*. We focus on excess pay in order ensure that changes in compensation are not driven by changes in firm characteristics over the same period.

As a starting point, the independent variable of interest in Equation (4) is *Targeted$_t$* (as defined in Section 4.1). A negative coefficient on *Targeted$_t$* would suggest a decrease in excess CEO pay subsequent to a compensation-related activism event. We control for the possibility of mean reversion in CEO compensation by including *CEO % Residual Pay$_{t-1}$* (Core et al. 2008). Controlling for *CEO % Residual Pay$_{t-1}$* also alleviates endogeneity concerns—since firms with excess CEO pay are more likely to be targeted by compensation-related activism, a subsequent reduction in excess CEO pay may be due to mean reversion in CEO pay rather than to the effect of activism (see footnote 28 for additional discussion of endogeneity). We take into account the potential effect of CEO turnover (indicator variable *CEO's Last Year in Office$_{t-1}$*) and (non-

compensation) governance-related vote no campaigns and shareholder proposal (indicator variables *Other Vote-No Campaign$_t$* and *Other Proposal$_t$*). Finally, we include year fixed effects.

6.2.2 Results

Table 6, Panel A, presents the results from the estimation of Equation (4). On average, we find no relation between compensation-related shareholder activism and future changes in excess CEO pay—the coefficient of *Targeted* in Model (1) is not significant. There is strong evidence of mean reversion in excess CEO pay—the coefficient of *CEO % Residual Pay* is negative and significant—as in Core et al. (2008). To account for potential differences in the effect of various forms of compensation-related activism, in Model (2) we replace *Targeted* with two indicator variables, respectively, for vote-no campaigns (*Vote-No*) and shareholder proposals (*Proposal*). The coefficient of *Vote-No* is negative, but not significant (p-value=0.12).

One possibility for the lack of results is that not all targeted firms are characterized by excess CEO pay. In other words, if activism is "efficient," it should have an impact only (mostly) on firms with excess CEO pay. To examine this question, in Model (3) we interact *Vote-No* with two indicator variables denoting whether residual CEO pay is positive (*CEO % Residual Pay$_{t-1}$>0*) or negative (*CEO % Residual Pay$_{t-1}$<0*).[24] We find a negative and significant association between vote-no campaigns and subsequent change in percentage excess CEO pay in firms with excess CEO pay in year *t-1*. We estimate that the coefficient of *Vote-No$_t$* x *CEO % Residual Pay$_{t-1}$>0* translates to a $7.3 million reduction in total CEO pay.[25] Since the median CEO pay for this subset of firms is $19.3 million, the result implies a 38% decrease in CEO total pay.[26,27]

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[24] We also interact these two indicator variables with *Proposal$_t$*, *Other Vote-No Campaign$_t$* and *Other Proposal$_t$*. None of the coefficients are significant. We report the more parsimonious specification for ease of exposition.

[25] We obtain this estimate as follows. The predicted value of *Change in CEO % Residual Pay$_{t+1}$* is -0.5203 when we set *Vote-No$_t$* x *CEO % Residual Pay$_{t-1}$> 0* to one, *Vote-No$_t$* x *CEO % Residual Pay$_{t-1}$< 0* to zero and all other variables to their median values. The median value for the ratio of *CEO Total Pay$_{t-1}$* to *CEO Predicted Pay$_{t-1}$* for firms with *Vote-No$_t$* x *CEO % Residual Pay$_{t-1}$> 0* equal to one is 2.11. It follows that the predicted median ratio of *CEO Total Pay* to *CEO Predicted Pay* in year *t+1* is 1.26 (=e$^{-0.5203}$ x 2.11). Since the median *CEO Predicted Pay$_{t-1}$*

Related to our finding, Cai et al. (2009) report a decrease in excess CEO pay in the subset

of firms characterized by *i*) excess CEO pay and *ii*) with a high percentage of votes withheld

from a compensation committee member. To control for this effect, we create two indicator

variables denoting whether more than 15% of votes are withheld from a compensation

committee member (*Votes Withheld from Comp Comm$_t$ > 15%*) or a non-compensation

committee member (*Votes Withheld from Non-Comp Comm$_t$ > 15%)*—these data are available

only for the 2003-2007 period. Then, we interact them with the indicator variables for excess

CEO pay (*CEO % Residual Pay$_{t-1}$>0* and *CEO % Residual Pay$_{t-1}$<0*). As shown in Model (4),

the four additional variables are not significant and *Vote-No x CEO % Residual Pay$_{t-1}$> 0*

remains significant, suggesting that our finding is driven by the publicity associated with a vote-

no campaign rather than from the percentage of votes withheld at the annual meeting.[28]

Across all tests in Panel A, the coefficient of *Proposal* is not significant. In Panel B we

examine the possibility that the effect of shareholder proposals depends on proponent identity

and/or proposal type. We categorize proposals into six groups, depending on whether the

proponent is an *Institutional Proponent* or *Other Proponent* and whether the proposals belong to

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for firms with *Vote-No$_t$ x CEO % Residual Pay$_{t-1}$> 0* equal to one is $8.6 million, the reduction in the ratio translates to roughly $7.3 million reduction in total CEO compensation in year *t+1* [= 2.11 – 1.26) x $8.6 million]. In essence, we find that in these firms CEO pay was 2.11 times the level justified by economic determinants before the vote-no campaign, and only 1.26 times after the vote no campaign.

[26] Ferri and Sandino (2009) report a $2.3 million reduction in CEO pay in firms where a proposal to expense stock options was approved and Brav et al. (2008) document a $1 million decline in CEO pay in firms targeted by hedge funds activists (a significant amount considering that these firms are considerably smaller than S&P 500 firms).

[27] To further alleviate endogeneity concerns, we re-estimate Model (3) after replacing *Vote-No* and *Proposal* with their predicted values. We use Eq. (1) and estimate the predicted values separately for firms targeted by shareholder proposals only and their controls and for firms targeted by vote-no campaigns and their controls. The results are similar to those in Table 6 Panel A. The coefficient of *Vote-No$_t$ x CEO % Residual Pay$_{t-1}$>0* is -0.43 and significant at 1% level.

[28] The interaction term *Votes Withheld from Comp Comm$_t$ > 15 % x CEO % Residual Pay$_{t-1}$ > 0* remains insignificant even when we: i) use a 10% or 20% threshold instead of 15%; ii) exclude our vote-no campaigns indicator variables; or iii) focus on the compensation committee chair. The lack of significance is inconsistent with the findings in Cai et al. (2009) and seems to reflect differences in sample research design. Nonetheless, for our research question—the effect of compensation-related initiatives that activists take ahead of the annual meeting, such as submitting proposals and staging vote-no campaigns—it is important to confirm that our findings holds after controlling for the effect of votes withheld from compensation committee members at the annual meeting.

the *Rules of the Game, Pay Design* or *Pay Philosophy* category. The resulting six indicators take the value of one if the firm was targeted by at least one proposal belonging to the corresponding proponent-proposal combination. To allow for substitution or complementarity between implementing a proposal and reducing CEO pay, we include two indicator variables (*Implemented, Not Implemented*) denoting whether or not the firm implemented any proposal. Finally, to control for the effect of voting support on boards' decisions to take action (Ertimur et al. 2009), we include two indicator variables (*High Votes For, Low Votes For*) denoting whether or not the firm was targeted by at least one proposal receiving significant voting support (i.e. more than 38% votes for, the top quartile of the distribution).

The results in Model (1) show that, among the six combinations, only firms targeted by *Pay Design* proposals sponsored by *Institutional Proponents* experience a significant decrease in excess CEO pay. In terms of economic significance, the coefficient of *Pay Design by Institutional Proponent* translates to a $2.3 million reduction in total CEO pay, corresponding to a 29% decrease from the median CEO pay in this sub-sample of firms. Similar to vote-no campaigns in Panel A, we find that the result is driven by firms with excess CEO pay (Model 2), suggesting again that compensation-related activism, when effective, seems to be effective where most needed. Note that most *Pay Design* proposals were filed after 2002 (Table 1, Panel A). Hence, it appears that some of the new initiatives promoted by union funds to better link pay to performance have begun to have some impact.

Overall, our analyses suggest that vote-no campaigns are generally more effective than shareholder proposals in moderating excess CEO pay at targeted firms. This finding extends the previous evidence on the greater monitoring effectiveness of vote-no campaigns (Del Guercio et al. 2008) to CEO pay practices—generally resistant to outside pressures—and is consistent with

the argument that directors are more likely to respond to vote-no campaigns because of reputation concerns (Grundfest 1993). We also suggest an additional explanation. The generic and indeterminate nature of vote-no campaigns—which channel shareholders' dissatisfaction with any aspect of executive pay—is better suited to generate a broad, behind-the-scene dialogue on CEO compensation than shareholder proposals, which, by definition, must be directed at a specific problem and propose a solution. Attempts to micro-manage CEO pay through detailed, prescriptive proposals in a 500-word supporting statement tend to result in impractical and cumbersome recommendations, often in contrast with accounting and tax rules or in violation of existing agreements. In contrast, shareholder proposals appear to be most effective—in terms of gathering voting support and causing firms to respond—when they push for guiding principles regarding the pay setting process (e.g. *Rules of the Game* proposals) or certain aspects of pay design (e.g. *Pay Design* proposals advocating greater use of performance criteria in equity plans). In this role, shareholder proposals may be a useful tool for investors to promote market-wide adoption of certain practices and policy reforms (e.g. option expensing, say on pay; Cai and Walkling 2007; Ferri and Sandino 2009).

7. Conclusion

Recent accounting scandals, revelations of option backdating and the current financial crisis have led to an intense debate on the need to reform executive pay practices, with some proposals calling for an annual shareholder vote on the executive compensation report ("say on pay" vote). In this study we examine the effectiveness of currently available formal tools of shareholder activism—namely, shareholder proposals and vote-no campaigns—on CEO pay.

We document a significant increase in the frequency of compensation-related proposals and vote-no campaigns after 2002, largely due to greater activism by union pension funds.

Activists target companies with higher total CEO pay and have been placing a greater emphasis on the equity component of pay since 2002, consistent with a change in investor sentiment towards equity pay. Both the predicted and residual components of total CEO pay are positively associated to the probability of being targeted. We interpret these findings as evidence that activists on average are sophisticated in identifying excess CEO pay firms but also target firms with high (but not abnormal) levels of CEO pay, perhaps to obtain greater visibility to their initiatives or because of concerns with social equity. Instead, voting support is higher only in firms with excess CEO pay, consistent with shareholder sophistication in interpreting CEO pay figures. Voting support is also higher for proposals dealing with the pay setting process, while there is little or no support for proposals trying to micromanage the structure or level of pay.

Finally, with respect to the *consequences* of compensation-related activism, we document a decrease in excess CEO pay for firms targeted by vote-no campaigns. This decrease is driven by firms with excess CEO pay before the campaign and amounts to a $7.3 million reduction in CEO total pay (corresponding to a 38% decrease in CEO total pay). As for shareholder proposals, we find evidence of a moderating effect on CEO pay—a $2.3 million reduction—only in firms targeted by proposals sponsored by institutional proponents and calling for a better link between pay and performance—again, a result driven by firms with excess CEO pay. Our findings have implications for the current debate on the adoption of a "say on pay" shareholder vote on executive pay and contribute to the literature on executive pay and on the role of shareholder voice as governance mechanism.

Appendix 1 Compensation-Related Shareholder Proposals over 1997 – 2007: Frequency and Percentage of Votes in Favor

"Rules of the Game" Proposals	1997 N	1997 V%	1998 N	1998 V%	1999 N	1999 V%	2000 N	2000 V%	2001 N	2001 V%	2002 N	2002 V%	2003 N	2003 V%	2004 N	2004 V%	2005 N	2005 V%	2006 N	2006 V%	2007 N	2007 V%	1997-2007 N	1997-2007 V%
Shareholder Approval	15	26%	15	23%	13	30%	8	34%	13	34%	22	37%	29	45%	31	44%	37	35%	33	43%	58	43%	274	39%
Approval "Ordinary Pay"	5	13%	4	9%	0	-	0	-	0	-	0	-	3	18%	2	9%	14	8%	3	10%	2	13%	33	10%
Perf.-Based Compensation	2	8%	1	10%	0	-	0	-	0	-	0	-	1	38%	1	10%	13	9%	0	-	0	-	18	10%
Others - Approval Ord. Pay	3	17%	3	9%	0	-	0	-	0	-	0	-	2	7%	1	7%	1	4%	3	10%	2	13%	15	10%
Approval "Extraordinary Pay"	10	32%	11	27%	13	30%	8	34%	13	34%	22	37%	26	48%	29	47%	23	51%	24	48%	15	52%	194	42%
Golden Parachutes	4	35%	4	26%	10	27%	6	33%	12	33%	19	35%	18	57%	22	52%	20	53%	18	50%	12	54%	145	45%
SERPs	0	-	0	-	0	-	0	-	0	-	0	-	4	21%	5	37%	3	36%	6	42%	3	42%	21	36%
Option Repricings	0	-	2	37%	1	54%	0	-	1	47%	2	41%	1	33%	0	-	0	-	0	-	0	-	7	41%
Other - Approval Extr. Pay	6	30%	5	25%	2	30%	2	37%	0	-	1	57%	3	38%	2	14%	0	-	0	-	0	-	21	31%
"Say on Pay"	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	6	41%	41	42%	47	42%
Reporting	0	-	0	-	0	-	0	-	2	17%	6	29%	74	46%	34	53%	11	58%	1	43%	1	43%	129	47%
Expensing Stock Options	0	-	0	-	0	-	0	-	0	-	2	29%	71	46%	33	53%	10	60%	0	-	0	-	116	49%
No Pension Income in Bonuses	0	-	0	-	0	-	0	-	2	17%	4	29%	3	49%	1	38%	1	38%	1	43%	1	43%	13	35%
Disclosure	8	8%	9	6%	7	11%	5	10%	7	11%	2	10%	5	17%	5	13%	5	13%	9	28%	4	10%	66	13%
Disclosure - Comp Details	8	8%	9	6%	7	11%	5	10%	2	9%	2	10%	5	17%	5	13%	4	12%	9	28%	4	10%	60	13%
Exec Pay beyond Top 5	8	8%	9	6%	7	11%	5	10%	2	9%	2	10%	4	11%	3	15%	3	10%	6	20%	4	10%	53	10%
Other	0	-	0	-	0	-	0	-	0	-	0	-	1	41%	2	11%	1	18%	3	42%	0	-	7	29%
Disclosure - Comp Policy	0	-	0	-	0	-	0	-	5	11%	0	-	0	-	0	-	1	16%	0	-	0	-	6	12%
Perf. Targets/Weights	0	-	0	-	0	-	0	-	3	12%	0	-	0	-	0	-	0	-	0	-	0	-	3	12%
Target Dilution	0	-	0	-	0	-	0	-	2	9%	0	-	0	-	0	-	1	16%	0	-	0	-	3	12%
Independence	2	8%	9	20%	6	19%	4	25%	4	32%	9	26%	3	21%	2	14%	2	8%	1	42%	6	30%	48	23%
Stricter Indep Comp Committee	1	7%	6	21%	2	25%	0	-	2	42%	2	43%	0	-	0	16%	0	-	1	42%	1	52%	16	29%
Stricter Indep Key Committees	0	-	2	23%	3	19%	3	27%	2	23%	7	21%	3	21%	1	11%	2	8%	0	-	0	-	23	21%
Other	1	10%	1	5%	1	8%	1	19%	0	-	0	-	0	-	0	-	0	-	0	-	5	26%	9	19%
Other	1	14%	0	-	0	-	1	11%	0	-	0	-	1	7%	1	22%	5	26%	10	23%	8	25%	27	23%
Recoup Pay after Restatements	0	-	0	-	0	-	0	-	0	-	0	-	0	-	1	22%	4	31%	10	23%	8	25%	23	29%
Lower Pay in Case of Litigation	1	14%	0	-	0	-	1	11%	0	-	0	-	1	7%	0	-	1	5%	0	-	0	-	4	9%
Total - "Rules of the Game" Proposals	26	18%	33	17%	26	22%	18	24%	26	26%	39	32%	112	43%	73	45%	60	36%	54	37%	77	39%	544	35%

"Pay Design" Proposals

"Pay Design" Proposals	1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		1997-2007	
	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%
Link Pay to Performance	10	15%	4	11%	8	16%	3	15%	12	23%	6	24%	62	16%	35	20%	36	30%	27	33%	55	32%	258	24%
Use Perf-based Stock Options	0	-	0	-	4	26%	2	19%	5	25%	4	20%	3	32%	4	42%	18	35%	10	37%	17	32%	67	32%
Use Perf-based Restricted Stock	0	-	0	-	0	-	0	-	0	-	0	-	0	-	25	15%	17	25%	1	53%	7	40%	50	23%
Use Indexed Stock Options	0	-	0	-	0	-	0	-	3	27%	0	-	57	15%	1	32%	0	-	1	7%	0	-	62	16%
Use RPE-based incentive plans	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	14	33%	30	30%	44	31%
Link Pay to Perf. - Others	10	15%	4	11%	4	5%	1	6%	4	19%	2	31%	2	14%	5	22%	1	19%	1	9%	1	20%	35	15%
Features of Stock Options	2	11%	1	9%	3	14%	2	9%	1	6%	0	-	4	14%	8	22%	4	31%	2	35%	9	27%	36	21%
Holding Req. after Exercise	0	-	0	-	0	-	1	7%	0	-	0	-	3	17%	8	22%	4	31%	2	35%	6	22%	24	23%
Restrict Exerc. Price, etc.	2	11%	1	9%	3	14%	1	11%	1	6%	0	-	1	3%	0	-	0	-	0	-	3	37%	12	17%
Encourage Directors' Ownership	17	11%	3	13%	1	13%	5	10%	3	15%	2	7%	0	-	0	-	3	5%	0	-	1	29%	35	11%
Total - "Pay Design" Proposals	29	12%	8	11%	12	15%	10	11%	16	21%	8	19%	66	16%	43	20%	43	28%	29	33%	65	31%	329	22%

"Pay Philosophy" Proposals

"Pay Philosophy" Proposals	1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		1997-2007	
	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%
Link Exec Pay to Social Criteria	10	7%	11	6%	11	5%	16	9%	15	10%	10	10%	6	14%	14	9%	8	9%	8	9%	7	9%	116	9%
Eliminate Options/Incentive Pay	9	10%	2	14%	10	7%	8	8%	5	9%	4	13%	12	9%	18	9%	6	6%	7	5%	5	5%	86	8%
Cap CEO/Worker Pay Ratio	3	11%	2	9%	8	8%	3	11%	0	-	0	-	11	12%	5	7%	14	8%	0	-	0	-	46	9%
"Commonsense" Pay Plan	0	-	0	-	0	-	0	-	0	-	0	-	0	-	26	8%	3	14%	0	-	0	-	29	9%
Other Restrictions on Pay Level	2	9%	2	9%	9	9%	2	12%	3	10%	1	13%	3	11%	2	16%	2	11%	4	7%	18	21%	48	14%
Total "Pay Philosophy" Proposals	24	9%	17	8%	38	7%	29	9%	23	10%	15	11%	32	11%	65	9%	33	9%	19	7%	30	16%	325	9%

	1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		1997-2007	
	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%	N	V%
Total - All Pay Proposals	79	13%	58	14%	76	14%	57	14%	65	19%	62	25%	210	30%	181	26%	136	27%	102	30%	172	32%	1198	25%

Appendix 1 presents the frequency and voting support of compensation-related shareholder proposals between 1997 and 2007.

N = Number of proposals voted upon.

V% = Percentage of votes cast in favor of the proposal (excluding abstentions).

Appendix 2: Excerpts of Selected Compensation-Related Shareholder Proposals

Rules of the Game Proposals

Shareholder Approval of Future Large Severance Payments (Golden Parachutes)
"The Trowel Trades S&P 500 Index Fund …owner of approximately 36,800 shares of the Company's common stock, has given notice of its intention to present the following resolution...that the shareholders of Cendant Corporation ("the Company") urge the Board of Directors to seek shareholder approval of future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executives' base salary plus bonus. "Future severance agreements" include employment agreements containing severance provisions, retirement agreements and agreements renewing, modifying or extending existing such agreements. "Benefits" include lump-sum cash payments and the estimated present value of periodic retirement payments, fringe benefits, perquisites and consulting fees to be paid to the executive…" *Cendant, Proxy Statement, 03/02/2005*

"…Shareholders request that our Board of Directors seek shareholder approval for future golden parachutes for senior executives. This applies to benefits exceeding 200% of the sum of the executive's base salary plus bonus…At Honeywell I believe there is reason for special concern on windfall pay for executives. Honeywell Chairman David Cote's $65 million total pay in 2002 ranked 3rd in a study of best-paid executives by research firm Equilar…The 17 shareholder proposals voted on this topic in 2003 achieved an impressive 54% average supporting vote based on yes and no votes cast. …Institutional investors recommend companies seek shareholder approval for golden parachutes. For instance the California Public Employees Retirement System (CalPERS) said, "shareholder proposals requesting submission of golden parachutes to shareholder vote will always be supported." Also, the Council of Institutional Investors www.cii.org supports shareholder approval if the golden parachute exceeds 200% of a senior executive's annual base salary…" *Honeywell International, Proxy Statement, 03/15/2004*

Recoup Pay After Restatements
"… request the board of directors to adopt a policy whereby, in the event of a restatement of financial results, the board will review all bonuses and any other awards that were made to senior executives on the basis of having met or exceeded specific performance targets during the period of the restatement and will recoup for the benefit of the Company all such bonuses or awards to the extent that the specified performance targets were not achieved…In October 2003 the Company announced that it had inflated revenues in the fiscal year ending March 31, 2000 because of an accounting practice whereby the Company reported revenues from contracts before they had been signed. Bonuses for senior executives that year had been based on the extent to which income exceeded goals. Sanjay Kumar, then the president and chief operating officer, received a bonus of 80,000 shares and $3.2 million, based on the Company's supposedly superior performance in 2000…It thus appears that Computer Associates awarded generous bonus compensation even though the Company had failed to meet the requisite performance goals… The board of directors has made no public statement about whether it has sought to recoup funds that were paid to senior executives under the erroneous assumption that performance targets for 2000 had been exceeded…" *Computer Associates, Proxy Statement, 07/29/2004*

No Pension Income in Bonuses
"… urge the Personnel and Compensation Committee to adopt and implement a policy that net pension income not be included in calculating net income for purposes of determining the amount of incentive compensation senior executives receive…excluding pension income from the formula by which incentive compensation is determined will ensure that senior executives are rewarded for their success in managing Delta's business rather than for changes in the financial statements that are unrelated to operating performance and generated primarily by accounting assumptions…" *Delta Airlines, Proxy Statement, 03/25/2003*

Pay Design Proposals

Use Performance-based Stock Options
"…the shareholders urge the Compensation Committee to adopt a policy that a significant portion of future stock option grants to senior executives shall be performance-based. …From 2000 through 2002, Intel CEO Craig Barrett was awarded options to buy 1,268,696 shares of Intel stock. Such grants can result in substantial compensation for only modest gains in share price…even if Intel underperformed its competitors during that period…We believe that Intel's use of standard stock options to compensate its senior executives has the potential to reward mediocre company performance, and we accordingly urge the Committee to use performance-based options.… Investors and market observers including Warren Buffett, Alan Greenspan and Al Rappaport criticize standard options on the ground that they inappropriately reward mediocre or poor performance…Leading companies such as Avery Dennison, Capital One, Mattel and Union Pacific have adopted performance-based plans. According to Avery Dennison's most recent proxy statement, its approach, which postpones vesting until nine years and nine months after grant unless performance targets are met, "is designed to promote the creation of stockholder value over the long-term since the full benefit of the compensation package cannot be realized unless stock price appreciation occurs over a number of years"…" *Intel, Proxy Statement, 03/31/2004*

Use RPE-based Incentive Plans
"… request that the Board of Director's Executive Compensation Committee establish a pay-for-superior-performance standard in the executive compensation plan ('Plan'), by incorporating the following principles into the Plan: 1) The annual incentive component of the Company's Plan should utilize financial performance criteria that can be benchmarked against peer group performance, and provide that no annual bonus be awarded based on financial performance criteria unless the Company exceeds the median or mean performance of a disclosed group of peer companies on the selected financial criteria; 2) the long-term equity compensation component of the Company's Plan should utilize financial and/or stock price performance criteria that can be benchmarked against peer group performance, and any options, restricted shares, or other equity compensation used should be structured so that compensation is received only when Company performance exceeds the median or mean performance of the peer group companies on the selected financial and stock price performance criteria; 3) plan disclosure should allow shareholders to monitor the correlation between pay and performance established in the Plan…
…We believe the failure to tie executive compensation to superior corporate performance has fueled the escalation of executive compensation... Two common and related executive compensation practices have combined to produce pay-for-average-performance and escalating executive compensation. First, senior executive total compensation levels are targeted at peer group median levels. Second, the performance criteria and benchmarks in the incentive compensation portions of the plans, which typically deliver the vast majority of total compensation, are calibrated to deliver a significant portion of the targeted amount. The formula combines generous total compensation targets with less than demanding performance criteria and benchmarks…" *Avon Products, Proxy Statement, 03/31/2006*

Holding Requirement after Option Exercises
"…urge the Executive Compensation Committee to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs during their employment…The Committee should define "significant" (and provide for exceptions in extraordinary circumstances) by taking into account the needs and constraints of Adobe and its senior executives; however, the stockholders recommend that the Committee not adopt a percentage lower than 75% of net after tax shares. The policy should address the permissibility of transactions such as hedging transactions which are not sales but reduce the risk of loss to the executive... Equity-based compensation makes up a substantial portion of senior executive compensation at Adobe …Unfortunately, Adobe's generous equity compensation programs have not translated into meaningful levels of stock ownership …" *Adobe Systems, Proxy Statement 04/28/2004*

Pay Philosophy Proposals

Cap CEO/Worker Pay Ratio
"…that shareholders urge the Board to address the issue of runaway remuneration of CEOs and the widening gap between highest and lowest paid workers by:
1) Establishing a cap on CEO compensation expressed as a multiple of pay of the lowest paid worker at General Electric;
2) Preparing a report for shareholders explaining the determinations used in order to determine the appropriate cap…" *General Electric, Proxy Statement, 03/12/1999*

Link Executive Pay to Social Criteria
"…shareholders request that the Board voluntarily create a formula linking future executive compensation packages with achievement of specific decreases in teen consumption of our company's brands, using the terms of the now-defunct "settlement" as a guide. The formula should penalize executives when the company is not found in compliance with the goals determined and reward them for meeting these goals…" *Altria Group, Proxy Statement, 03/10/2000*

Commonsense Pay Plan
"…that the shareholders of Motorola, Inc. ("Company") request that the Company's Board of Directors and its Executive Compensation Committee replace the current system of compensation for senior executives with the following "Commonsense Executive Compensation" program including the following features:
(1) Salary—The CEO's salary should be targeted at the mean of salaries paid at peer group companies, not to exceed $1,000,000 annually. No senior executive should be paid more than the CEO.
(2) Annual Bonus—The annual bonus paid to senior executives should be based on well-defined quantitative (financial) and qualitative (non-financial) performance measures. The maximum level of annual bonus should be a percentage of the executive's salary level, capped at 100% of salary.
(3) Long-Term Equity Compensation—Long-Term equity compensation to senior executives should be in the form of restricted shares, not stock options. The restricted share program should utilize justifiable performance criteria and challenging performance benchmarks. It should contain a vesting requirement of at least three years. Executives should be required to hold all shares awarded under the program for the duration of their employment. The value of the restricted share grant should not exceed $1,000,000 on the date of grant.
(4) Severance—The maximum severance payment to a senior executive should be no more than one year's salary and bonus.
(5) Disclosure—Key components of the executive compensation plan should be outlined in the Compensation Committee's report to shareholders, with variances from the Commonsense program explained in detail…" *Motorola, Proxy Statement, 03/12/2004*

Eliminate Options/Incentive Pay
"…Management and Directors are requested to consider discontinuing all rights, options, SAR's, and severance payments to the 5 top Management after expiration of existing plans or commitments. This does not apply to plans for lesser Managers or employees whom are offered reasonable options or bonuses. REASONING: Moderation is needed in corporate remuneration. Any person can live very lavishly on $500,000.00 per year. Over-paying Management has been ongoing and increasing for years…" *Eastman Kodak, Proxy Statement, 04/05/2004*

Appendix 3: Examples of Implementation of Compensation-Related Shareholder Proposals

Examples of "Full" Implementation of Proposal

Proposal Requesting Shareholder Approval of Future Large Severance Payments (Golden Parachutes)
"On February 15, 2006, the PG&E Corporation Board of Directors adopted a policy requiring shareholder approval of executive severance payments provided in connection with a change in control of PG&E Corporation, to the extent that those payments exceed 2.99 times the sum of a covered officer's base salary and target annual bonus. This policy responds to a shareholder proposal that was approved by shareholders at the 2005 annual meeting." *PG&E, Proxy Statement, 03/02/2005*

"In January 2005, the Board adopted a policy to seek shareholder approval for any future severance agreement with any senior executive officer of the Company when any such agreement would result in specified benefits provided to the officer in excess of 2.99 times his or her salary and bonus. The policy resulted from Board discussions that began following the April 2004 annual shareholders' meeting, at which a majority of the shareholders who cast votes (although not a majority of the shares outstanding) approved a resolution requesting that the Board consider such a policy."*American Electric Power*, *Proxy Statement, 03/02/2005*

Proposal Requesting an Advisory Shareholder Vote on Executive Pay ("Say on Pay")
"During 2007 the Committee asked management to discuss Verizon's executive compensation programs and certain potential program design changes with large institutional investors. After taking into account these discussions, the opinions of shareholders as reflected in the votes on compensation-related proposals presented at the 2007 annual meeting and developments in executive compensation […]upon the Committee's recommendation… the Board amended the Company's Corporate Governance Guidelines to initiate an annual shareholders' advisory vote regarding executive compensation, beginning at the 2009 annual meeting." *Verizon Communications*, *Proxy Statement, 03/17/2008*

Proposal Requesting Shareholder Approval of SERPs (Supplemental Executive Retirement Plans)
"In response to a proposal approved by stockholders at last year's Annual Meeting, the Board adopted the following policy on December 6, 2006: The Company, after the Effective Date of this Policy, will not, without seeking stockholder approval, agree with any Senior Executive: To provide, under any one or more defined benefit Retirement Plans of the Company, an annual benefit that will exceed one hundred percent (100%) of the Senior Executive's Final Average Salary; or [t]o grant service credit or vesting credit (or accelerate vesting) under any defined benefit Retirement Plan for any period of time that the Senior Executive was not actually employed by the Company…for purposes of determining the Senior Executive's retirement benefits." *Ryland Group, Proxy Statement, 03/19/2007*

Proposal Requesting Exclusion of Pension Effects from Executive Pay Formulas (voted in 2002)
"…The Committee has clarified its practices for determining incentive compensation and decided to exclude, beginning in 2003, the net impact of pension and post-retirement benefits on the Corporation's operating results…"*Verizon Communications, Proxy Statement, 03/14/2003*

Proposal Requesting the Expensing of Stock Options (voted in 2003)
"…On February 18, 2004, the Company announced that it will begin expensing stock options" *Eastman Kodak, 10-K, 03/15/2004*

Proposal to Adopt Minimum Ownership Requirements for Directors
"…After receiving the proposal, the Board undertook to implement a guideline that […]incorporates the basic substance of the proposal, namely that Directors should…purchase and maintain a predefined number of shares of the Company's stock."" *Storage Technology, Proxy Statement, 04/08/1997*

Examples of "Partial" Implementation of Proposal

Proposal Requesting Shareholder Approval of Future Large Severance Payments
"…in response to a shareholder proposal urging the Board to seek shareholder approval for future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executive's base salary plus bonus, the Board adopted limits on future severance and change-in-control agreements for senior executives. The principal provisions of these policies are as follows: i) limitations on cash severance for senior executives to two times base salary and bonus at the time of termination and on payments in a change-of-control situation to 2.99 times base salary and bonus; and ii) limitations on post-employment benefits to outplacement services and transitional health benefits, with no provisions for consulting contracts, airplane usage, offices or other perquisites." *Tyco International, Proxy Statement, 01/28/2004*

Proposal Requesting Shareholder Approval of Future Large Severance Payments
"…Last year, the Company's Board did not oppose the shareholder proposal that urged the Board to agree to seek shareholder approval for future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executive's base salary plus bonus. After the proposal was approved by 50.2% of the shares entitled to vote, the Board stated that it was its intention to seek shareholder approval of such severance agreements where doing so would not prevent it from taking action it deems to be in the best interest of the Company." *Massey Energy, Proxy Statement, 04/12/2004*

Proposal to Use Performance-based Equity Awards (voted in 2004)
"[In the proposed 2005 Long Term Incentive Plan]…the Committee intends to increase the portion of awards that will vest solely on the basis of performance targets. The most senior executive group of approximately 100 executives will receive 50% of the value of their awards in the form of performance share units subject to three-year performance targets…Under the Prior Plan, approximately 25% of the value of regular cycle awards were subject to performance based vesting." *United Technologies, Proxy Statement, 02/25/2005*

Proposal to Recoup Pay After Restatements (voted in 2006)
"Upon the recommendation of the Management Compensation and Development Committee, your Board adopted a policy in October 2006 that accomplishes the underlying goals raised by the proposal, without mechanically recouping bonuses in inequitable circumstances. In particular, the policy provides…that the Company will, to the extent permitted by governing law, require reimbursement of any bonus paid to certain specified officers after April 1, 2007 where: a) the payment was predicated upon the achievement of certain financial results that were subsequently the subject of a restatement, b) in the Board's view the specified officer engaged in fraud or intentional misconduct that caused or partially caused the need for the restatement, and c) a lower payment would have been made to the specified officer based upon the restated financial results…" *Allegheny Energy, Proxy Statement, 03/19/2007*

"At the 2007 Annual Meeting of Stockholders, a stockholder proposal […] to adopt a policy to recoup all unearned incentive bonuses […] in the event corresponding performance targets were later determined not to have been achieved received the affirmative vote of 52.56% of the shares present in person or represented by proxy and entitled to vote thereon and 38.29% of shares outstanding. In keeping with the philosophy of the Company to remain attentive and responsive to stockholder requests, at its September 2007 meeting, …the Board adopted [the following] policy …if the Board determines that a senior executive has engaged in fraud or willful misconduct that caused or otherwise contributed to the need for a material restatement of our financial results, the Board […] will seek recoupment from that senior executive of any portion of such performance-based compensation as it deems appropriate after a review of all relevant facts and circumstances." *Wyeth, Proxy Statement, 03/14/2008*

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Figure 1 Frequency of Compensation-Related Shareholder Proposals over Time
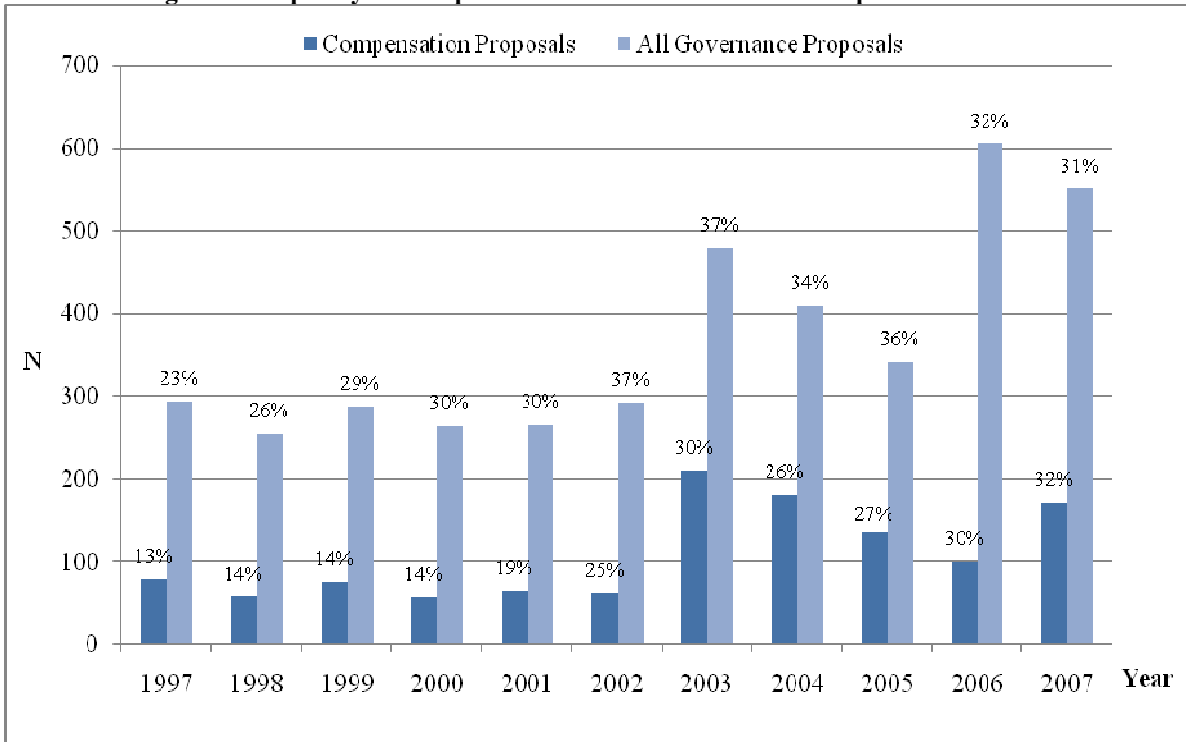
Figure 1 presents the frequency of compensation-related shareholder proposals and all governance-related proposals between 1997 and 2007. At the top of each bar we report average voting support for proposals in percentages.

Figure 2 Frequency of Compensation-Related Vote-No Campaigns over Time
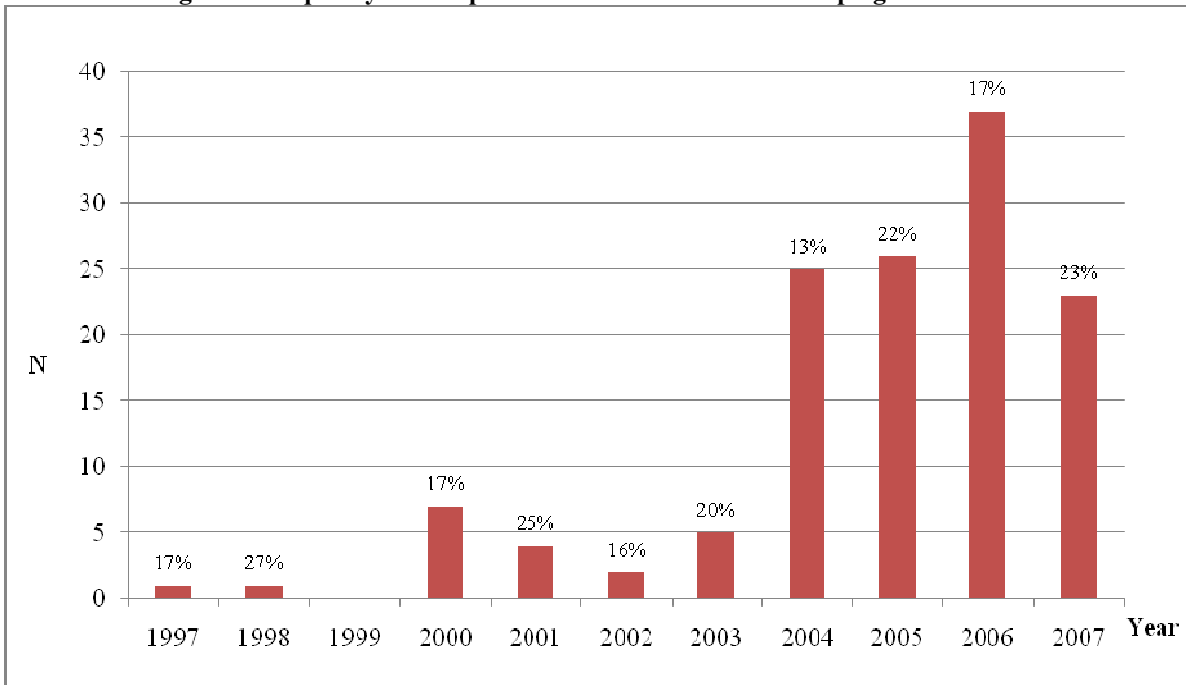
Figure 2 presents the frequency of compensation-related vote-no campaigns between years 1997 and 2007. At the top of each bar we report the yearly average of the percentage of votes withheld at the firm-level (as firm-level measure we use the maximum across directors if more than one director is targeted).

Table 1 Distribution of Compensation-Related Shareholder Proposals

Panel A Frequency and Voting Support by Period, Proposal Type and Proponent Identity

	Entire Sample Period		Majority Vote Proposals*		1997-2002 Period		Majority Vote Proposals*		2003-2007 Period		Majority Vote Proposals*	
	N	Votes For %	N	%	N	Votes For %	N	%	N	Votes For %	N	%
All Proposals	**1,198**	**24.7%**	**149**	**12.4%**	**397**	**16.2%**	**7**	**1.8%**	**801**	**28.9%**	**142**	**17.7%**
By Proposal Type												
Rules of the Game	**544**	**35.3%**	**139**	**25.6%**	**168**	**23.6%**	**6**	**3.6%**	**376**	**40.5%**	**133**	**35.4%**
Shareholder Approval	274	38.5%	75	27.4%	86	30.6%	6	7.0%	188	42.1%	69	36.7%
Reporting	129	47.4%	62	48.1%	8	26.1%	0	0.0%	121	48.8%	62	51.2%
Disclosure	66	12.5%	0	0.0%	38	8.6%	0	0.0%	28	17.8%	0	0.0%
Independence	48	23.1%	1	2.1%	34	22.8%	0	0.0%	14	23.7%	1	7.1%
Other	27	22.7%	1	3.7%	2	12.5%	0	0.0%	25	23.6%	1	4.0%
Pay Design	**329**	**22.3%**	**9**	**2.7%**	**83**	**14.7%**	**1**	**1.2%**	**246**	**24.9%**	**8**	**3.3%**
Link Pay to Performance	258	24.0%	9	3.5%	43	18.2%	1	2.3%	215	25.1%	8	3.7%
Other	71	16.2%	0	0.0%	40	11.0%	0	0.0%	31	22.9%	0	0.0%
Pay Philosophy	**325**	**9.4%**	**1**	**0.3%**	**146**	**8.6%**	**0**	**0.0%**	**179**	**10.1%**	**1**	**0.6%**
Link Exec Pay to Social Criteria	116	8.5%	0	0.0%	73	7.9%	0	0.0%	43	9.5%	0	0.0%
Eliminate Options/Incentive Pay	86	8.2%	0	0.0%	38	9.0%	0	0.0%	48	7.5%	0	0.0%
Cap CEO/Worker Pay Ratio	46	9.1%	0	0.0%	16	9.1%	0	0.0%	30	9.2%	0	0.0%
"Commonsense" Pay Plan	29	8.8%	0	0.0%	0	-	-	-	29	8.8%	0	0.0%
Other Restrictions on Pay Level	48	14.3%	1	2.1%	19	9.8%	0	0.0%	29	17.2%	1	3.4%
By Proponent												
Union Pension Funds	578	32.2%	118	20.4%	93	22.8%	2	2.2%	485	34.0%	116	23.9%
Individual	437	18.2%	21	4.8%	215	14.4%	2	0.9%	222	21.9%	19	8.6%
Religious Organizations	79	12.5%	3	3.8%	32	7.2%	0	0.0%	47	16.1%	3	6.4%
Public Pensions	20	30.9%	3	15.0%	11	31.1%	2	18.2%	9	30.7%	1	11.1%
*Not Disclosed**	8	20.2%	0	0.0%	1	7.7%	0	0.0%	7	22.3%	0	0.0%
Other Shareholder Groups	76	16.2%	4	5.3%	45	14.2%	1	2.2%	31	19.0%	3	9.7%

Panel B Breakdown of the Frequency of Proposal Types by Proponent Identity

Proposal Type	Union Pension Funds	Individual	Religious Organizations	Public Pensions	Not Disclosed**	Other Shr. Groups	Total
Proponent							
Rules of the Game	**295**	**211**	**13**	**8**	**2**	**15**	**544**
Shareholder Approval	153	89	13	6	1	12	274
Reporting	106	19	0	1	0	3	129
Disclosure	8	58	0	0	0	0	66
Independence	25	22	0	1	0	0	48
Other	3	23	0	0	1	0	27
Pay Design	**211**	**93**	**0**	**9**	**3**	**13**	**329**
Link Pay to Performance	187	55	0	9	3	4	258
Other	24	38	0	0	0	9	71
Pay Philosophy	**72**	**133**	**66**	**3**	**3**	**48**	**325**
Link Exec Pay to Social Criteria	18	16	42	2	0	38	116
Eliminate Options/Incentive Pay	5	79	1	0	1	0	86
Cap CEO/Worker Pay Ratio	4	10	21	0	1	10	46
"Commonsense" Pay Plan	27	1	0	1	0	0	29
Other Restrictions on Pay Level	18	27	2	0	1	0	48
Total	**578**	**437**	**79**	**20**	**8**	**76**	**1,198**

Table 1 Panel A displays the frequency of and voting support for the 1,198 compensation-related shareholder proposals in our sample by time period, proposal type and proponent identity. Panel B presents a breakdown of proposal types by proponent identity.

* N denotes the number of proposals that obtained a majority vote and % denotes the percentage of proposals that obtained a majority vote as a fraction of all proposals voted upon. Note that while 149 proposals obtained a majority vote (percentage of votes cast in favor higher than percentage of votes cast against) over the sample period, only 112 of these proposals were formally approved. A proposal receiving a majority vote may fail to be formally approved if state laws or the company's articles of incorporation require a majority (or super-majority) of all votes cast including abstention votes or of all shares outstanding.

** While firms have to disclose the identity of the proponent to any shareholder requesting it, they are not required to include this information in the proxy.

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Table 2 Descriptive Statistics

Variable	All Firms N = 2,226			Targeted Firms N = 821		Control Firms N = 1,405		Targeted vs. Control Firms			
								Mean (t-test)		Median (Wilcoxon)	
	Mean	Std. Dev.	Median	Mean	Median	Mean	Median	Difference	t-statistic	Difference	z-statistic
CEO Total Pay$_{t-1}$ (in millions)	9.794	12.846	6.280	13.565	8.682	7.591	5.435	5.973	10.86 ***	3.247	9.61 ***
Market Capitalization$_{t-1}$ (in millions)	23,528	37,309	9,395	34,271	12,959	17,251	7,725	17,020	10.64 ***	5,233.72	9.28 ***
Return on Assets$_{t-1}$	0.052	0.059	0.045	0.047	0.038	0.055	0.049	-0.008	-3.19 ***	-0.011	-4.17 ***
Abnormal Returns$_{t-1}$	0.097	0.512	0.038	0.038	-0.008	0.131	0.061	-0.093	-4.17 ***	-0.069	-4.63 ***
% of Institutional Ownership$_{t-1}$	0.642	0.179	0.656	0.629	0.634	0.650	0.667	-0.021	-2.71 ***	-0.033	-3.21 ***
% of Executive Ownership$_{t-1}$	0.020	0.056	0.003	0.014	0.002	0.024	0.003	-0.009	-3.74 ***	-0.001	-6.71 ***
CEO Chairman$_{t-1}$	0.709	0.454	-	0.741	-	0.691	-	0.049	2.48 ***	-	-
Board Size$_{t-1}$	11.035	2.661	11.000	11.289	11.000	10.887	11.000	0.402	3.44 ***	0.000	4.03 ***
% of Independent Directors$_{t-1}$	0.839	0.087	0.867	0.849	0.875	0.833	0.857	0.016	4.14 ***	0.018	4.19 ***
Ownership by Independent Directors$_{t-1}$ >= 1%	0.226	0.419	-	0.210	-	0.236	-	-0.027	-1.46	-	-
Entrenchment Index$_{t-1}$	2.128	1.312	2.000	1.938	2.000	2.238	2.000	-0.301	-5.24 ***	0.000	-5.29 ***

Table 2 presents the descriptive statistics. *CEO Total Pay$_{t-1}$* is the CEO's total compensation for year *t-1* (the most recent fiscal year ending before the shareholder meeting), including salary, bonus, value of equity grants (restricted stock and stock options), long-term incentive payouts, and other annual compensation such as perquisites, severance payments, 401K contributions, and insurance premiums. *Market Capitalization$_{t-1}$* is the market value of equity as of the end of year *t-1*. *Return on Assets$_{t-1}$* is income before extraordinary items scaled by average total assets for year *t-1*. *Abnormal Returns$_{t-1}$* is the size-adjusted buy-and-hold returns for the 24 months preceding the end of year *t-1*. *% of Institutional Ownership$_{t-1}$* is the percentage of shares held by institutional owners as of the end of year *t-1*. *% of Executive Ownership$_{t-1}$* is the percentage of shares held by the top 5 executives at the end of year *t-1*. *CEO Chairman$_{t-1}$* is an indicator variable that is equal to one if the CEO of the company is also the chair of the board of directors as of the year *t* annual meeting, and zero otherwise. *Board Size$_{t-1}$* is the number of directors on the board as of the year *t* annual meeting. *% of Independent Directors$_{t-1}$* is the percentage of directors classified as independent by RiskMetrics as of the year *t* annual meeting. *Ownership by Independent Directors$_{t-1}$>=1%* is an indicator variable equal to one if independent directors own more than 1% of firm's equity as of the year *t* annual meeting. *Entrenchment Index$_{t-1}$* counts how many of the following provisions are in place at the firm as of the year *t* annual meeting: chartered board, poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk et al. 2009).

Data sources: CRSP (stock returns), Compustat (financial statement data), ExecuComp (CEO pay), Thomson Reuters (institutional ownership) and RiskMetrics (directors and governance data).

Table 3 Determinants of the Targeting Decision

Panel A Analysis for Full Sample of Targeted Firms

Variable	Model (1)		Model (2)		Model (3)		Model (4)	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	-2.90	-3.61 ***	-2.89	-3.62 ***	-1.41	-1.97 **	-2.90	-3.59 ***
CEO Total Pay $_{t-1}$	0.04	4.85 ***					0.04	4.89 ***
CEO Cash Pay $_{t-1}$			0.09	4.30 ***				
CEO Equity Pay $_{t-1}$			0.03	3.47 ***				
CEO Predicted Total Pay $_{t-1}$					0.12	6.45 ***		
CEO Residual Total Pay $_{t-1}$					0.04	4.37 ***		
CEO Exercised Options $_{t-1}$							-0.27	-2.44 **
ln(Market Capitalization $_{t-1}$)	0.20	3.23 ***	0.20	3.22 ***			0.21	3.37 ***
Return on Assets $_{t-1}$	-2.92	-2.58 ***	-2.93	-2.61 ***			-2.72	-2.40 **
Abnormal Returns $_{t-1}$	-0.51	-4.62 ***	-0.51	-4.62 ***			-0.49	-4.41 ***
% of Institutional Ownership $_{t-1}$	-0.55	-1.42	-0.54	-1.39	-0.91	-2.30 **	-0.51	-1.32
% of Executive Ownership $_{t-1}$	-2.21	-1.47	-2.36	-1.57	-2.66	-1.76 *	-2.46	-1.63
CEO Chairman $_{t-1}$	0.17	1.35	0.15	1.20	0.18	1.44	0.18	1.42
Board Size $_{t-1}$	-0.04	-1.58	-0.04	-1.73 *	-0.04	-1.56	-0.04	-1.45
% of Independent Directors $_{t-1}$	1.55	2.02 **	1.57	2.04 **	1.37	1.76 *	1.48	1.93 *
Ownership by Independent Directors $_{t-1}$ > =1%	0.03	0.22	0.02	0.13	0.03	0.17	0.02	0.15
Entrenchment Index $_{t-1}$	-0.13	-2.14 **	-0.13	-2.15 **	-0.12	-1.97 **	-0.12	-2.10 **
N	2,226		2,226		2,194		2,226	
N(Targeted = 1)	821		821		806		821	
Pseudo R^2	8.26%		8.42%		7.35%		8.53%	

Panel B Analysis by Type of Proponent: Institutional Proponents versus Other Proponents

Variable	Model (1) Coefficient	Model (1) t-statistic	Model (2) Coefficient	Model (2) t-statistic	Model (3) Coefficient	Model (3) t-statistic	Model (4) Coefficient	Model (4) t-statistic
Shareholder Proposals by Institutional Proponents vs. Matches								
CEO Total Pay $_{t-1}$	0.04	4.17 ***					0.04	4.19 ***
CEO Cash Pay $_{t-1}$			0.05	2.75 ***				
CEO Equity Pay $_{t-1}$			0.03	3.23 ***				
CEO Predicted Total Pay $_{t-1}$					0.11	5.40 ***		
CEO Residual Total Pay $_{t-1}$					0.04	3.90 ***		
CEO Exercised Options $_{t-1}$							-0.23	-1.78 *
Controls	Included		Included		Included		Included	
N	1,447		1,447		1,429		1,447	
N(Targeted by Institutional Proponent= 1)	507		507		499		507	
Pseudo R^2	6.74%		6.83%		5.79%		6.94%	
Shareholder Proposals by Other Proponents vs. Matches								
CEO Total Pay $_{t-1}$	0.03	2.26 **					0.03	2.36 **
CEO Cash Pay $_{t-1}$			0.1	2.88 ***				
CEO Equity Pay $_{t-1}$			0.01	1.39				
CEO Predicted Total Pay $_{t-1}$					0.1	3.96 ***		
CEO Residual Total Pay $_{t-1}$					0.01	0.85		
CEO Exercised Options $_{t-1}$							-0.32	-1.61
Controls	Included		Included		Included		Included	
N	853		853		841		853	
N(Targeted by Other Proponent= 1)	279		279		273		279	
Pseudo R^2	12.00%		12.40%		10.10%		12.30%	
Institutional Proponents vs. Other Proponents								
CEO Total Pay $_{t-1}$	0.01	1.25					0.01	1.25 ***
CEO Cash Pay $_{t-1}$			0.01	0.96				
CEO Equity Pay $_{t-1}$			0.01	1.09				
CEO Predicted Total Pay $_{t-1}$					0.04	1.94 *		
CEO Residual Total Pay $_{t-1}$					0.03	1.85 *		
CEO Exercised Options $_{t-1}$							0.12	0.61
Controls	Included		Included		Included		Included	
N	768		768		754		768	
N(Targeted by Institutional Proponent= 1)	507		507		499		507	
Pseudo R^2	8.13%		8.21%		7.53%		8.18%	

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Panel C Analysis by Type of Activism: Vote-No Campaigns versus Shareholder Proposals

Variable	Model (1)		Model (2)		Model (3)		Model (4)	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Shareholder Proposals vs. Matches								
CEO Total Pay $_{t-1}$	0.03	4.20 ***					0.03	4.24 ***
CEO Cash Pay $_{t-1}$			0.07	3.50 ***				
CEO Equity Pay $_{t-1}$			0.03	3.04 ***				
CEO Predicted Total Pay $_{t-1}$					0.12	6.13 ***		
CEO Residual Total Pay $_{t-1}$					0.03	3.56 ***		
CEO Exercised Options $_{t-1}$							-0.30	-2.53 **
Controls	Included		Included		Included		Included	
N	2,125		2,125		2,095		2,125	
N(Proposal = 1)	768		768		754		768	
Pseudo R^2	8.13%		8.21%		7.22%		8.44%	
Vote No Campaigns vs. Matches								
CEO Total Pay $_{t-1}$	0.12	4.58 ***					0.12	4.64 ***
CEO Cash Pay $_{t-1}$			0.14	3.81 ***				
CEO Equity Pay $_{t-1}$			0.12	3.92 ***				
CEO Predicted Total Pay $_{t-1}$					0.14	3.29 ***		
CEO Residual Total Pay $_{t-1}$					0.11	4.69 ***		
CEO Exercised Options $_{t-1}$							-0.30	-0.98
Controls	Included		Included		Included		Included	
N	318		318		315		318	
N(Vote No = 1)	92		92		91		92	
Pseudo R^2	24.70%		24.90%		19.30%		25.00%	
Vote No Campaigns vs. Shareholder Proposals								
CEO Total Pay $_{t-1}$	0.02	3.29 ***					0.02	3.28 ***
CEO Cash Pay $_{t-1}$			0.02	1.08				
CEO Equity Pay $_{t-1}$			0.02	2.69 ***				
CEO Predicted Total Pay $_{t-1}$					0.14	4.84 ***		
CEO Residual Total Pay $_{t-1}$					0.06	3.52 ***		
CEO Exercised Options $_{t-1}$							0.05	0.21
Controls	Included		Included		Included		Included	
N	821		821		806		821	
N(Vote No = 1)	92		92		91		92	
Pseudo R^2	10.90%		10.70%		12.10%		10.90%	

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Panel D Analysis by Time Period: 1997-2002 versus 2003-2007

Variable	Model (1) Coefficient	Model (1) t-statistic	Model (2) Coefficient	Model (2) t-statistic	Model (3) Coefficient	Model (3) t-statistic	Model (4) Coefficient	Model (4) t-statistic
1997 - 2002 Period								
CEO Total Pay $_{t-1}$	0.02	2.71 ***					0.02	2.73 ***
CEO Cash Pay $_{t-1}$			0.13	2.82 ***				
CEO Equity Pay $_{t-1}$			0.01	1.33				
CEO Predicted Total Pay $_{t-1}$					0.12	3.68 ***		
CEO Residual Total Pay $_{t-1}$					0.02	1.46		
CEO Exercised Options $_{t-1}$							-0.34	-1.73 *
2003 - 2007 Period - Incremental Effect								
After × CEO Total Pay $_{t-1}$	0.03	2.82 ***					0.03	2.74 ***
After × CEO Cash Pay $_{t-1}$			-0.06	-1.22				
After × CEO Equity Pay $_{t-1}$			0.05	3.59 ***				
After × CEO Predicted Total Pay $_{t-1}$					0.01	0.21		
After × CEO Residual Total Pay $_{t-1}$					0.03	1.82 *		
After × CEO Exercised Options $_{t-1}$							0.10	0.45
2003 - 2007 Period - Total Effect	Coefficient	χ^2	Coefficient	χ^2	Coefficient	χ^2	Coefficient	χ^2
CEO Total Pay $_{t-1}$ + After × CEO Total Pay $_{t-1}$	0.05	37.45 ***					0.05	37.08 ***
CEO Cash Pay $_{t-1}$ + After × CEO Cash Pay $_{t-1}$			0.07	9.81 ***				
CEO Equity Pay $_{t-1}$ + After × CEO Equity Pay $_{t-1}$			0.06	26.55 ***				
CEO Predicted Total Pay $_{t-1}$ + After × CEO Predicted Total Pay $_{t-1}$					0.13	39.67 ***		
CEO Residual Total Pay $_{t-1}$ + After × CEO Residual Total Pay $_{t-1}$					0.05	22.88 ***		
CEO Exercised Options $_{t-1}$ + After × CEO Exercised Options $_{t-1}$							-0.24	3.10 *
Controls	Included		Included		Included		Included	
N	2,226		2,226		2,194		2,226	
N(Targeted = 1)	821		821		806		821	
Pseudo R^2	9.02%		9.37%		7.71%		9.29%	

Table 3 presents the analysis of the characteristics of the targeted firms using a logistic regression. In Panel A the dependent variable, *Targeted$_b$*, is an indicator variable that is equal to one if the firm is targeted by a compensation-related shareholder proposal or vote-no campaign in year *t*. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year.

In Panel B, in the top section: the dependent variable, *Targeted by Institutional Proponent$_b$*, is an indicator variable that is equal to one if the firm is targeted by institutional proponents (*Union Pension Funds*, *Public Pensions* and *Other Shareholder Groups* in Table 1, Panel A) in year *t*. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year (excluding firms targeted by compensation-related activism). In the middle section: the dependent variable, *Targeted by Other Proponent$_b$*, is is an indicator variable that is equal to one if the firm is targeted only by other proponents (*Individuals and Religious Organizations* in Table 1, Panel A) in year *t*. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year (excluding firms targeted by compensation-related

activism). In the bottom section: the dependent variable, *Targeted by Institutional Proponent$_t$*, is an indicator variable that is equal to one if the firm is targeted by institutional proponents in year t, and zero if the firm is targeted only by other proponents.

In Panel C, in the top section: the dependent variable, *Proposal$_t$*, is an indicator variable that is equal to one if the firm is targeted only by a compensation-related shareholder proposal in year t. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year (excluding firms targeted by compensation-related activism). In the middle section: the dependent variable, *Vote No$_t$*, is an indicator variable that is equal to one if the firm is targeted by a compensation-related vote-no campaign in year t. The control sample comprises, for each targeted firm, the three closest matches by size and book-to-market ratio in the same Fama-French industry and year (excluding firms targeted by compensation-related activism). In the bottom section: the dependent variable, *Vote No$_t$*, is an indicator variable that is equal to one if the firm is targeted by a compensation-related vote-no campaign in year t and zero if the firm is targeted only by compensation-related shareholder proposals.

Panel D replicates the analysis in Panel A using a stacked regression where we interact all independent variables with *After*, an indicator variable that is equal to one in the 2003 – 2007 period, and zero otherwise.

Independent variables in Panels A-D are defined as follows (control variables are included but not reported in Panels B-D for ease of exposition): *CEO Total Pay$_{t-1}$* is the CEO's total compensation for year $t-1$ (the most recent fiscal year ending before the shareholder meeting), including salary, bonus, value of equity grants (restricted stock and stock options), long-term incentive payouts, and other annual compensation such as perquisites, severance payments, 401K contributions, and insurance premiums. *CEO Cash Pay$_{t-1}$* is the sum of salary, bonus and other cash pay for i year $t-1$. *CEO Equity Pay$_{t-1}$* is the value of equity grants (restricted stock and stock options). *CEO Predicted Total Pay$_{t-1}$* is the exponent of the predicted value from a regression of the natural logarithm of total CEO compensation on proxies for economic determinants of CEO compensation (see Section 4.2). *CEO Residual Total Pay$_{t-1}$* is *CEO Total Pay$_{t-1}$* less *CEO Predicted Total Pay$_{t-1}$*. *CEO Exercised Options$_{t-1}$* is an indicator variable that is equal to one if the total value realized from options exercised by the CEO during year $t-1$ is greater than zero. *Market Capitalization$_{t-1}$* is market value of equity as of the end of year $t-1$. *Return on Assets$_{t-1}$* is income before extraordinary items scaled by average total assets for year $t-1$. *Abnormal Returns$_{t-1}$* is the size adjusted buy-and-hold returns for the 24 months preceding end of year $t-1$. *% of Executive Ownership$_{t-1}$* is the percentage of shares held by the top 5 executives at the end of year $t-1$. *CEO Chairman$_{t-1}$* is an indicator variable that is equal to one if the CEO of the company is also the chair of the board of directors as of the year t annual meeting, and zero otherwise. *Board Size$_{t-1}$* is the number of directors on the board as of the year t annual meeting. *% of Independent Directors$_{t-1}$* is the percentage of directors classified as independent by RiskMetrics as of the year t annual meeting. *Ownership by Independent Directors$_{t-1}$>=1%* is an indicator variable equal to one if independent directors own more than 1% equity as of the year t annual meeting. *Entrenchment Index$_{t-1}$* counts how many of the following provisions are in place at the firm as of the year t annual meeting: chartered board, poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk et al. 2009).

***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering [Rogers (1993)].

Table 4 Voting Outcome of Compensation-Related Shareholder Proposals

Panel A Determinants of % of Votes Cast in Favor of Compensation Proposals

Variable	Model (1) Coefficient	Model (1) t-statistic	Model (2) Coefficient	Model (2) t-statistic	Model (3) Coefficient	Model (3) t-statistic	Model (4) Coefficient	Model (4) t-statistic
Intercept	0.0561	1.04	0.0531	0.98	-0.0294	-0.93	0.0499	0.93
CEO Total Pay $_{t-1}$	0.0003	1.93 *					0.0004	2.05 **
CEO Cash Pay $_{t-1}$			0.0003	0.80				
CEO Equity Pay $_{t-1}$			0.0003	1.05				
CEO Predicted Total Pay $_{t-1}$					-0.0018	-1.49		
CEO Residual Total Pay $_{t-1}$					0.0011	1.73 *		
CEO Exercised Options $_{t-1}$							-0.0114	-1.30
# of Other Comp-Related Proposals $_t$	0.0127	2.24 **	0.0128	2.15 **	0.0133	2.20 **	0.0123	2.18 **
Comp-Related Vote-No Campaign $_t$	0.0132	0.78	0.0138	0.81	0.0128	0.75	0.0121	0.72
Other Proposal $_t$	0.0028	0.28	0.0027	0.27	-0.0012	-0.12	0.0024	0.24
Other Vote-No Campaign $_t$	0.0193	1.22	0.0185	1.17	0.0168	1.09	0.0225	1.41
Institutional Proponent $_t$	0.0784	5.96 ***	0.0785	5.92 ***	0.0825	6.09 ***	0.0785	5.99 ***
Rules of the Game $_t$	0.2310	20.44 ***	0.2310	20.36 ***	0.2301	20.20 ***	0.2309	20.34 ***
Pay Design $_t$	0.0781	6.71 ***	0.0780	6.68 ***	0.0760	6.50 ***	0.0780	6.71 ***
2003 - 2007 Period	0.0776	7.25 ***	0.0773	7.20 ***	0.0821	7.42 ***	0.0774	7.31 ***
% of Institutional Ownership $_{t-1}$	0.0552	1.44	0.0558	1.45	0.0569	1.49	0.0580	1.50
% of Executive Ownership $_{t-1}$	-0.2278	-2.17 **	-0.2288	-2.17 **	-0.1801	-1.63	-0.2367	-2.24 **
% of Independent Directors $_{t-1}$	-0.0245	-2.07 **	-0.0245	-2.02 **	-0.0229	-1.85 *	-0.0253	-2.13 **
Entrenchment Index $_{t-1}$	0.0143	3.14 ***	0.0142	3.13 ***	0.0148	3.28 ***	0.0143	3.15 ***
ln(Market Capitalization $_{t-1}$)	-0.0102	-2.46 **	-0.0097	-2.35 **			-0.0091	-2.21 **
Return on Assets $_{t-1}$	0.0443	0.45	0.0427	0.43			0.0460	0.46
Abnormal Returns $_{t-1}$	0.0121	1.25	0.0122	1.25			0.0136	1.42
N	1,062		1,062		1,040		1,062	
Adjusted R^2	49.00%		49.00%		50.00%		49.00%	

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Panel B Determinants of Likelihood of RiskMetrics Recommendations "For" Compensation Proposals

Variable	Model (1) Coefficient	t-statistic	Model (2) Coefficient	t-statistic	Model (3) Coefficient	t-statistic	Model (4) Coefficient	t-statistic
Intercept	-6.8853	-4.77 ***	-6.9687	-4.85 ***	-6.3916	-7.14 ***	-7.0238	-4.99 ***
CEO Total Pay $_{t-1}$	0.0115	2.34 **					0.0120	2.45 **
CEO Cash Pay $_{t-1}$			-0.0040	-0.56				
CEO Equity Pay $_{t-1}$			0.0158	2.11 **				
CEO Predicted Total Pay $_{t-1}$					0.0349	1.13		
CEO Residual Total Pay $_{t-1}$					0.0495	3.29 ***		
CEO Exercised Options $_{t-1}$							-0.2069	-1.00
# of Other Comp-Related Proposals $_t$	0.0273	0.22	0.0504	0.41	0.0297	0.23	0.0172	0.14
Comp-Related Vote-No Campaign $_t$	0.0597	0.18	0.0280	0.08	-0.0184	-0.05	0.0387	0.12
Other Proposal $_t$	0.1875	0.82	0.2057	0.91	0.1665	0.75	0.1674	0.75
Other Vote-No Campaign $_t$	0.4024	1.04	0.3804	0.98	0.5617	1.46	0.4706	1.21
Institutional Proponent $_t$	1.6640	5.15 ***	1.6549	5.13 ***	1.7934	5.40 ***	1.6622	5.19 ***
Rules of the Game $_t$	3.6283	10.18 ***	3.6502	10.26 ***	3.6410	10.28 ***	3.6378	10.27 ***
Pay Design $_t$	2.1771	5.14 ***	2.1970	5.21 ***	2.1678	5.20 ***	2.1853	5.15 ***
2003 - 2007 Period	1.3182	3.76 ***	1.3180	3.80 ***	1.4942	4.64 ***	1.3289	3.88 ***
% of Institutional Ownership $_{t-1}$	1.6581	2.26 **	1.6696	2.30 **	1.4846	2.09 **	1.7014	2.35 **
% of Executive Ownership $_{t-1}$	9.6939	2.36 **	9.9827	2.40 **	10.0882	2.37 **	9.7514	2.34 **
% of Independent Directors $_{t-1}$	0.2904	1.12	0.3216	1.27	0.3741	1.34	0.2750	1.07
Entrenchment Index $_{t-1}$	-0.0289	-0.34	-0.0303	-0.36	-0.0575	-0.68	-0.0287	-0.34
ln(Market Capitalization $_{t-1}$)	0.0844	0.79	0.0920	0.87			0.1047	0.99
Return on Assets $_{t-1}$	1.3086	0.79	1.4218	0.88			1.3930	0.84
Abnormal Returns $_{t-1}$	-0.0341	-0.14	-0.0530	-0.22			-0.0134	-0.06
N	823		823		812		823	
Pseudo R^2	32.60%		32.70%		33.80%		32.70%	

Panel C Determinants of % of Votes Cast in Favor of Compensation Proposals – Effect of RiskMetrics Recommendations

Variable	Model (1) Coefficient	t-statistic	Model (2) Coefficient	t-statistic	Model (3) Coefficient	t-statistic	Model (4) Coefficient	t-statistic
Intercept	0.0001	0.00	-0.0035	-0.07	-0.0574	-1.94 *	-0.0074	-0.14
CEO Total Pay $_{t-1}$	0.0003	2.13 **					0.0004	2.32 **
CEO Cash Pay $_{t-1}$			0.0001	0.44				
CEO Equity Pay $_{t-1}$			0.0003	1.16				
CEO Predicted Total Pay $_{t-1}$					-0.0011	-1.03		
CEO Residual Total Pay $_{t-1}$					0.0015	2.72 ***		
CEO Exercised Options $_{t-1}$							-0.0126	-1.74 *
Residual RiskMetrics Recommendation "For"	0.2504	21.55 ***	0.2506	21.73 ***	0.2509	21.32 ***	0.2502	21.54 ***
# of Other Comp-Related Proposals $_t$	0.0113	2.44 **	0.0116	2.36 **	0.0128	2.61 ***	0.0107	2.31 **
Comp-Related Vote-No Campaign $_t$	0.0210	1.59	0.0212	1.55	0.0183	1.34	0.0202	1.52
Other Proposal $_t$	-0.0001	-0.01	0.0001	0.01	-0.0039	-0.46	-0.0013	-0.15
Other Vote-No Campaign $_t$	0.0238	1.56	0.0228	1.51	0.0230	1.59	0.0274	1.77 *
Institutional Proponent $_t$	0.0866	8.14 ***	0.0867	8.19 ***	0.0900	8.16 ***	0.0864	8.08 ***
Rules of the Game $_t$	0.2682	27.00 ***	0.2682	27.21 ***	0.2667	25.89 ***	0.2684	26.81 ***
Pay Design $_t$	0.1030	9.61 ***	0.1029	9.68 ***	0.1006	9.14 ***	0.1034	9.55 ***
2003 - 2007 Period	0.0542	4.26 ***	0.0535	4.17 ***	0.0571	4.27 ***	0.0544	4.25 ***
% of Institutional Ownership $_{t-1}$	0.0794	2.25 **	0.0804	2.29 **	0.0838	2.33 **	0.0824	2.33 **
% of Executive Ownership $_{t-1}$	-0.1750	-0.89	-0.1731	-0.88	-0.1060	-0.51	-0.1840	-0.94
% of Independent Directors $_{t-1}$	-0.0236	-1.80 *	-0.0232	-1.73 *	-0.0216	-1.59	-0.0244	-1.84 *
Entrenchment Index $_{t-1}$	0.0137	3.08 ***	0.0136	3.08 ***	0.0138	3.15 ***	0.0136	3.05 ***
ln(Market Capitalization $_{t-1}$)	-0.0064	-1.55	-0.0059	-1.45			-0.0052	-1.25
Return on Assets $_{t-1}$	-0.0064	-0.08	-0.0056	-0.07			-0.0016	-0.02
Abnormal Returns $_{t-1}$	0.0226	2.89 ***	0.0224	2.83 ***			0.0240	3.06 ***
N	823		823		812		823	
Adjusted R^2	73.00%		73.00%		73.00%		73.00%	

Table 4 presents the analysis for the determinants of the voting outcome for compensation-related shareholder proposals between 1997 and 2007. In Panel A the dependent variable, *% Votes For*$_t$, is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against).

Independent variables are defined as follows: *CEO Total Pay*$_{t-1}$ is the CEO's total compensation for year *t-1* (the most recent fiscal year ending before the shareholder meeting), including salary, bonus, value of equity grants (restricted stock and stock options), long-term incentive payouts, and other annual compensation such as perquisites, severance payments, 401K contributions, and insurance premiums. *CEO Cash Pay*$_{t-1}$ is the sum of salary, bonus and other cash pay for *i* year *t-1*. *CEO Equity Pay*$_{t-1}$ is the value of equity grants (restricted stock and stock options). *CEO Predicted Total Pay*$_{t-1}$ is the exponent of the predicted value from a regression of the natural logarithm of total CEO compensation on proxies for economic determinants of CEO compensation (see Section 4.2). *CEO Residual Total Pay*$_{t-1}$ is *CEO Total Pay*$_{t-1}$ less *CEO Predicted Total Pay*$_{t-1}$. *CEO Exercised Options*$_{t-1}$ is an indicator variable that is equal to one if the total value realized from options exercised by the CEO during year *t-1* is greater than zero. *# of Other Comp-Related Proposals*$_t$ is the number of other compensation-related shareholder proposals voted upon at the same annual meeting; *Comp-Related Vote-No Campaign*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by a compensation-related vote-no campaign; *Other Proposal*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by one or more (non-compensation) governance-related shareholder proposal. *Other Vote-No Campaign*$_t$ is an indicator variable equal to one if at the same annual meeting the firm was targeted by another (non-compensation) governance-related vote-no campaign. *Institutional Proponent*$_t$ is an indicator variable equal to one if the proponent is from *Union Pension Funds, Public Pensions or Other Shareholder Groups*. *Rules of the Game*$_t$ and *Pay Design*$_t$ are indicator variables denoting, respectively, whether the proposal is classified as Rules of the Game or Pay Design (see Section 3.1). *2003 - 2007 Period* is an indicator variable equal to one if the proposal is voted upon between 2003 and 2007. *% of Institutional Ownership*$_{t-1}$ is the percentage of shares held by institutional owners as of the end of year *t-1*. *% of Executive Ownership*$_{t-1}$ is the percentage of shares held by the top 5 executives at the end of year *t-1*. *% of Independent Directors*$_{t-1}$ is the percentage of directors classified as independent by RiskMetrics as of the year *t* annual meeting. *Entrenchment Index*$_{t-1}$ counts how many of the following provisions are in place at the firm as of the year *t* annual meeting: chartered board, poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk, Cohen and Ferrell, 2009). *Market Capitalization*$_{t-1}$ is market value of equity as of the end of year *t-1*. *Return on Assets*$_{t-1}$ is income before extraordinary items scaled by average total assets for year *t-1*. *Abnormal Returns*$_{t-1}$ is the size adjusted buy-and-hold returns for the 24 months preceding end of year *t-1*.

Panel B presents the results of a logistic regression where we estimate the probability that RiskMetrics issues a recommendation in favor of the shareholder proposal for the subset of 823 compensation-related shareholder proposals where RiskMetrics recommendation is available. The dependent variable, *RiskMetrics Recommendation = For*$_t$, is an indicator variable that is equal to one if RiskMetrics issues a recommendation in favor of the shareholder proposal and zero otherwise. The independent variables are defined as in Panel A.

Panel C presents the analysis for the determinants of the voting outcome for compensation-related shareholder proposals between 1997 and 2007 after controlling for the "unexpected" component of the RiskMetrics recommendation. The dependent variable, *% Votes For*$_t$, is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against). *Residual RiskMetrics Recommendation "For"* is the difference between *RiskMetrics Recommendation = For*$_t$ and the predicted value from the estimation in Panel B. The independent variables are defined as in Panel A.

***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering [Rogers (1993)].

Table 5 Implementation of Compensation-Related Shareholder Proposals

Panel A Implementation Rates by Proposal Type and Proponent Identity

	# of Proposals	Fully Implemented*		Fully or Partially Implemented**	
		#	%	#	%
All Proposals	**1,198**	**64**	**5.3%**	**100**	**8.3%**
Majority Votes	149	48	32.2%	60	40.3%
Non-Majority Votes	1,049	16	1.5%	40	3.8%
1997-2002	397	5	1.3%	9	2.3%
2003-2007	801	59	7.4%	91	11.4%
By Proposal Type					
Rules of the Game	**544**	**57**	**10.5%**	**78**	**14.3%**
Shareholder Approval	274	43	15.7%	53	19.3%
Reporting	129	13	10.1%	13	10.1%
Disclosure	66	0	0.0%	1	1.5%
Independence	48	0	0.0%	2	4.2%
Other	27	1	3.7%	9	33.3%
Pay Design	**329**	**7**	**2.1%**	**22**	**6.7%**
Link Pay to Performance	258	5	1.9%	19	7.4%
Other	71	2	2.8%	3	4.2%
Pay Philosophy	325	0	0.0%	0	0.0%
By Proponent					
Union Pension Funds	578	41	7.1%	64	11.1%
Individual	437	16	3.7%	27	6.2%
Religious Organizations	79	1	1.3%	1	1.3%
Public Pensions	20	1	5.0%	2	10.0%
Not Disclosed	8	1	12.5%	2	25.0%
Other Shareholder Groups	76	4	5.3%	4	5.3%

* The 64 cases of "full implementation" include 10 proposals to expense stock options and 3 proposals requesting to remove pension income from the computation of bonuses (Rules of the Game – Reporting); 37 proposals to submit future large severance payments to shareholder approval, 4 proposals to adopt an annual advisory "say on pay" vote and 2 proposals requesting shareholder approval, respectively, for future supplementary executive retirement plans (SERPs) and future option repricings (Rules of the Game – Shareholder Approval); 1 proposal to adopt a policy to recoup incentive compensation paid as a result of figures reported in financial statements subsequently restated (Rules of the Game – Other); 5 proposals to introduce performance-based vesting conditions in executive stock option grants (Pay Design – Link Pay to Performance); 2 proposals, respectively, to adopt a policy of minimum equity ownership for directors and a policy of disclosing the timing of option grants ahead of time (Pay Design – Other).

** The most common cases of "partial implementation" include *i*) introduction of performance-based vesting conditions for a fraction of equity grants (rather than for all of them, as requested by proposal; 14 cases); *ii*) adoption of a policy that limits severance packages to no more than 2.99 times salary and bonuses (rather than a policy to submit large severance payments to shareholder approval, as requested by the proponent; 10 cases); *iii*) adoption of a policy to seek recoupment of compensation paid to executives as a result of financial statements' results that are eventually subject to restatement only under stringent conditions (e.g. evidence of fraud) and essentially at the board's discretion (rather than a policy to seek recoupment of such compensation from all executives no matter the circumstances of the restatement, as requested by proposal; 7 cases).

Panel B Determinants of Likelihood of Implementation

Variable	Model (1) Fully Implemented		Model (2) Fully/Partially Implemented	
	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	-9.55	-3.65 ***	-7.34	-3.21 ***
CEO Chairman $_{t-1}$	0.07	0.17	0.25	0.75
% of Independent Directors $_{t-1}$	3.46	1.31	3.70	1.65 *
% of Executive Ownership $_{t-1}$	-22.30	-1.98 **	-11.80	-1.66 *
Entrenchment Index $_{t-1}$	-0.22	-1.33	-0.17	-1.25
Majority Vote $_t$	1.49	2.99 ***	1.07	2.91 ***
% of Votes For $_t$	6.75	3.98 ***	5.36	3.91 ***
Institutional Proponent $_t$	-0.39	-0.91	-0.32	-0.96
Rules of the Game $_t$	0.26	0.54	-0.03	-0.09
ln(Market Capitalization $_{t-1}$)	0.11	0.67	-0.03	-0.27
Return on Assets $_{t-1}$	-4.16	-1.24	-2.46	-1.03
Abnormal Returns $_{t-1}$	-0.01	-0.04	-0.03	-0.09
2003 - 2007 Period	0.19	0.32	0.49	1.05
N	1,061		1,061	
N(Implemented = 1)	60		91	
Pseudo R^2	37.90%		27.70%	

Table 5 Panel A reports the implementation rate for a sample of 1,198 compensation-related shareholder proposals submitted at S&P 1,500 firms between 1997 and 2007. We code as *Fully* (*Fully or Partially*) *Implemented* any proposal where the board takes a significant step toward full (full or partial) implementation, based on the information disclosed in the subsequent year's proxy statement or press reports. *Majority Votes* denotes cases where more than 50% of the votes cast at the annual meeting were in favor of the proposal.

Panel B presents the results of a logistic regression where we estimate the probability of implementation for the sample of 1,061 compensation-related shareholder proposals with available data. The dependent variable in Model (1), *Fully Implemented$_t$*, (Model (2), *Fully/Partially Implemented$_t$*) is an indicator variable that is equal to one if the firm fully (fully or partially) implements the shareholder proposal during the one year window subsequent to the year t annual meeting.

Independent variables are defined as follows: *CEO Chairman$_{t-1}$* is an indicator variable that is equal to one if the CEO of the company is also the chair of board of directors as of the year t annual meeting. *% of Independent Directors$_{t-1}$* is the percentage of directors classified as independent by RiskMetrics as of the year t annual meeting. *% of Executive Ownership$_{t-1}$* is the percentage of shares held by the top 5 executives at the end of year $t-1$. *Entrenchment Index$_{t-1}$* counts how many of the following provisions are in place at the firm as of the year t annual meeting: chartered board, poison pill, golden parachute, requirement to approve merger, limited ability to amend charter and limits to amend bylaws (Bebchuk, Cohen and Ferrell, 2009). *Majority Vote$_t$*, is an indicator variable that is equal to one if the percentage of votes cast in favor is higher than the percentage of votes cast against. *% Votes For$_t$*, is the percentage of votes cast in favor of the proposal, computed as: # Votes For / (# Votes For + # Votes Against). *Institutional Proponent$_t$* is an indicator variable equal to one if the proponent is from *Union Pension Funds*, *Public Pensions* or *Other Shareholder Groups*. *Rules of the Game$_t$* is an indicator variable that is equal to one if the proposal is classified as Rules of the Game (see Section 3.1). *Market Capitalization$_{t-1}$* is the market value of equity as of the end of year $t-1$. *Return on Assets$_{t-1}$* is income before extraordinary items scaled by average total assets for year $t-1$. *Abnormal Returns$_{t-1}$* is the size adjusted buy-and-hold returns for the 24 months preceding end of year $t-1$. *2003 - 2007 Period* is an indicator variable equal to one if the proposal is voted upon between 2003 and 2007.

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***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering [Rogers (1993)].

Table 6 Changes in Excess CEO Pay Following Compensation-Related Shareholder Activism

Panel A The Role of Vote-No Campaigns and Shareholder Proposals

Variable	Model (1) Coefficient	Model (1) t-statistic	Model (2) Coefficient	Model (2) t-statistic	Model (3) Coefficient	Model (3) t-statistic	Model (4) 2003 - 2007 Coefficient	Model (4) 2003 - 2007 t-statistic
Intercept	-0.13	-2.41 **	-0.13	-2.53 **	-0.13	-2.52 **	0.09	2.01 **
Targeted$_t$	0.01	0.16						
Vote-No$_t$			-0.20	-1.55				
Vote-No$_t$ x CEO % Residual Pay$_{t-1}$ > 0					-0.33	-2.24 **	-0.32	-2.07 **
Vote-No$_t$ x CEO % Residual Pay$_{t-1}$ < 0					0.12	0.64	0.02	0.10
Proposal$_t$			0.02	0.76	0.03	0.86	0.01	0.33
Votes Withheld from Comp Comm$_t$ > 15 % x CEO % Residual Pay$_{t-1}$ > 0							0.00	-0.04
Votes Withheld from Comp Comm$_t$ > 15 % x CEO % Residual Pay$_{t-1}$ < 0							-0.03	-0.36
Votes Withheld from Non-Comp Comm$_t$ > 15 % x CEO % Residual Pay$_{t-1}$ > 0							0.02	0.38
Votes Withheld from Non-Comp Comm$_t$ > 15 % x CEO % Residual Pay$_{t-1}$ < 0							0.05	0.39
Other Proposal$_t$	0.03	1.09	0.04	1.09	0.03	1.04	0.02	0.48
Other Vote-No Campaign$_t$	0.02	0.20	0.01	0.09	0.01	0.16	-0.02	-0.27
CEO's Last Year in Office$_{t-1}$	0.05	0.90	0.06	0.98	0.05	0.87	0.02	0.25
CEO % Residual Total Pay$_{t-1}$	-0.44	-8.82 ***	-0.44	-8.80 ***	-0.43	-8.50 ***	-0.46	-7.16 ***
N	2,043		2,043		2,043		1,258	
Adjusted R^2	25.00%		25.00%		25.00%		27.00%	

Panel B The Role of Proponent Identity and Proposal Type

Variable	Model (1)		Model (2)	
	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	-0.26	-2.23 **	-0.25	-2.16 **
Vote-No $_t$	-0.19	-1.53	-0.32	-2.18 **
Vote-No $_t$ x CEO % Residual Pay $_{t-1}$ > 0			0.11	0.58
Vote-No $_t$ x CEO % Residual Pay $_{t-1}$ < 0			0.02	0.33
Rules of the Game by Institutional Proponent $_t$	0.01	0.17		
Pay Design by Institutional Proponent $_t$	-0.18	-2.07 **		
Pay Design by Institutional Proponent $_t$ x CEO % Residual Pay $_{t-1}$ > 0			-0.22	-2.03 **
Pay Design by Institutional Proponent $_t$ x CEO % Residual Pay $_{t-1}$ < 0			-0.08	-0.80
Pay Philosophy by Institutional Proponent $_t$	-0.01	-0.11	0.00	-0.05
Rules of the Game by Other Proponent $_t$	0.07	0.97	0.08	1.18
Pay Design by Other Proponent $_t$	0.01	0.10	0.02	0.25
Pay Philosophy by Other Proponent $_t$	-0.01	-0.13	0.00	-0.06
High Votes For $_t$	0.14	1.28	0.12	1.19
Low Votes For $_t$	0.07	0.68	0.06	0.57
Implemented $_t$	0.10	0.87	0.09	0.77
Not Implemented $_t$	0.07	0.82	0.06	0.73
Other Proposal $_t$	0.03	1.04	0.03	0.96
Other Vote-No Campaign $_t$	0.00	-0.06	0.00	-0.03
CEO's Last Year in Office $_{t-1}$	0.05	0.87	0.04	0.75
CEO % Residual Total Pay $_{t-1}$	-0.45	-8.82 ***	-0.43	-8.41 ***
N	2,043		2,043	
Adjusted R^2	26.00%		26.00%	

Table 6 Panels A and B display the results for the analysis of changes in excess compensation following compensation-related shareholder activism. The dependent variable, *Change in CEO % Residual Pay$_{t+1}$*, is the change in percentage excess pay calculated as *CEO % Residual Pay$_{t+1}$* less *CEO % Residual Pay$_{t-1}$*. *CEO % Residual Pay$_{t+1(t-1)}$* is the natural logarithm of *CEO Total Pay$_{t+1(t-1)}$* less the natural logarithm of *CEO Predicted Pay $_{t+1(t-1)}$* (the exponent of the predicted value from a regression of the natural logarithm of total CEO compensation on proxies for economic determinants of CEO compensation, see Section 4.2).

Independent variables in Panel A are defined as follows: *Targeted$_t$* is an indicator variable that is equal to one if the firm is targeted by a compensation-related shareholder proposal or vote-no campaign in year *t*. *Vote-No$_t$* is an indicator variable that is equal to one if the firm is targeted by a compensation related vote-

no campaign in year *t* and zero otherwise. *Proposal_t* is an indicator variable that is equal to one if the firm is targeted by a compensation-related shareholder proposal in year *t* and zero otherwise. *Votes Withheld from Comp (Non-Comp) Comm_t > 15%* is an indicator variable that is equal to one if at least 15% of votes were withheld from at least one director sitting (not sitting) on the compensation committee. *Other Proposal_t* is an indicator variable equal to one if at the same annual meeting the firm was targeted by one or more (non-compensation) governance-related shareholder proposals. *Other Vote-No Campaign_t* is an indicator variable equal to one if at the same annual meeting the firm was targeted by another (non-compensation) governance-related vote-no campaign. *CEO's Last Year in Office_{t-1}* is an indicator variable that is equal to one if year *t-1* is the last year of the CEO's employment at the firm. *CEO % Residual Pay_{t-1}* is *ln(CEO Total Pay_{t-1})* less *ln(CEO Predicted Total Pay_{t-1})*. *CEO % Residual Pay_{t-1}>0 (CEO % Residual Pay_{t-1}<0)* is an indicator variable equal to 1 if *CEO % Residual Pay_{t-1}* is greater (smaller) than zero.

Independent variables in Panel B (not already defined in Panel A) are as follows: *Rules of the Game (Pay Design, Pay Philosophy) by Institutional Proponent_t* is an indicator variable that is equal to one if the firm is targeted by at least one Rules of the Game (Pay Design, Pay Philosophy) proposal sponsored by a Union Pension Fund, Public Pension Fund or Other Shareholder Group at the year *t* annual meeting. *Rules of the Game (Pay Design, Pay Philosophy) by Other Proponent_t* is an indicator variable that is equal to one if the firm is targeted by at least one Rules of the Game (Pay Design, Pay Philosophy) proposal sponsored by an Individual or Religious Organization at the year *t* annual meeting. *High (Low) Votes For_t* is an indicator variable that is equal to one if the firm is targeted by at least one compensated-related proposal that receives voting support above (below) 38% (3rd quartile of the distribution of votes in favor of compensation-related shareholder proposals). *Implemented_t (Not Implemented_t)* is an indicator variable that is equal to one if the firm is targeted with at least one proposal that is subsequently fully implemented (not implemented).

***, **, and * denote significance at the 0.01, 0.05, and 0.10 level, respectively. Reported t-statistics are based on standard errors estimated using the Huber (1967) – White (1980) procedure, with firm-level clustering (Rogers, 1993).