Analysis of the Wealth Effects of Shareholder Proposals - Volume III

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May 2, 2013

Workforce Freedom Initiative
U.S. Chamber of Commerce

Released by the U.S. Chamber of Commerce

Navigant Consulting

ABSTRACT

Shareholder activism has become an increasingly popular method for individuals, interest groups, and institutional investors such as pension funds to attempt to influence corporate affairs. Each year, these entities submit hundreds of proposals to a broad range of companies. In the event that they are unable to achieve their desired results via negotiation with the company, they will often submit a shareholder proxy proposal, which imposes costs on both parties. For some investors, in particular pension funds, such activities are regulated by the Employee Retirement Income Security Act (ERISA), which requires pension fund managers to act for the sole benefit of plan participants. As such, when these funds engage in shareholder activism, they must be able to demonstrate that they are doing so to promote the economic interests of the plan beneficiaries. Pension fund managers are encouraged to calculate the benefits and costs associated with proposals in an effort to fulfill their fiduciary duties.

Pension funds affiliated with organized labor have become significant players in shareholder activism, supporting and filing a wide variety of proposals. This study examines such shareholder proposals—specifically those on the AFL-CIO "Key Votes" surveys—between 2009 and 2012 to determine whether they have produced an economic benefit. Upon reviewing the relevant literature and performing a rigorous empirical analysis that measures the short-term and long-term effects of shareholder resolutions, we find the following:

(1) The academic literature finds no pervasive or robust set of results showing that announcements related to shareholder proposals are associated with a material increase in a company's market value. Furthermore, there is no substantive evidence that target firms have experienced long-run improvements in market value.

(2) Our empirical results support the findings in the existing literature with regard to the short-term impact of shareholder activism. That is, event studies show no statistically significant changes in company value associated with the proxy proposals assessed in this study.

(3) Empirical analysis of the long-term performance of a company relative to a comparison firm or portfolio yields similar results. We were unable to find statistically significant and positive abnormal returns in the long run for the target firms in our sample.

(4) We therefore find no conclusive or pervasive evidence that the shareholder proposals assessed in this study improve firm value or result in an economic benefit to pension plans and plan participants. Given that the proxy process imposes costs on both firms and shareholders, and given that there are no proven benefits in terms of corporate performance, the overall net benefit of these initiatives is likely negative.

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INTRODUCTION

Shareholder resolutions are proposals upon which a group of shareholders of a public company seek to vote during company meetings. Typically, a shareholder has two vehicles for raising a particular issue as a shareholder resolution. First, a shareholder could seek to have an issue voted on by raising the matter at a meeting of shareholders. Alternatively, proponents of a particular issue can seek to include a proposal in the company's proxy statement under Rule 14a-8 adopted under Section 14(a) of the Securities Exchange Act of 1934. Proxy proposals often develop out of conflict between management and one or more shareholders. These proposals may center on a range of affairs including management of the company, governance issues such as anti-takeover measures or director elections, and non-governance issues such as environmental, political, and social concerns.

Proponents of shareholder resolutions view them as an effective means to protect the value of their investment in a publicly traded company. However, it is unclear whether many proposals, in particular those linked to activist social or political causes, create financial benefits to either the firm or to shareholders. And because the direct costs of preparing the proposals and gathering votes can be significant, the net effect could be negative or muted returns for individuals or groups who are supporting the resolutions.

This paper builds on the 2009 analysis by Joao Dos Santos and Chen Song.[1] In particular, we review prior work relating to the economic effects of shareholder resolutions on target firms, paying particular attention to research since 2009. Using a sample of relevant shareholder proposals between 2010 and 2012, we seek to determine whether any significant short-run effects of selected shareholder proposals on target firms exist. Finally, we extend the analysis to the long term, because research has noted that some time may be required for significant effects, should they exist, to be fully realized.

The paper is organized as follows. Section II reviews ERISA and out-of-pocket costs of shareholder activism. Section III reviews the existing literature and analysis. Section IV reviews methodology and discusses the proposals selected for this study. Section V presents the results for the both the short- and long-term analysis, and section VI concludes.

ERISA AND OUT-OF-POCKET COSTS

ERISA is a federal law that sets minimum standards for management of pension plans in the private sector. It requires that those who exercise fiduciary responsibility over plans act solely for the benefit of plan participants and be able to articulate a clear basis for actions they may take, including sponsoring or supporting proxy proposals. In Interpretive Bulletin 08-02, the U.S. Department of Labor stated:

> In creating an investment policy, a fiduciary shall consider only factors that relate to the economic interest of participants and their beneficiaries in plan assets, and shall not use an

[1] *Analysis of the Wealth Effects of Shareholder Proposals—Volume II,* Navigant Consulting Paper, Released May 18, 2009 [*hereinafter* Dos Santos-Song].

> investment policy to promote myriad public policy preferences. … Plan fiduciaries risk violating the exclusive purpose rule when they exercise their fiduciary authority in an attempt to further legislative, regulatory or public policy issues through the proxy process. … The mere fact that plans are shareholders in the corporations in which they invest does not itself provide a rationale for a fiduciary to spend plan assets to pursue, support, or oppose such proxy proposals. Because of the heightened potential for abuse in such cases, the fiduciaries must be prepared to articulate a clear basis for concluding that the proxy vote, the investment policy, or the activity intended to monitor or influence the management of the corporation is more likely than not to enhance the economic value of the plan's investment before expending plan assets.[2]

This guidance suggests that plan managers could violate their fiduciary obligations if they engage in shareholder activism without being able to demonstrate how such activity can reasonably be expected to benefit the plan. As Dos Santos and Song (2009) indicated, fiduciaries are also encouraged to record the estimated costs and benefits from shareholder proposals such that the ERISA standards are met.

> [T]he responsible fiduciary shall consider only those factors that relate to the economic value of the plan's investment and shall not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives. Votes shall only be cast in accordance with a plan's economic interests. If the responsible fiduciary reasonably determines that the cost of voting (including the cost of research, if necessary, to determine how to vote) is likely to exceed the expected economic benefits of voting, or if the exercise of voting results in the imposition of unwarranted trading or other restrictions, the fiduciary has an obligation to refrain from voting.[3] In making this determination, objectives, considerations, and economic effects unrelated to the plan's economic interests cannot be considered.[4]

Despite this guidance, a 2011 report by the Department of Labor's Office of Inspector General found that the Department's Employee Benefits Security Administration (EBSA) lacked assurances that fiduciaries who were pursuing or supporting proxy proposals could demonstrate a clear connection to the financial health of a retirement plan.

> EBSA does not have adequate assurances that fiduciaries or third parties voted proxies solely for the economic benefit of plans. EBSA's proxy-voting requirements do not specifically require fiduciaries or investment managers to document (1) the monitoring of proxy-voting activities or (2) economic rationale for proxy-voting decisions. … Without additional transparency and enhanced enforcement activities, concerns about the fiduciary use of plan assets to support or pursue proxy proposals for personal, social, legislative, regulatory, or public policy agendas which have no clear connection to increasing the value of investments used for the payment of benefits or plan administrative expenses, may not be properly addressed.[5]

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[2] CODE OF FEDERAL REGULATIONS, TITLE 29 – LABOR, Vol. 9, §2509.08-2, 2011. *See also* U.S. Department of Labor, Interpretive Bulletin 08-2, October 17, 2008; ERISA Advisory Opinion No. 2007-07A, December 21, 2007; and letter from Alan D. Lebowitz, Deputy Assistant Secretary for Program Operations, Employee Benefits Security Administration, U.S. Department of Labor, to Jonathan P. Hiatt, General Counsel, AFL-CIO, May 3, 2005.

[3] See ERISA Advisory Opinion No. 2007-07A, December 21, 2007.

[4] CODE OF FEDERAL REGULATIONS, TITLE 29 – LABOR, Vol. 9, §2509.08-2, 2011.

[5] "Proxy Voting May Not Be Solely for the Economic Benefit of Retirement Plans," U.S. Department of Labor, Office of Inspector General, 09-11-001-12-121, March 31, 2011.

Perhaps because of the lack of oversight by EBSA, there is only limited information on the estimated costs associated with shareholder proposals. However, Del Guercio and Hawkins (1999), Smith (1996), and Carleton, Nelson, and Weisbach (1998) estimated that costs incurred by some of the more activist pension funds exceed insignificant amounts. Moreover, Bainbridge (2003) estimated that more than $90 million in annual costs are incurred by target firms in association with shareholder proposals. Consequently, unless there is an actual improvement in share price or firm performance as a result of the shareholder proposals analyzed in our sample, particularly those aimed at issues unrelated to firm governance, the overall impact on the firms affected by, and to those supporting, these proposals is likely negative. As a result, this may have implications for the ERISA obligations of activist pension plans. The following sections seek to answer the question of whether such improvements exist.

PRIOR ANALYSES ON THE EFFECTS OF SHAREHOLDER PROPOSALS

Dos Santos and Song (2009) provide a comprehensive summary of the existing academic literature on the short-term and long-term market reactions to particular shareholder proposals. Academic research on abnormal returns in the short run consistently found either insignificant or negative and significant market reactions on dates surrounding proposal-related disclosures.

Regarding abnormal returns in the long run, Dos Santos and Song (2009) explained that the academic literature did have some conflicting findings, but that on the whole the analysis tended to comport with the analyses of short-term abnormal returns. In particular, Nesbitt (1994), Opler and Sokobin (1997), as well as Smith (1996) did find some positive long-run abnormal returns surrounding shareholder proposals. Closer inspection and a full review of the literature, however, indicated that these results were neither pervasive nor robust and therefore could not be distinguished from random anomalies. Therefore, the academic literature published by or before 2009 that attempted to determine the benefits of shareholder proposals found no conclusive evidence that these proposals provided any positive benefits or net benefits in either the short or long term.

There has been, however, at least one study that has analyzed the effects of shareholder proposals since 2009. Buchanan et al. (2012) found that shareholder proposals can be associated with some positive long-run returns. But they perform this analysis on stock returns between 2000 and 2006, and the analysis is conducted within the context of a comparison between U.S. and UK governance rules. Moreover, the long-term analysis in Buchanan et al. is subject to the same concerns that Dos Santos and Song (2009) expressed in analyzing such studies performed before 2009. In particular, when the analysis of long-term abnormal returns employs a control firm, the estimated positive benefits of shareholder proposals in the long term disappear. Specifically, in the case of the Buchanan et al. analysis, when a control firm is used, both market-to-book ratio and return-on-asset controls yield negative and significant long-run returns.[6] Consequently, there still appear to be no results that conclusively find positive short-term or long-term economic benefits from shareholder proposals in the United States.

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[6] Bonnie G. Buchanan, Jeffrey M. Netter, Annette B. Paulsen, and Tina Yang, *Shareholder Proposal Rules and Practice: Evidence from a Comparison of the US and UK*, International Conference on Improving Financial Institutions: The Proper Balance between Regulation and Governance, April 19, 2012.

METHODOLOGY EMPLOYED

To build on the existing body of knowledge, we use a sample of relevant shareholder proposals between 2010 and 2012 to determine whether any significant short-term effects of shareholder proposals on target firms exist. We then extend the analysis to the long term, because research has noted that some time may be required for significant effects, should they exist, to be fully realized. We describe the methodology below.

SELECTION OF PROPOSALS

The sample was selected using the shareholder proposal sections of the AFL-CIO "Key Votes" surveys from 2009 to 2012. The AFL-CIO describes these surveys as follows:

> The proposals included in the Key Votes Survey are submitted by Taft-Hartley, union, and public employee pension funds as well as employee shareholders and other investors, and are consistent with the AFL-CIO Proxy Voting Guidelines. These proposals represent a worker-owner view of value that emphasizes management accountability and good corporate governance. A score representing the percentage of support and corresponding tier group categorization are assigned to each firm to assist trustees in evaluating the relative proxy-voting performance of competing investment managers.[7]

This sample contained a wide range of proposals. Included in the sample were proposals reflecting board declassifications, independent board chairs, health care principles, political contributions, proxy access, and director removal policies. In total there were 51 unique proposal subjects that we grouped into three broad categories: compensation, governance, and non-governance.

We believe that this sample of proposals provides a suitable litmus test for the proxy proposal process. Our sample consists of proposals that were highlighted as being particularly important to organized labor, which has been a major proponent of increased shareholder access and of using the shareholder proposal process to influence corporate behavior. Moreover, since the proposals are assigned grades by the investment managers, these proposals, in particular, would garner the attention of management and other investors.

The four surveys contained 103 proposals from 73 different companies. From this population, six proposals were excluded. Proposals were excluded for any of four reasons: (1) an accurate proxy mailing date could not be determined, (2) price data were unavailable on the day of the event, (3) continuous price data were unavailable, or (4) the company is traded internationally. Our final sample contains 97 distinct shareholder proposals.[8]

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[7] AFL-CIO, "Key Votes Survey," 2012, available at http://www.aflcio.org/content/download/70511/1815441/2012_keyvotes_0313.pdf.

[8] The following events were excluded: Express Scripts (2010) [an accurate proxy mailing date could not be determined], Coca-Cola Enterprises (2010) [an accurate proxy mailing date could not be determined], American International Group (2012) [an accurate proxy mailing date could not be determined], Tesco (2009) [the company is traded internationally], XTO Energy (2009) [continuous price data were unavailable], and WellPoint (2010) [price data were unavailable on the

Table 1 provides summary statistics related to the proposals in the sample.

Table 1

List of Proposals

All Proposals in AFL-CIO Surveys from 2009–2012

The italicized events were not included in the analysis.
Sponsor information retrieved from SEC.

Company	Ticker	Proposal Subject	Year	Category	Sponsor
AutoNation	AN	Independent Board Chair	2009	Governance	International Brotherhood of Electrical Workers' Pension Benefit Fund
Bank of America	BAC	Independent Board Chair	2009	Governance	SEIU Master Trust
Chevron Corporation	CVX	Report on Country Selection Criteria	2009	Non-Governance	Undisclosed
Cintas Corporation	CTAS	Health Care Principles	2009	Non-Governance	Undisclosed
Comcast Corporation	CMCSA	Recapitalization	2009	Governance	Communications Workers of America Members' Pension Fund
Consol Energy	CNX	Expedited Disclosure of Shareholder Votes	2009	Governance	New York City Employees' Retirement System
CVS Corporation	CVS	Say on Pay	2009	Compensation	Connecticut Retirement Plans and Trust Funds
Dell Inc.	DELL	Solicitation Reimbursement	2009	Governance	AFSCME Pension Plan
Dominion Resources	D	SERPs	2009	Governance	Undisclosed
Exxon Mobil	XOM	GHG Emissions	2009	Non-Governance	Sisters of St. Dominic of Caldwell New Jersey
General Electric	GE	Say on Pay	2009	Compensation	Walden Asset Management
JP Morgan Chase	JPM	Bonus Banking	2009	Compensation	AFSCME Employees Pension Plan
Massey Energy	MEE	Board Level Environmental Review	2009	Governance	Undisclosed
McKesson	MCK	Golden Coffins	2009	Governance	International Brotherhood of Teamsters
Moody's	MCO	Independent Board Chair	2009	Governance	Massachusetts Laborers' Pension Fund
Reynolds American	RAI	Annual Board Elections	2009	Governance	Undisclosed
Ryland	RYL	Double Triggers	2009	Governance	Amalgamated Bank LongView MidCap 400 Index Fund
Southern Company	SO	Board Level Environmental Review	2009	Governance	The Sisters of Charity of Saint Elizabeth; Benedictine Sisters of Boerne, Texas; Benedictine Sisters of Virginia
Tesco (UK)	*TSCO*	*Supply Chain and Human Rights*	*2009*	*Non-Governance*	*Not Available*
XTO Energy	*XTO*	*Golden Coffins*	*2009*	*Governance*	*Amalgamated Bank's LongView LargeCap 500 Index Fund*

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day of the event]. AIG's 2012 proposals, which we exclude from our analysis because we do not have an accurate proxy mailing date, were not voted on during the meeting. We researched the vote status of all non-governance proposals and found that all proposals were voted on at the relevant corporate meetings. The only exceptions were Tesco (2009), which was excluded from the analysis due to a lack of share price data, and CVS Corp. (2010). The non-governance proposal for CVS (2010) was withdrawn during the meeting.

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Abercrombie & Fitch	ANF	Board Declassification	2010	Governance	Connecticut Retirement Plans & Trust Funds
American International Group	AIG	Political Disclosure	2010	Non-Governance	New York State Common Retirement Fund
Bank of America	BAC	Recoup Unearned Bonuses	2010	Compensation	SEIU Master Trust
Boeing	BA	Independent Board Chair	2010	Governance	Sheet Metal Workers' National Pension Fund
Chesapeake Energy	CHK	Prohibit Margin Trading by Executives	2010	Governance	Amalgamated Bank's LongView LargeCap 500 Index Fund
Chevron Corporation	CVX	Country Selection Standards	2010	Non-Governance	Undisclosed
Citigroup Inc.	C	Political Disclosure	2010	Non-Governance	Firefighters' Pension System of the City of Kansas City, Missouri, Trust
Coca-Cola Enterprises	*CCE*	*Golden Parachutes*	*2010*	*Compensation*	*International Brotherhood of Teamsters General Fund*
Comcast Corporation	CMCSA	Independent Board Chair	2010	Governance	AFL-CIO Reserve Fund
ConocoPhillips	COP	Global Warming Principles	2010	Non-Governance	The Board of Pensions of the Presbyterian Church (USA)
CVS Corporation	CVS	Global Warming Principles	2010	Non-Governance	AFL-CIO Reserve Fund
DTE Energy	DTE	Board Declassification	2010	Governance	Utility Workers Union of America
Express Scripts	*ESRX*	*Independent Board Chair*	*2010*	*Governance*	*Undisclosed*
Exxon Mobil	XOM	Sexual Orientation Non-Discrimination	2010	Non-Governance	New York State Common Retirement Fund
FedEx	FDX	CEO Succession Planning	2010	Governance	Massachusetts Laborers' Pension Fund
Goldman Sachs	GS	Political Disclosure	2010	Non-Governance	Domini Social Investments
JP Morgan Chase	JPM	Independent Board Chair	2010	Governance	Trowel Trades S&P 500 Index Fund
Morgan Stanley	MS	Equity Holding Requirements	2010	Governance	AFL-CIO Reserve Fund
Nabors Industries	NBR	Independent Board Chair	2010	Governance	AFSCME Employees Pension Plan
Occidental Petroleum	OXY	Limit Accelerated Vesting of Equity	2010	Governance	Amalgamated Bank's LongView LargeCap 500 Index Fund
Penn National Gaming	PENN	Board Declassification	2010	Governance	UNITE-HERE
PulteGroup	PHM	Reimburse Proxy Contest Costs	2010	Governance	AFSCME Employees Pension Plan
Reynolds American	RAI	Board Declassification	2010	Governance	Undisclosed
United Technologies	UTX	Say on Pay	2010	Compensation	AFL-CIO Reserve Fund
Wal-Mart Stores, Inc.	WMT	Say on Pay	2010	Compensation	Undisclosed

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Sponsor information retrieved from SEC.

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Waste Management	WM	Political Disclosure	2010	Non-Governance	International Brotherhood of Teamsters General Fund
WellPoint	*WLP*	*Lobbying Disclosure*	*2010*	*Governance*	*AFL-CIO Reserve Fund*
Wells Fargo & Co.	WFC	Independent Board Chair	2010	Governance	SEIU Master Trust
Whole Foods	WFM	Director Removal Policy	2010	Governance	Amalgamated Bank's LongView LargeCap 500 Index Fund
Anadarko Petroleum	APC	Vesting of Equity Awards	2011	Governance	Amalgamated Bank's LongView Large Cap 500 Index Fund
Apple Computer	AAPL	CEO Succession Planning	2011	Governance	Central Laborers' Pension Fund
Bank of America	BAC	Relocation Expense Policy	2011	Governance	CtW Investment Group
Boeing	BA	Independent Board Chair	2011	Governance	Sheet Metal Workers' National Pension Fund
CenturyLink	CTL	Political Contributions	2011	Non-Governance	Communications Workers of America Members' General Fund
Chevron Corporation	CVX	Country Selection Process	2011	Non-Governance	Undisclosed
Citigroup Inc.	C	Mortgage Servicing Operations	2011	Governance	The City of New York Comptroller's Office, on behalf of the New York City Pensions Fund
Dean Foods	DF	Tax Gross-Ups	2011	Governance	Amalgamated Bank's LongView Large Cap 500 Index Fund
JP Morgan Chase	JPM	Mortgage Servicing Operations	2011	Governance	Board of Pension of the Presbyterian Church (USA)
Lowe's	LOW	Link Pay to Sustainability	2011	Compensation	Central Laborers' Pension Fund
Marathon Oil	MRO	Report on Safety Management	2011	Non-Governance	AFL-CIO Reserve Fund
NV Energy	NVE	Equity Holding Requirements	2011	Governance	Ms. Rita Weisshaar, Mr. Robert Viera
PulteGroup	PHM	Independent Board Chair	2011	Governance	AFL-CIO Reserve Fund
Reynolds American	RAI	Human Rights Standards	2011	Non-Governance	Undisclosed
Rite Aid	RAD	Tax Gross-Ups	2011	Governance	AFL-CIO Reserve Fund
Target Corporation	TGT	Executive Pay Benchmarking	2011	Compensation	AFSCME Employees Pension Plan
Tesoro	TSO	Report on Safety Management	2011	Non-Governance	Undisclosed
United Technologies	UTX	Equity Holding Requirements	2011	Governance	AFL-CIO Reserve Fund
Valero Energy	VLO	Report on Safety Management	2011	Non-Governance	AFL-CIO Reserve Fund
WellCare Health Plans	WCG	Political Contributions	2011	Non-Governance	Amalgamated Bank's LongView MidCap 400 Index Fund

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Wells Fargo & Co.	WFC	Mortgage Servicing Operations	2011	Governance	The Comptroller of the City of New York, on behalf of the New York City Employees' Retirement System, the New York City Fire Department Pension Fund, the New York City Teachers' Retirement System, the New York City Police Pension Fund, and the New York Board of Education Retirement System
Whole Foods	WFM	Permit Removal of Directors	2011	Governance	Amalgamated Bank's LongView LargeCap 500 Index Fund
Abbott Laboratories	ABT	Tax Gross-Ups	2012	Governance	Philadelphia Public Employees Retirement System
Aetna	AET	Political Contributions	2012	Non-Governance	SEIU Master Trust
AIG	*AIG*	*Hold Equity Past Retirement*	*2012*	*Governance*	*Undisclosed*
Amgen	AMGN	Independent Chair	2012	Governance	UAW Retiree Medical Benefits Trust
Avalon Bay Communities	AVB	Sustainability Reporting	2012	Non-Governance	The Comptroller of the City of New York, on behalf of the New York City Employees' Retirement System, the New York City Fire Department Pension Fund, the New York City Teachers' Retirement System, the New York City Police Pension Fund and the New York City Board of Education Retirement System
Bank of America	BAC	Mortgage Servicing Operations	2012	Governance	The Comptroller of the City of New York, on behalf of the New York City Employees' Retirement System, the New York City Fire Department Pension Fund and the New York City Police Pension Fund
BNY Mellon	BK	Independent Chair	2012	Governance	Trowel Trades S&P 500 Index Fund
Cabot Oil & Gas	COG	Link Pay to Sustainability	2012	Compensation	Amalgamated Bank's LongView Large Cap 500 Index Fund
Chesapeake Energy	CHK	Proxy Access	2012	Governance	New York City Employees' Retirement System
Chevron Corporation	CVX	Country Selection Guidelines	2012	Non-Governance	Undisclosed
ConocoPhillips	COP	Report on Safety Management	2012	Non-Governance	Undisclosed
Dean Foods	DF	Accelerated Vesting of Equity	2012	Governance	City of Philadelphia Public Employees Retirement System
EOG Resources	EOG	Accelerated Vesting of Equity	2012	Governance	Amalgamated Bank's LongView LargeCap 500 Index Fund
Johnson & Johnson	JNJ	Independent Chair	2012	Governance	AFSCME Employees Pension Plan
JP Morgan Chase	JPM	Independent Chair	2012	Governance	AFSCME Employees Pension Plan
Limited Brands	LTD	Equity Retention	2012	Governance	International Brotherhood of Electrical Workers' Pension Benefit Fund
Lowe's	LOW	Golden Parachutes	2012	Compensation	Trowel Trades S&P 500 Index Fund
Masco	MAS	Equity Retention	2012	Governance	Nathan Cummings Foundation

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Sponsor information retrieved from SEC.

Company	Ticker	Proposal Subject	Year	Category	Sponsor
Nabors Industries	NBR	Proxy Access	2012	Governance	New York City Employees' Retirement System, New York City Fire Department Pension Fund, the New York City Teachers' Retirement System, and the New York City Police Pension Fund
Northern Trust	NTRS	Accelerated Vesting of Equity	2012	Governance	Trowel Trades S&P 500 Index Fund
Raytheon Company	RTN	Executive Retirement Benefits	2012	Compensation	AFL-CIO Reserve Fund
Republic Services	RSG	Executive Death Benefits	2012	Compensation	International Brotherhood of Teamsters General Fund
Rite Aid	RAD	Pay for Performance	2012	Governance	The Comptroller of the City of New York on behalf of the New York City Employees' Retirement System, the New York City Fire Department Pension Fund, the New York City Teachers' Retirement System, the New York City Police Pension Fund and the New York City Board of Education Retirement System
Sotheby's	BID	Succession Planning	2012	Governance	Laborers' International Union of North America National (Industrial) Pension Fund
Staples	SPLS	Equity Retention	2012	Governance	Trowel Trades S&P 500 Index Fund
The GEO Group	GEO	Lobbying Disclosure	2012	Governance	Province of St. Joseph of the Capuchin Order
United Rentals	URI	Repeal Exclusive Forum Bylaw	2012	Governance	Amalgamated Bank's LongView MidCap 400 Index Fund
Valero Energy	VLO	Report on Safety Management	2012	Non-Governance	AFL-CIO Reserve Fund
Verizon Communications	VZ	Lobbying Disclosure	2012	Governance	AFSCME Employees Pension Plan
Wal-Mart Stores, Inc.	WMT	Director Qualifications	2012	Governance	Undisclosed
WellPoint	WLP	Political Contributions	2012	Non-Governance	Harrington Investments, Inc.
Whirlpool	WHR	Executive Death Benefits	2012	Compensation	Undisclosed

As is the accepted methodology, we calculate abnormal returns around the proxy statement mailing date and the date of each company's investor conference. All price data were taken from Bloomberg, LP.

EMPIRICAL FRAMEWORK: SHORT-TERM MARKET REACTIONS

To accurately measure the short-term effects of each proposal on a company's share prices, we employ an event study methodology. In particular, we use a two-factor market model, which controls for both economy-wide and industry-specific factors that apply to each firm.[9] The event

[9] Additional detail about the specification of each of the models used is provided in the Technical Appendix (section VII).

study has been widely accepted by academia and courts for evaluating the stock price impact of an event.[10] This methodology is useful because it considers whether a particular event, such as a change in the Federal Reserve Bank's target rate, caused a shift within a broad market.

The model calculates the difference between actual and predicted returns. Actual returns are calculated as the changes to each company's stock price during the period of interest, which is referred to as the event window. These results are compared with the predicted values generated by the model, which uses a relevant market index as a frame of reference. The difference between the actual return and the predicted return is referred to as the abnormal return.[11] Once the abnormal return is calculated, a standard statistical test is performed to determine whether that abnormal return is different from zero in a statistical sense—that is, whether the abnormal return is statistically significant. In calculating abnormal returns and then in performing the associated significance tests, we apply four different event windows to each proposal. Each event window commences on the day of the announcement: (1) a one-day window (which by construction also ends on the day of the announcement), (2) a two-day window that ends the trading day after the announcement, (3) a three-day window that ends two trading days after the announcement, and (4) a four-day window that ends three trading days after the announcement.[12]

EMPIRICAL FRAMEWORK: LONG-TERM MARKET REACTIONS

To test the long-term market reactions, we used two types of methodologies: (1) the rolling portfolio method and (2) the matching method. These methodologies are employed in Liu, Szewczyk, and Zantout (2008). The authors conducted a series of analyses to calculate and test the significance of long-run abnormal returns for a sample of dividend-omitting or dividend-reducing firms. They found that the results of these studies can often be sensitive to the choice of a benchmark. The authors concluded that the most effective way to achieve robust results is to consider a number of different benchmark firms.

First, we employ the rolling portfolio method. For each calendar month, we compute the returns on equally weighted portfolios of all firms that were targeted by a proposal identified as a "key vote" during the preceding 12, 24, or 36 calendar months. We then calculate long-run abnormal returns by regressing the post-event daily excess returns (defined as portfolio returns in excess of a risk-free rate of return, quantified by the daily equivalent of the one-month T-bill rate) for each portfolio on a market factor, a size factor, and a book-to-market factor.[13] Following Liu, Szewczyk, and Zantout (2008), we estimate the regressions using both ordinary-least-squares

[10] MacKinlay (1997) writes: "Using financial market data, an event study measures the impact of a specific event on the value of a firm . . . Thus a measure of the event's economic impact can be constructed using security prices." See also, Fama et al. (1998) and Brown and Warner (1985).
[11] Note that the abnormal return is defined as the difference between the expected return as predicted by the event study model and the actual observed return. Consequently the abnormal return is not equivalent to the simple percentage change between the closing prices on the event date and the prior date.
[12] Event windows are denoted in the following way: [beginning of window, end of window]. The first trading day in which the market could react to the announcement is defined as day zero. A [0,1] window, for example, would consist of the announcement day and the subsequent trading day.
[13] See Fama (1998) for a detailed description of the rolling portfolio method and Fama and French (1993) for a detailed description of the factors and calculation of returns.

(OLS) and weighted-least-squares (WLS), using the number of firms in the portfolio as the weight.[14] We estimate these abnormal returns separately for post-event years one, two, and three.

Second, we employ the matching method, in which we compare the stock returns of targeted firms with those of non-targeted benchmark firms over a specified holding period.[15] The difference in returns between the two firms is referred to as the buy-and-hold abnormal return (BHAR). We calculate BHARs for all applicable firms in the sample and then compute the buy-and-hold average abnormal return (BHAAR) for each holding period. There are two statistical tests for the significance of the BHAAR: the parametric *t*-test and the non-parametric Wilcoxon signed-rank test. We consider the same seven matching criteria as Liu, Szewczyk, and Zantout (2008): (1) firm size, (2) firm size and industry affiliation, (3) firm size and prior common stock price performance, (4) industry affiliation and prior common stock price performance, (5) firm size and book-to-market ratio, (6) percentage change in earnings, and (7) firm size and percentage change in earnings. The use of multiple matching criteria allows us to evaluate the sensitivity of the benchmark criteria and the robustness of the results.

PRESENTATION OF FINDINGS

EMPIRICAL RESULTS: SHORT-TERM MARKET REACTIONS

Table 2 shows the results of the short-term market reactions to the proposal on the proxy mailing dates.

Table 2

EVENT STUDY RESULTS FOR ALTERNATIVE TIME WINDOWS
All Firm-Years in Sample

Date Type	Number of Firm-Years	Statistics[1]	Event Window [0,0]	[0,1]	[0,2]	[0,3]
Proxy Mailing Date	97	Average Abnormal Return	0.142%	0.176%	0.189%	0.161%
	97	*Z*-statistic	1.22667	1.35133	0.97497	0.98632
	97	*P*-value	0.220	0.17659	0.32958	0.32398
Proxy Voting Date	94	Average Abnormal Return	0.128%	0.049%	0.080%	0.281%
	94	*Z*-statistic	1.608	1.087	0.620	1.360
	94	*P*-value	0.108	0.277	0.535	0.174

[1] Dodd and Warner (1983) note that, in some cases, it is possible for the average abnormal return and the associated *Z*-statistic to have different signs.

[14] One of the assumptions in an OLS regression is that the variance of the error term is constant across observations (homoskedasticity). Because the number of companies included in each portfolio is not constant across every month, there is some likelihood that this assumption will be violated (heteroskedasticity). WLS is an econometric technique that may yield more efficient parameter estimates in the presence of heteroskedasticity.

[15] See Liu, Szewczyk, and Zantout (2008) and Barber and Lyon (1997) for a discussion of the matched firm method and calculation of the associated test statistics.

The data in Table 2 indicate that average abnormal returns are not statistically different from zero.[16] Moreover, the magnitude of these abnormal returns is generally small enough that they are not economically meaningful.[17] These results are consistent regardless of whether one analyzes abnormal returns on or about the proxy mailing date or the proxy voting date. Therefore, markets did not significantly react either to news of the mailing or to news related to the proxy vote.

Additionally, we performed the same analysis for a subset of proposals. Table 3 shows the results for non-governance events, such as environmental issues or political disclosures.

Table 3

EVENT STUDY RESULTS FOR ALTERNATIVE TIME WINDOWS
Non-Governance Proposals Only

Date Type	Number of Firm-Years	Statistics[1]	Event Window [0,0]	[0,1]	[0,2]	[0,3]
Non-Governance Proposals	24	Average Abnormal Return	-0.365%	-0.491%	-0.129%	0.023%
Proxy Mailing Date	24	*Z*-statistic	-0.300	0.059	0.459	0.660
	24	*P*-value	0.764	0.953	0.647	0.510
Non-Governance Proposals	24	Average Abnormal Return	-0.141%	-0.039%	-0.233%	-0.187%
Proxy Voting Date	24	*Z*-statistic	-0.541	-0.165	-0.768	-0.347
	24	*P*-value	0.589	0.869	0.442	0.729

[1] Dodd and Warner (1983) note that, in some cases, it is possible for the average abnormal return and the associated *Z*-statistic to have different signs.

The short-term analysis for non-governance proposals shows again that abnormal returns are statistically insignificant. Unlike Table 2, however, the abnormal returns in Table 3 are generally negative and also approach half a percent in certain analyses. For example, the estimated abnormal return for non-governance proposals on the proxy mailing date is nearly four-tenths of a percent. These findings support the general conclusion in the literature that the short-term share price impact of the resolutions, measured on either the mailing or voting date, does not produce any proven increase in shareholder value. Moreover, to the extent one is concerned that certain resolutions could harm shareholder value, one should note the negative average abnormal return that is associated with non-governance proposals.

[16] For ease of reading levels of statistical significance, we provide *p*-values where appropriate. The typical standard of statistical significance is 5 percent. Under such a standard, the probability of rejecting a statistical conjecture (in this case that an abnormal return is zero) when in fact that conjecture is true would be less than 5 percent. This is achieved when the *p*-value is less than 0.05.

[17] Note that it is possible that a particular abnormal return (e.g., 5 percent) could be highly significant for a company with very little volatility in its stock price returns, but insignificant for a company with a high level of volatility. The *Z*-statistics (which are used to determine statistical significance) account for such differences. This difference can explain the occasional difference in sign between the average abnormal return and the *Z*-statistic, though this generally occurs in situations when both values are very close to zero.

EMPIRICAL RESULTS: LONG-TERM MARKET REACTIONS

Table 4 shows our analysis of the long-run effects using the rolling portfolio method.

Table 4

LONG-RUN AVERAGE ABNORMAL MONTHLY RETURNS AFTER PROXY MAILING DATES ESTIMATED USING THE ROLLING PORTFOLIO METHOD

		Post-announcement Period			Post-announcement Year	
Estimation Method	**Statistics**	**1 year**	**2 years**	**3 years**	**2nd year**	**3rd year**
OLS (All Events)	Average Abnormal Return	0.428%	0.285%	0.280%	0.025%	0.310%
	t-statistic	1.349	0.937	0.963	0.076	1.088
	P-value	0.185	0.354	0.341	0.940	0.291
WLS (All Events)	Average Abnormal Return	0.415%	0.294%	0.282%	0.075%	0.227%
	t-statistic	1.498	1.218	1.330	0.240	0.754
	P-value	0.142	0.230	0.191	0.812	0.461
Number of Observations		46	46	46	34	22
OLS (Non-Governance Events)	Average Abnormal Return	-0.360%	-0.498%	-0.457%	0.273%	0.104%
	t-statistic	-0.625	-1.001	-0.942	0.540	0.223
	P-value	0.536	0.323	0.352	0.593	0.827
WLS (Non-Governance Events)	Average Abnormal Return	0.027%	-0.109%	0.004%	0.003%	-0.423%
	t-statistic	0.053	-0.272	0.010	0.005	-0.994
	P-value	0.958	0.787	0.992	0.996	0.334
Number of Observations		45	45	45	33	21

We observe abnormal returns that are statistically insignificant—results that are consistent across multiple event windows and parameter estimation methods. Specifically, both the ordinary-least-squares and weighted-least-squares approaches produce statistically insignificant abnormal returns, and the returns are statistically insignificant regardless of whether one analyzes a one-year, two-year, or three-year event window. We also analyzed non-governance events separately from resolutions relative to firm governance. We again found long-term abnormal returns to be statistically insignificant. Consequently, non-governance resolutions, or at least those in our analysis, did not provide significant benefits in the long term. Therefore, for the resolutions measured in this study, we find no measureable long-term positive effect.

Table 5 shows the results of the long-term matching method.

Table 5

LONG-RUN BUY-AND-HOLD AVERAGE ABNORMAL RETURNS AFTER PROXY MAILING DATES ESTIMATED USING THE MATCHING METHOD

		Post-announcement Buy-and-Hold Period			Post-announcement Buy-and-Hold Year		
Matching Criteria	**Statistics[1]**	**1 year**	**2 years**	**3 years**	**1st year**	**2nd year**	**3rd year**
Firm Size	BHAAR	3.40%	-2.16%	19.00%	3.40%	-8.60%	-1.71%
	t-statistic	0.707	-0.172	0.614	0.707	-1.658	-0.404
	W-test *P*-value	0.867	0.522	0.899	0.867	0.196	0.468
	Observations	66	45	18	66	45	18
Size and Industry Affiliation	BHAAR	7.50%	3.05%	-18.48%	7.50%	1.00%	-2.92%
	t-statistic	1.926	0.400	-0.716	1.926	0.300	-0.459
	W-test *P*-value	0.031	0.522	1.000	0.031	0.508	0.865
	Observations	66	45	18	66	45	18
Size and Prior Stock Performance	BHAAR	11.60%	10.86%	14.95%	11.60%	-2.70%	-1.13%
	t-statistic	2.293	1.007	0.672	2.293	-0.560	-0.263
	W-test *P*-value	0.020	0.434	0.678	0.020	0.936	0.890
	Observations	65	44	17	65	44	17
Industry and Prior Stock Performance	BHAAR	-2.40%	-12.34%	-57.45%	-2.40%	-6.90%	-10.46%
	t-statistic	-0.360	-0.887	-1.421	-0.360	-1.148	-1.234
	W-test *P*-value	0.702	0.432	0.393	0.702	0.329	0.265
	Observations	66	45	18	66	45	18
Size and Book-to-Market Ratio	BHAAR	10.00%	16.68%	60.24%	10.00%	-3.50%	-2.03%
	t-statistic	1.883	1.293	1.701	1.883	-0.686	-0.330
	W-test *P*-value	0.087	0.248	0.091	0.087	0.599	0.426
	Observations	57	37	14	57	37	14
Percent Change in Earnings	BHAAR	-8.40%	-23.21%	-24.89%	-8.40%	2.60%	10.70%
	t-statistic	-0.634	-0.960	-0.550	-0.634	0.361	1.281
	W-test *P*-value	0.522	0.958	0.946	0.522	0.590	0.376
	Observations	45	29	13	45	29	13
Size and Percent Change in Earnings	BHAAR	9.00%	8.60%	19.58%	9.00%	-5.80%	-3.06%
	t-statistic	1.289	0.544	0.521	1.289	-0.920	-0.474
	W-test *P*-value	0.125	0.965	0.970	0.125	1.000	0.677
	Observations	44	28	12	44	28	12

The results in Table 5 again show that abnormal returns are insignificant in the years following shareholder resolutions. That is, no matching method produces positive and significant abnormal returns beyond the first year. Moreover, only two of seven matching methods produce significant returns in the first year, which is insufficient evidence for one to conclude that shareholder resolutions provide positive expected benefits to shareholders. As such, our results from the buy-and-hold analysis confirm our prior results from the rolling-portfolio method and also the results from the short-term event study analysis.

CONCLUSION

The U.S. Chamber of Commerce has asked us to evaluate the potential impact of shareholder proposals from 2009 to 2012 on target firm value and (to the extent possible) to assess the out-of-pocket costs associated with introducing and voting on shareholder proposals. In performing our analysis, we have conducted a review of the available literature and have performed an empirical analysis for a sample of 97 firm-years with which we test for both short-term and long-term wealth effects.

The primary conclusion resulting from our literature review is that there is no conclusive evidence of measurable improvements in (short-term or long-term) stock market or (long-term) operating performance in target companies as a result of shareholder proposals. Therefore, we find no evidence that shareholder activism has a positive impact either on firms or on the entities offering shareholder resolutions.

To test these findings, we conducted our own empirical analysis on a sample of 97 firm-years, using techniques that are well supported in the literature. Our findings accord with prior analysis in this area of research. We find no significant evidence that companies' market value improves either in the short term or the long term as a result of shareholder proposal process. Therefore, similar to Dos Santos and Song (2009), our analysis finds no evidence that shareholder proposals produce positive economic benefits to sponsors or supporters of shareholder resolutions. Given that costs are likely to be associated with these proposals, it is reasonable to suggest that, on the whole, the shareholder proposals examined in this study may, in fact, result in a negative return for those pursuing them. This may hold particular significance for pension plans, including plans associated with organized labor. Should there be no reasonable expectation of a financial benefit from shareholder activism, plan fiduciaries may need to reconsider the extent to which they engage in this practice.

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