An Analysis of Withdrawn Shareholder Proposals

Foley, Maggie and Cebula, Richard and Jun, Chulhee

Jacksonville University, Jacksonville University, University of Macao

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Maggie Foley*, Assistant Professor, Jacksonville University
Address: 2800 University North Blvd, Jacksonville, Florida 32211
Tel: 904-256-7772; Fax: 904-256-7467; Email: mfoley3@ju.edu

Richard J. Cebula, Wells Fargo Professor of Finance, Jacksonville University
Tel: 904-256-7904; Fax: 904-256-7467; Email: rcebula@ju.edu

Chulhee Jun, Assistant Professor, University of Macau
Av. Padre Tomás Pereira, Taipa, Macau, S.A.R. P.R.C. P.R. China
Tel: (86) 756 3620728; Email: charliejun@umac.mo

Abstract

This study visits the role of shareholder proposals in the governance of public corporations by studying withdrawn shareholder proposals. Among all shareholders, unions are the most likely to withdraw proposals. Furthermore, firms with a record of poor performance, lower insider ownership and more independent boards are likely to see proposals withdrawn. Since unions often possess a high level of bargaining power, we put emphasis on the behavior of unions. We find that unions resubmit proposals that have gained high shareholder support in the prior year. About fifty percent of those resubmitted proposals are withdrawn prior to the annual shareholder meetings. In addition, almost all of those proposals do not reappear in the following year, implying that the issues underlying those proposals have been settled. This phenomenon indicates that unions submit shareholder proposals strategically. Furthermore, it is more likely for unions to adopt this strategy when the prior voting support is higher, when the insider ownership is lower, and when the ownership is less dispersed. The identified strategy played by unions suggests that unions use shareholder proposals for union workers at the expense of shareholder value.

Keywords: Corporate Governance, Agency Costs, Shareholder Proposals, Unions.

1. INTRODUCTION

Most public firms have widespread equity ownership. Because of the scattered shareholder base, it generally is difficult for a single shareholder to raise her voice in a firm, let alone monitor the management. To facilitate the ability of minority shareholders to express their concerns as equity owners, the SEC allows shareholders with over $2,000 worth of investments to submit a shareholder proposal. However, shareholder proposals are non-binding in nature, indicating that no matter how popular they might be among shareholders, management is not obligated to settle them. Even so, many shareholder proposals are submitted each year, from which a majority are eventually voted upon at the annual shareholder meetings. However, some proposals are regularly disappearing from the voting slate. Further investigation shows that majority of those vanishing proposals are from unions. Indeed, unions are a unique group of investors because of its due status as both shareholders and labor representatives, with the role of the latter better known and talked about than that of the prior one. As Marens (2008) points out, unions use their powers to not only bargain for the benefits for their members, but also direct efforts towards their self-serving agendas and political interests. Furthermore, their influence is more pronounced in small public companies, particularly if the founding family retains a dominant role in the company's affairs. Additionally, the motives behind the shareholder activism sponsored by unions are mixed in the literature. Marens (2007, 2008) and Goodman et al. (2001) show that unions can exert a degree of influence over the investment policies of some of the public pension funds and often guide their policies with regard to the voting of proxies and the proposing of shareholder resolutions. Agrawal (2013) and Lacker and Tayan (2012) show that union funds tend to pursue union labor objectives rather than the maximization of shareholder value per se. Comparable conclusions are drawn in Romano (2001), Bainbridge (2006), and Anabtawi and Stout (2008). On the other hand, Prevost, Rao, and Williams (2012) show that unions can help enhance shareholder values by spurring changes in corporate governance. After all, union funds are subject to ERISA regulations as well as market forces.

Despite the existence of prior studies, it remains a puzzle as to why unions would rather withdraw proposals submitted by themselves, instead of waiting to find out how shareholders assess their proposals. Nevertheless, this is an important question from the following three perspectives: (1) the answers to this question can help understand how influential unions are in the market; (2) an understanding of this question may help better evaluate the effectiveness of shareholder proposals in reducing agency costs; and (3) it can potentially help regulators to create more useful and meaningful policies.

In this study, we seek to resolve this puzzle by providing empirical evidence regarding how unions utilize shareholder proposals. We begin with examining the proposals withdrawn by all sponsors. However, even though studies of shareholder proposals have proliferated in the literature, most of them focus upon the voted proposals, not the withdrawn proposals. For instance, Renneboog and Szilagyi (2011), Del Guercio, et al. (2008), Thomas and Cotter (2007), Bizjak and Marquette (1998), Karpoff, et al. (1996), and Gillan and Starks (2000), have focused on voting outcomes on shareholder proposals. These studies have documented that, whereas most shareholder proposals receive less than 50% of the votes (in favor), shareholder support for such proposals has increased over time. Moreover, proposals addressing antitakeover issues as well as those sponsored by pension funds and unions, generally receive higher levels of shareholder voting support than other proposal-sponsor combinations, suggesting that shareholders generally consider both the proposal type and the sponsor when deciding how to cast their votes. The evidence to date also suggests that support for shareholder proposals is higher at small and poorly performing companies and in firms with high institutional investor ownership but with low stakes held by insiders. In addition, Ertimur, et al. (2010) show that management is more likely to adopt shareholder proposals with majority shareholder support, even though shareholder proposals are non-binding in nature. Indeed, proposals with majority shareholder support empower shareholders and therefore help discipline management, thus reducing agency costs. Bebchuk (2005) has called for shareholder proposals to be made legally binding. Harris and Raviv (2010) demonstrate this view theoretically. Overall, this modeling suggests that shareholder proposals are potentially an effective channel for shareholders to voice their disappointment with/disapproval of a firm's governance or performance. Not only does the market react positively to the "correct" proposals, but it also penalizes those firms that overlooked those proposals. An alternative view is that proposal sponsors might use shareholder proposals as a mechanism to bargain with management for *private* benefits. Bainbridge (2006) suggests that the SEC should restrict shareholders from submitting proposals since shareholders are at an information disadvantage in comparison with management.

Studies of shareholder proposals that are withdrawn prior to the annual shareholder meetings are lacking in the literature. However, detailed investigations of the occurrence of the withdrawn proposals are needed, since a large percentage of proposals are withdrawn (Gillan and Starks (2000), Renneboog and Szilagyi (2011)). To investigate the withdrawn shareholder proposals, following the literature, we separate the proposals into five groups by sponsors and into eight groups by proposal issues. We find that certain groups of investors, such as union funds, tend to have a higher incidence of withdrawn proposals. This pattern of withdrawal appears to occur more when management has less ownership of the firm and when firm performance seems to be worse.

When focusing on union alone, we identify a strategy utilized by unions. More specifically, unions often resubmit proposals that have been voted on in the prior year. About fifty percent of those resubmitted proposals are withdrawn prior to the annual shareholder meetings. In addition, almost all of those proposals do not reappear in the following year, implying that those proposals have been settled. This phenomenon indicates that unions submit shareholder proposals strategically. Furthermore, it is more likely for unions to adopt this strategy when the prior voting support is higher, when the insider ownership is lower, and when the ownership is less dispersed. The identified strategy played by unions suggests that unions use shareholder proposals for union workers at the expense of shareholder value.

The structure of this study is follows. In section 2, we explain the dataset and propose the hypotheses. In section 3, we analyze the withdrawn shareholder proposals from the perspective of proposal sponsors, issues, and others. We also identify a strategy used by unions. In section 4, the conclusions are provided.

2. The Hypotheses and the Data

Despite the increased focus on shareholder voting in recent years, the effectiveness of shareholder proposals remains a contentious issue. On one hand, shareholder proposals are accessible to the public and therefore can be more influential and valuable, when compared with private negotiations between shareholders and the management. On the other hand, unlike costly but obligatory proxy contests, shareholder proposals are much cheaper but potentially ineffective due to their non-binding in nature.

What is more complex is that a large part of the shareholder proposals have been withdrawn by their sponsors prior to the annual shareholder meetings. Unlike the omitted proposals which are taken back mainly due to the mistakes made by the sponsors, the withdrawn proposals do not violate any regulations. A natural question arises. Why do shareholders withdraw proposals? We investigate this topic in this study along several dimensions: firm characteristics, ownership structure, corporate governance status, proposal types and sponsors, and what factors are associated with proposals no longer being submitted. We propose that when a proposal is submitted by a powerful sponsor, such as union fund, the proposal is more likely to be withdrawn than voted. Similarly, when the target firm has performed poorly, or when the management team is relatively weak, the same conclusion can be drawn.

To test the above hypotheses, we gathered information of shareholder proposals from the Investor Responsibility Research Center (IRRC) which collects the proxy statements of over 1,900 firms, including the S&P 500. In total, there were 2,739 shareholder proposals related to corporate governance issues for the period 2004 through 2007. Furthermore, we focused on firms in The Corporate Library (TCL) and collected information on antitakeover provisions, board composition, and ownership by block-holders and insiders for the period 2005-2007. There were a total of 8,257 observations in the sample period. After merging with shareholder proposals dataset, we had a total of 1,806 shareholder proposals related to corporate governance issues.

In this study, firm performance is measured by stock returns on a fiscal year basis from CRSP. Firm's growth potential is measured by market to book ratio as obtained from COMPUSTAT. The variable board independence level is calculated as the ratio of number of outside directors relative to board size.

The following anti-takeover provisions were collected from TCL: the presence of a classified board, poison pill, the percentage of outstanding shares required to amend by-laws, the percentage of outstanding shares required to amend a company's charter and the percentage of outstanding shares required to approve a merger or sale from TCL. Furthermore, if any of the percentages is greater than 66.66%, the threshold for a supermajority, it was recorded as a 1; otherwise, it was recorded as a 0. E-index is the sum of the above anti-takeover provisions, ranging from 0 to 5 (Bebchuk, Cohen, Ferrell, 2009).

Meanwhile, the role of institutional investors in shareholder activism cannot be overlooked. In general, institutional investors avoid active involvement in managerial decision-making due to the liquidity-control tradeoff (Coffee, 2010). We thereby collected institutional investors' ownership from Thompson CDA/Spectrum 13F and calculated the Herfindahl index, which measures the dispersion of institutions' ownership as follows:

$$H= \sum_{i=1}^{N} S_i^2$$

where S_i is defined as the market share of fund i in the market and N is the number of funds.

We control for firm size and leverage. Additionally, to control for the industry effect, we adjusted all of the above accounting variables by industry means, based on the classification of the 49 industries studied in Fama and French (1997).

3. Withdrawn shareholder proposals

In this section, we conduct the empirical analysis. We first investigate the general factors that are associated with the occurrence of a withdrawn proposal. Secondly, we report the proposal topics as well as the sponsors, with a special focus on unions. Lastly, we identify a strategy that unions have applied when submitting shareholder proposals and investigate the factors associated with the utilization of this strategy.

3.1 The general factors associated with the likelihood that a proposal is withdrawn

To investigate the factors associated with the occurrence of the withdrawal shareholder proposals, we run logistic regression cluster – robust variance model by treating the appearance of a withdrawn proposal as an event and the occurrence of a voted proposal as the base (Cameron, Trivedi, 2005). Other explaining variables reflect firm characteristics in corporate governance, ownership structures, and firm performance.

The model adopted is expressed, as follows:

$$\begin{aligned}\text{Logit}(\pi_{\text{withdrawn\_proposal}}) \\ = \; & \beta_0 + \beta_1\text{Sponsor\_indicator} + \beta_2\text{Proposal\_topic\_indicator} + \beta_3\text{Institutional\_ownership} \\ & + \beta_4\text{No\_funds} + \beta_5\text{Insider\_ownership} + \beta_6\text{Blockholder\_ownership} + \beta_7\text{Board\_size} \\ & + \beta_8\text{Board\_independence} + \beta_9\text{E-Index} + \beta_{10}\text{Stock\_return} + \beta_{11}\text{Market\_to\_book} + \beta_{12}\text{Leverage} \\ & + \beta_{13}\text{Size} + \beta_{14}\text{Year\_06} + \beta_{15}\text{Year\_07} \qquad (1)\end{aligned}$$

The sample under study contained 1,363 observations with 427 clusters, from which 360 proposals were withdrawn and 1,003 proposals were voted on from 2005 to 2007. Furthermore, when a withdrawn proposal occurred, it was recorded as a 1; otherwise, it was voted upon and thus recorded as a 0. The regression results of the marginal effects are reported in Table 1.

[Insert Table 1 here]

The regressions show that withdrawn proposals are strongly associated with the proposal sponsor. In Model 5, the coefficients for union funds, pension funds, investment firms, and religious/socially responsible group are significant and positive, suggesting that the likelihood of occurrence of a withdrawn proposal is higher for proposals sponsored by these four groups than by individual investors. This set of findings confirms the key role of the identity of sponsors in determining a withdrawn proposal.

The results also provide evidence that the occurrence of a withdrawn proposal is strongly related to proposal topics. In specific, when a proposal is related to board or executive compensation issues, the likelihood of its being withdrawn, rather than voted, decreases. The signs for antitakeover and voting issues are negative but insignificant.

Further investigation of the roles of financial and stock performance variables shows that they add significant explanatory power to the models. The evidence confirms that a withdrawn proposal occurs more frequently in firms with poor performance (or lack of growth potential) as measured by the market-to-book ratio. Stock return, another measure of firm performance, is negative but statistically insignificant in all of the models and thus apparently has no impact on proposals being withdrawn. In addition, the coefficient of leverage is positive but insignificant. Thus, we do not find strong evidence showing that proposal sponsors target firms with high agency costs. Surprisingly, the coefficient of firm size is positive and insignificant, an outcome that is contrary to our expectations.

The results also imply that the likelihood of proposals' being withdrawn is associated strongly with the ownership structure of the target firms. Specifically, when insiders have more voting rights, the proposal is less likely to be withdrawn. However, neither institutional investors nor block-holders have a statistical effect on proposals being withdrawn. Their coefficients are negative but insignificant in all of the models. Furthermore, we expect the coefficient of the E-index level to be negative, implying that when the antitakeover measure in the target firm is high, shareholder sponsors are less likely to withdraw the proposal. Nevertheless, the coefficient is negative but insignificant. Of note, we replace institutional ownership by Herfindahl index as a robustness check. The empirical results are similar.

In summation, formal examination of withdrawal proposals demonstrates that the extent of control by management as well as a firm's prior performance seem to influence whether a proposal can be withdrawn. In specific, the submitted proposal is more likely to be withdrawn, when the target firm has a low percentage of insider ownership, has performed poorly in the past, and has proposals sponsored by powerful parties.

3.2 Withdrawn proposal's topics

The 2004 to 2007 proxy seasons witnessed high levels of concern over issues such as tying executive compensation to performance, repealing poison pills, declassifying boards, adopting majority vote to elect directors, and splitting up the roles of CEO and chairman. This time period also witnessed declining shareholder attention to audit-related issues, presumably largely attributable to the effects of the Sarbanes-Oxley Act (SOX). Panel A of Table 2 reports the comprehensive breakdown of shareholder proposals by proposal issues.

From 2004 to 2007, out of a total of 2,739 proposals, 588 proposals were withdrawn, 32% of which relate to executive compensation issues. More specifically for 2004, 2005, 2006, and 2007, there are 50, 59, 32, and 46 such withdrawn proposals, respectively. Proposals related to voting issues are withdrawn 106 times in 2007, a significant escalation from 40 times in 2006, 24 times in 2005 and 7 times in 2004. Furthermore, board related proposals are withdrawn only 57 times in the four year period, much less than proposals related to voting issues and executive compensation. Moreover, proposals related to antitakeover issues are withdrawn 15, 8, 18 and 25 times during 2004, 2005, 2006, and 2007, respectively.

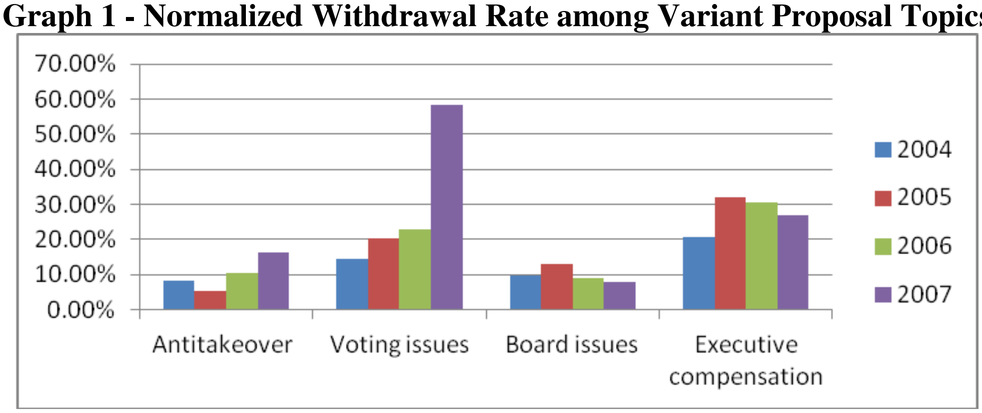
[Insert Table 2, Panel A here]

In Table 2, Panel B below, we report the normalized withdrawal rate by proposal issues from 2004 through 2007. The "normalized" withdrawal rate equals to the number of withdrawn proposals out of the total ever submitted by each proposal subject every year.

[Insert Table 2, Panel B here]

Graph 1 provides the comparison among variant topics for all proposals that are withdrawn from 2004 through 2007.

Graph 1 - Normalized Withdrawal Rate among Variant Proposal Topics



3.3 Withdrawn proposal's sponsors

Following Gillan and Starks (2000) and Renneboog and Szilagyi (2011), we divided the sample of shareholder proposals into five groups based upon proposal sponsors. The five major groups of sponsors are unions, pension funds, individuals, investment firms and religious entities/firms. Next, within each group, we count the occurrence of proposals that are voted upon, withdrawn, and omitted, respectively. Panel A and Panel B of Table 3 report the percentage of the occurrence among all proposals, and the normalized withdrawal rates, respectively. Of note, the normalized withdrawal rate equals to the number of withdrawn proposals out of the total ever submitted by each sponsor group each year.

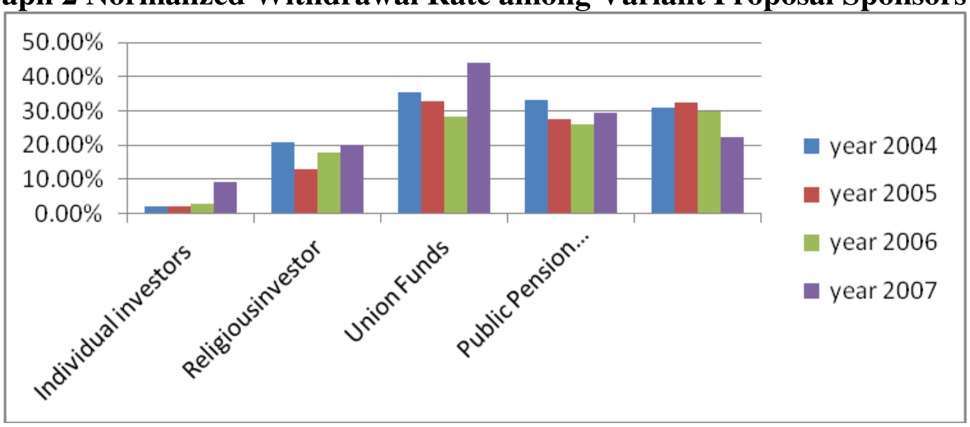
[Insert Table 3, Panel A here]

[Insert Table 3, Panel B here]

A clear pattern appears. Although majority of proposals are voted, quite a few are withdrawn, among which, unions stand out. More specifically, on average, 4% of all withdrawn proposals are submitted by religious or "socially responsible" investors, the lowest among all groups. This is followed by individual investors, at approximately 9% of the withdrawals. The percentages of proposals that have been withdrawn are similar for both other institutional shareholders and public pension funds, at around 12%. A 65% of withdrawn proposals are indeed sponsored by unions. Furthermore, in contrast to pension funds and other institutional investors whose withdrawn rates peaked in 2005 and have been decreasing every year, union funds withdrew more proposals in 2007 than in the prior years.

Clearly, the withdrawn rates of both the individual investors and the religious groups are considerably lower than the case with other groups. This is consistent with the view stating that large and influential investors, such as unions, are more likely to reach agreement with management, leading in turn to proposals being subsequently withdrawn (Goodman et al. 2001). Further, unions are more likely to withdraw proposals than any of these groups, followed by public pension funds. But the comparison based on normalized withdrawal rates shows that there are not too much difference among unions, pension funds and other institutional investors except in year 2007. Graph 2 further demonstrates the above findings.

Graph 2 Normalized Withdrawal Rate among Variant Proposal Sponsors



3.4 Proposal Sponsorship and Proposal Issues Combined

In this section, we break down each sponsor group according to proposal issues. The results are reported in Table 4.

[Insert Table 4 here]

The majority of union sponsored proposals involve issues of executive compensation and voting. In particular, about 24% and 22% of withdrawn proposals are submitted by unions regarding voting and executive compensation issues, respectively, much greater than that for other issues. In comparison, the remaining groups of activists withdrew fewer proposals involving these two issues. These findings tend to suggest that unions use shareholder proposals strategically.

Focusing on union funds alone yields a number of observations. For instance, the withdrawn rates of UBCJA are 38%, 35%, 31%, and 58% respectively, for 2004, 2005, 2006, and 2007, with an average of 40%. The International Brotherhood of Electrical Workers (IBEW), International Brotherhood of Teamsters, Sheet Metal Workers, and Laborers' International Union Funds of NA also have high withdrawal rates. By contrast, the withdrawn rates of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) are lower, with an average of 22%. Of note, a greater withdrawal rate could reflect either the higher collective bargaining power of union funds or uncompromising management.

3.5. Proposals withdrawn by unions

The study thus far is in supportive of the conventional view that unions are a special group of investors. Marens (2008) documents that unions not only bargain for the benefits for their members, but also direct efforts towards their self-serving agenda and political interests. Extending this view in Marens (2008), we attempt to identify the causes and the circumstances that lead to unions' decision to withdraw proposals.

3.5.1 A strategy applied by unions

Marens (2008) states that unions' influence is more distinct in financially distressed small companies. Furthermore, unions tend to exercise their collective bargaining powers to pursue self-serving agendas and political interests rather than the shareholder stock value. Accordingly, we hypothesize that unions withdraw proposals to benefit union workers at the expense of the shareholder value.

We assume first that unions are indeed pursuing self-serving agenda. Thus, unions would utilize their influence to bargain for their members only. All else equal, proposals that are expected to receive high shareholder support would help unions to gain more power, since it is well known that management could be punished for not implementing those popular shareholder proposals, such as the majority vote proposals (Ertimur, et al., 2010).

The above arguments lead to one potential strategy that unions can apply, namely, unions can resubmit the proposal that has received high shareholder support in the prior years. The public acceptance of this popular proposal tends to force the management to reach an agreement with the sponsors. In other words, unions can amplify their bargaining power with this strategy.

We thereby look for repetitive shareholder proposals in consecutive years. In addition, if the withdrawn proposal never reappears in the following years, it might have been settled. Otherwise, we expect it to be resubmitted. Of note, another possible explanation for this phenomenon is that unions do not expect the management to accept those proposals; hence, unions extract the proposals before the annual shareholder meetings. However, this explanation is relatively weak, in that those proposals are recurring.

Therefore, among the withdrawn proposals submitted by unions, we separate the entire sample into two groups based on whether or not they have been voted on in the prior year. Out of a total of 279 shareholder proposals withdrawn by unions, we identified a total of 70 cases that have been voted upon in the prior year over the study period. In other words, 25% of withdrawn proposals are resulted from the utilization of the strategy mentioned above.

For example, a proposal regarding golden parachutes issue was submitted by AFL-CIO against Sara Lee Corporation and had received a 61% of shareholder support level in 2005. In the following year, AFL-CIO resubmitted the proposal but it was withdrawn eventually. We summarize the 70 cases in question in Table 5.

[Insert Table 5 here]

UBCJA appears to have adopted this strategy the most. On average, these proposals received about 52% of shareholder support in the year before they are resubmitted but are withdrawn; this withdrawal rate clearly exceeds the average rate, 40%, among all voted shareholder proposals from 2005 through 2007. Furthermore, those proposals cover limited topics, with the greatest proportions involving a required majority vote needed to elect directors, followed by linking pay to performance, and golden parachutes. Of note, we do not have data to investigate whether such proposals were settled after they are withdrawn; however, we expect that most of them were settled for a number of reasons. First, the high shareholder support in the prior year indicates that a number of major institutional investors support the proposals submitted by the union. Second, the same proposal resubmitted by the same sponsor reveals that it has not been settled by the management, despite a high shareholder support. Third, with the prior voting results known to the public, unions resubmit the proposals, reinforcing the importance of those proposals as well as exerting more pressure over the management. Clearly, greater union bargaining can potentially thereby force the management to adopt the substance of those proposals, leading to the unions' withdrawing of those proposals before the next annual shareholder meeting. To further demonstrate this proposition, we check whether another proposal covering the same topic within the company is ever submitted in the following year. The appearance of any such proposal would presumably indicate that the prior withdrawn proposal was not settled. We find that, in our sample, there are no repetitively withdrawal proposals occurring in the same company with respect to the same proposal topic, regardless of the proposal sponsors. Indeed, only one repetitively submitted proposal was resubmitted and voted on after it was withdrawn in the prior year. In particular, a proposal regarding advisory voting on executive compensation was submitted by Christine Brother Investment Services in 2007 and received a 48% of shareholder support level. In 2008, the same organization resubmitted it but withdrawn later on that year. In 2009, UBCJA submitted a proposal devoted to this topic and the voting result was 51% in favor. However, UBCJA is not the sole sponsor of this proposal in these three consecutive years. Thus, this single circumstance does not contradict our proposition that management tends to settle the withdrawn proposals resubmitted by unions.

As a robustness check, we repeated the investigation for the 2007 through 2009 period. These results are not reported but are available upon request.

There are a total of 29 such cases from 2007 through 2009, with a mean voting approval rate of 53%. Furthermore, the most active union adopting this strategy, once again, is UBCJA, with 14 cases in total. Requiring a majority vote to elect directors is the most frequently occurring issue, happening 12 times, from among which UBCJA was responsible for nine cases. Most importantly, we do not identify any proposal sponsors resubmitting a proposal for the same issue after such proposal has voted on and withdrawn from 2004 through 2009, suggesting that the substance of those withdrawn proposals were settled by management.

Unions can withdraw proposals co-sponsored by others in the prior year as well, if such proposals were voted upon and received a high percentage of shareholder support. However, the bargaining power of a union tends to be lower than is the case when the union is the sole sponsor for the same proposal in two consecutive years in that the union becomes more experienced and more knowledgeable while bargaining with the management. There are a total of 47 such cases from 2004-2009, with an average shareholder support level of 52%. UBCJA sponsors 11 such proposals. Among these 11, four proposals involved executive compensation issues. Another four proposals were devoted to the issue of requiring a majority vote in order to elect directors. Of note, we identify only three proposals that are submitted in three consecutive years by different sponsors. More specifically, one such proposal was voted on after it was previously voted upon and then withdrawn, and two other cases were voted upon, withdrawn, and then voted upon again, in three consecutive years. The results are not reported here but are available to interested readers.

In sum, we find a strategy that unions have adopted when submitting shareholder proposals. They resubmit those proposals that have been voted on in the prior year, and then withdraw them prior to the annual shareholder meetings. Those proposals are likely to be "settled" after being called back by unions, because those proposals do not reappear in the following years. In the next section, we examine the factors that are associated with those resubmitted withdrawn proposals sponsored by unions.

3.5.2 Factors associated with the resubmitted withdrawn proposals

We explore the factors that are associated with the resubmitted withdrawn shareholder proposals sponsored by unions. They are likely to be "settled", since they were voted on previously and did not come back within a couple of years after being withdrawn.

First, we did a two sample Wilcoxon Rank-Sum test to compare the differences between the "settled" withdrawn proposals and the rest among all withdrawn proposals from unions. The results are reported in Table 6.

[Insert Table 6 here]

Among all the variables of interest, executive compensation topic, staggered board status, insider ownership, block-holder ownership, Herfindahl index and firm size are significantly different between the two groups.

The logistic regression cluster - robust variance model analysis supports the above conclusions. In this investigation, the "settled" shareholder proposal from unions is treated as the "event". The variables included involve the ownership and antitakeover status, as well as firm performance. The model is provided below, with the results reported in Table 7.

$$\text{logit}(\pi_{\text{settled\_withdrawn\_proposal}}) = \beta_1\text{Executive\_Compensation} + \beta_2\text{Insider\%} + \beta_3\text{Blockholder\%} + \beta_4\text{Herfindahl\_Index} + \beta_5\text{Staggered\_Board} + \beta_6\text{Poison\_Pill} + \beta_7\text{Board\_Independence} + \beta_8\text{Market\_Book} + \beta_9\text{Leverage} + \beta_{10}\text{Stock\_Return} + \beta_{11}\text{Size} + u \quad (1)$$

[Insert Table 7 here]

The results in Table 7 show that in comparison between the union sponsored withdrawn proposals with and without prior voting records, the occurrence of the prior one is strongly and negatively a function of whether they involve executive compensation issues, greater insider ownership, the Herfindahl index, and greater block-holder ownership, while arguably an increasing function of board independence.

3.5.3 A comparison between withdrawn and voted proposals with prior voting record

There are repetitive voted proposals sponsored by unions as well. If unions would withdraw a popular repetitive proposal rather than let it be voted, it could be further evidence to support the view that unions use shareholder proposals strategically.

We thus compare the withdrawn proposals with the voted proposals, both with prior voting records.

There are a total of 148 such observations, among which, 70 are withdrawn proposals. The logistic regression model is as follows.

$$\text{logit}(\pi_{\text{withdrawn\_proposal}}) = \beta_1\text{Prior\_vote\_rate} + \beta_2\text{Staggered\_Board} + \beta_3\text{Board\_Independence} + \beta_4\text{Insider\%} + \beta_5\text{ROA} + \beta_6\text{Stock\_return} + \beta_7\text{Herfindahl\_Index} + \beta_8\text{Size} + \beta_9\text{Voting\_issue} + \beta_{10}\text{Antitakeover\_issue} + \beta_{11}\text{Executive\_compensation\_issue} + u \quad (2)$$

The occurrence of the withdrawn shareholder proposals is given a value of 1. Thus, 0 is for the voted shareholder proposals. Of note, the prior voting rate is the actual percentage rate of support among shareholders. Ertimur et al. (2010) find that management tends to be punished if they were caught not executing shareholder proposals with majority shareholder support. Thereby, we repeat the above test but replace the prior voting rate by a dummy variable for majority vote in prior year. When the prior voting support is greater than 50%, this dummy variable equals to 1.

The results are reported in Table 8.

[Insert Table 8 here]

The results in Model 1 and 2 show that when the prior voting rate in support of a proposal is higher, it is more likely for unions to withdraw a proposal than keeping it in the proxy list for voting in the annual shareholder meetings. Furthermore, when the ownership is less dispersed as measured by Herfindahl index, the repetitive proposals are more likely to be withdrawn. The above results are robust when replacing prior voting rate by a dummy variable for prior majority vote as shown in Model 3 and 4.

In summation, the evidence demonstrates that unions, as an organization with strong bargaining power, submit shareholder proposals strategically. Unions are found to resubmit shareholder proposals with a more favorable support but withdraw them prior to the annual shareholder meetings. This strategy is more like to occur when the prior voting support is higher, when the insider ownership is lower, and when the ownership is less dispersed. The identified strategy played by union suggests that unions do use shareholder proposals for union workers at the expense of shareholder value.

Of note, as a robustness check, among the withdrawn proposals with a prior voting record, we compare those receiving high approval rates with those with low approval rates, using two sample Wilcoxon Rank-Sum test. The results are reported in the table in the Appendix.

4. CONCLUSION

The goal of this study is to extend the research into the effectiveness and role of shareholder proposals in corporate governance. Prior studies mainly concentrate on the voted proposals and find that management which overlooked proposals that were supported by the majority shareholders tend to be penalized, which suggests the effectiveness of using shareholder proposals as a means whereby to discipline management. However, some proposals have never progressed that far. They were either withdrawn by shareholders or omitted by the management prior to the annual shareholder meetings. The published studies focusing on the withdrawn or omitted shareholder proposals are still limited. We have endeavored to contribute to this literature by proceeding with a detailed study of shareholder proposals that are withdrawn and by exploring what determines whether a shareholder resolution is withdrawn [within the context of firm performance, firm ownership structure, and corporate governance considerations]. Specifically, we put emphasis on the behavior of unions, since unions are not only often powerful but also are very active in shareholder activism.

Focusing on shareholder proposals related to corporate governance from 2004 through 2007, we find that proposals covering issues regarding executive compensation and voting are more likely to be withdrawn. Unions are the most active group of stockholders in terms of crafting deals with the management by withdrawing their proposals, especially when the company is small, has performed poorly, and has low insider ownership. Additionally, unions submit shareholder proposals strategically. They tend to repetitively submit the same proposal over the years. For those proposals that have received high shareholder support levels in the prior year, unions tend to negotiate a deal with the management before withdrawing them. These proposals generally do not reappear in the following year, implying that the results are positive, i.e., that suitable policies/changes have been settled by management. Of note, this study finds that unions submit shareholder proposals strategically to pressure the management. In specific, unions sometimes resubmit proposals that have been voted on in the prior year. About fifty percent of those resubmitted proposals are withdrawn prior to the annual shareholder meetings. The identified strategy played by union suggests that unions do use shareholder proposals for union workers at the expense of shareholder value. More detailed investigation along this line of research is left for future studies.

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TABLE 1 - Logistic Regression Models Explaining the Withdrawn Proposals

Table 1 explains the occurrence of withdrawn proposals, using logistic regression with adjusted variance due to clustering across firms. The occurrence of proposals that are withdrawn is treated as the event. Among TCL firms, there are 360 shareholder proposals that are withdrawn and 1,003 proposals that are voted on from 2005 through 2007. There are 427 clusters. Marginal effects (ME) are defined as the instantaneous rates of change that depend on the values of the independent variables, measured at the means.

	Model 1		**Model 2**		**Model 3**		**Model 4**		**Model 5**	
Variables	**ME**	**z Value**	**ME**	**z Value**	**ME**	**z Value**	**ME**	**z Value**	**ME**	**z Value**
Proposal-Antitakeover	-0.079	-1.23	-0.076	-1.17	-0.101	-1.56	-0.077	-1.2	-0.096	-1.49
Proposal-Board	-0.156**	-3.29	-0.162**	-3.53	-0.173**	-3.90	-0.162**	-3.59	-0.171**	-3.85
Proposal- Exec compensation	-0.110†	-1.70	-0.113†	-1.76	-0.135*	-2.07	-0.112†	-1.77	-0.130*	-2.00
Proposal-Voting	-0.058	-0.86	-0.061	-0.9	-0.084	-1.24	-0.059	-0.89	-0.078	-1.15
Sponsor-Union funds	0.319***	11.61	0.333***	11.80	0.331***	11.73	0.334***	11.93	0.334***	11.83
Sponsor-Pension funds	0.418**	6.27	0.435**	6.48	0.444**	6.65	0.431**	6.36	0.449**	6.70
Sponsor-Investment firms	0.128	1.09	0.159	1.28	0.185	1.41	0.172	1.38	0.189	1.43
Sponsor-Religious/social	0.169†	1.82	0.171†	1.79	0.177†	1.82	0.173†	1.80	0.183†	1.89
Year-06	-0.044	-1.52	-0.046	-1.59	-0.046	-1.61	-0.049†	-1.71	-0.049†	-1.71
Year-07	0.091**	3.00	0.088**	2.96	0.090**	2.98	0.085**	2.85	0.087**	2.89
Assets	-	-	0.012	1.61	0.016	1.39	0.005	0.49	0.009	0.72
Market-to-book ratio	-	-	-0.065*	-1.97	-0.054	-1.59	-0.068*	-2.02	-0.058†	-1.68
Leverage	-	-	0.048	0.66	0.048	0.65	0.053	0.73	0.054	0.73
Stock returns	-	-	-0.016	-0.31	-0.043	-0.78	-0.020	-0.36	-0.044	-0.77
Institutional shareholders' %	-	-	-	-	-0.053	-0.55	-	-	-0.051	-0.53
Insiders' stakes	-	-	-	-	-0.559**	-3.09	-	-	-0.539**	-2.89
Block-holders' stakes	-	-	-	-	-0.052	-0.46	-	-	-0.055	-0.49
No. of funds	-	-	-	-	0.000	-1.28	-	-	0.000	-1.37
Board size	-	-	-	-	-	-	0.005	0.74	0.007	0.96
Board independence	-	-	-	-	-	-	0.281†	1.68	0.128	0.74
E-Index	-	-	-	-	-	-	-0.001	-0.04	-0.009	-0.66

Note: ***, **, * and † represent probabilities less than 0.1%, between 0.1% and 1%, between 1% and 5%, and between 5% and 10%, respectively.

TABLE 2 Panel A - Summary of Shareholder Proposal Issues and Proposal Resolutions

Table 2 Panel A reports the yearly volume of shareholder proposals in accordance with the proposal issues and the final proposal solutions from 2004 through 2007. From 2004 through 2007, shareholders submitted 2,739 corporate governance related proposals, classified into eight subject groups. Within each group, they are classified into five final solution groups.

Year	2004					2005					2006					2007				
Issues	**Sub-total**	**Vote**	**With-draw**	**Omit**	**Other**	**Sub-total**	**V**	**W**	**O**	**Ot**	**Sub-Total**	**V**	**W**	**O**	**Ot**	**Sub-total**	**V**	**W**	**O**	**Ot**
Antitakeover	**177**	109	15	41	12	**152**	97	8	30	17	**174**	106	18	33	17	**153**	102	25	18	8
Voting issues	**47**	33	7	6	1	**119**	78	24	13	4	**176**	116	40	1	19	**182**	67	106	0	9
Board issues	**114**	69	11	17	17	**153**	86	20	28	19	**135**	103	12	12	8	**180**	137	14	18	11
Executive compensation	**239**	138	50	18	33	**184**	81	59	33	11	**105**	53	32	18	2	**172**	90	46	29	7
Study sale of company	**7**	3	1	1	2	**13**	7	0	2	4	**9**	5	0	3	1	**8**	5	0	0	3
Audit-related	**85**	7	68	9	1	**25**	1	17	4	3	**1**	0	0	1	0	**0**	0	0	0	0
Annual/special meeting	**3**	2	0	1	0	**0**	0	0	0	0	**1**	0	0	0	1	**4**	0	2	2	0
Others	**17**	11	4	1	1	**34**	20	1	4	9	**24**	14	0	2	8	**46**	19	8	11	8
Total	**689**	**372**	**156**	**94**	**67**	**680**	**370**	**129**	**114**	**67**	**625**	**397**	**102**	**70**	**56**	**745**	**420**	**201**	**78**	**46**

Table 2 Panel B - Normalized Withdrawn Rates by Major Proposal Issues

Table 2 Panel B reports the normalized withdrawn rate by four major issues from 2004 to 2007. For instance, the normalized withdrawal rate of antitakeover issue is calculated by dividing the total number of proposals of antitakeover issues by those that were withdrawn.

Withdrawn rate/Year	2004	2005	2006	2007
Antitakeover	8.47%	5.26%	10.34%	16.34%
Voting issues	14.89%	20.17%	22.73%	58.24%
Board issues	9.65%	13.07%	8.89%	7.78%
Executive compensation	20.92%	32.07%	30.48%	26.74%

Table 3 Panel A - Summary of Shareholder Proposal Sponsors and Proposal Resolutions

Table 3 Panel A reports the withdrawn rate by sponsors from 2004 to 2007.

	2004			2005			2006			2007		
Sponsor (%)	**Vote**	**With-draw**	**Omit**	**Vote**	**With-draw**	**Omit**	**Vote**	**With-draw**	**Omit**	**Vote**	**With-draw**	**Omit**
Individual investors	29.20	0.97	11.29	25.61	1.30	11.91	31.81	1.41	9.84	27.90	4.00	8.73
Religious/social investor	2.90	0.81	0.16	5.54	0.81	0.49	3.69	1.06	0.52	2.71	0.71	0.00
Union funds	24.04	16.45	2.74	25.29	12.89	3.42	29.35	11.25	0.88	23.32	19.17	0.29
Public pension funds	1.61	4.19	0.64	2.12	3.42	2.12	1.93	1.76	0.35	3.72	2.00	1.15
Other institutions	1.93	2.59	0.48	1.80	2.61	0.66	2.99	2.46	0.70	2.43	2.86	1.00
Total (100%)	**59.68**	**25.01**	**15.31**	**60.37**	**21.03**	**18.60**	**69.77**	**17.93**	**12.30**	**60.09**	**28.76**	**11.15**

Table 3 Panel B – Normalized Withdrawal Rate among Variant Sponsors

Table 3 Panel B reports the normalized withdrawn rate by sponsors from 2004 to 2007. For instance, the normalized withdrawal rate of union funds is calculated by dividing the total number of proposals of unions by those that were withdrawn.

Sponsors / Year	**2004**	**2005**	**2006**	**2007**
Individual investors	2.05%	2.14%	2.94%	9.21%
Religious/Socially responsible investor	20.83%	12.77%	17.65%	20.00%
Union Funds	35.38%	32.73%	28.14%	44.18%
Public Pension Funds	33.33%	27.50%	25.93%	29.55%
Other institutional investors	30.77%	32.26%	29.63%	22.22%

TABLE 4 - Summary of Withdrawn Shareholder Proposal and Proposal Resolutions

Table 4 reports the percentages of shareholder proposals that are withdrawn, omitted and voted on from 2004 to 2007. The classification is based on proposal sponsor types.

Proposal Status	Sponsor / Issues (%)	Antitakeover	Audit	Board	Executive Compensation	Sale of Company	Voting	Special Meeting	Others	Subtotal
Withdrawn	Individual	3.07	0.17	0.68	1.37	0.17	2.56	0.17	0.17	**8.36**
	Union	4.44	11.60	1.19	22.35	0	23.55	0.17	1.19	**64.49**
	Public Pension Funds	0.85	2.73	1.37	3.75	0	3.24	0	0.34	**12.28**
	Other Institutions	2.56	0	4.78	3.24	0	0.51	0	0.17	**11.26**
	Religious	0.34	0	1.71	1.19	0	0.34	0	0	**3.58**
	Subtotal	**11.26**	**14.51**	**9.73**	**31.91**	**0.17**	**30.20**	**0.34**	**1.88**	**100**
Omitted	Individual	32.49	0.84	13.73	19.05	1.68	2.52	0.56	1.96	**72.83**
	Union	0.84	2.80	4.48	4.20	0	1.12	0	0.84	**14.28**
	Public Pension Funds	0.56	0.28	1.12	1.68	0	1.68	0.28	0.28	**5.88**
	Other Institutions	0.28	0	1.40	1.12	0	0	0	2.24	**5.04**
	Religious	0	0	0.28.	1.40	0	0.28	0	0	**1.68**
	Subtotal	**34.17**	**3.92**	**21.01**	**27.45**	**1.68**	**5.60**	**0.84**	**5.32**	**100**
Voted	Individual	16.65	0	9.17	10.97	0.70	6.68	-	0.80	**44.97**
	Union	6.08	0.10	2.99	16.15	0	17.35	-	0.40	**43.07**
	Public Pension Funds	2.49	0.30	0.60	0.70	0	0.3	-	0	**4.39**
	Other Institutions	0.60	0	0.50	0.70	0.60	0.1	-	0.20	**2.69**
	Religious	0.30	0	2.59	1.89	0	0.1	-	0	**4.89**
	Subtotal	**26.12**	**0.40**	**15.85**	**30.41**	**1.30**	**24.53**	**-**	**1.40**	**100**

TABLE 5 - Withdrawn Shareholder Proposals after Voted on in the Prior Year

Table 5 summarizes the withdrawn shareholder proposals from 2004 to 2007 that are resubmitted by unions after the same proposal was voted on in the prior year. We report the numbers of the withdrawn proposals whose voting percentages fall into one of the four ranges: < 40%, from 40% to 50%, from 50% to 60%, and > 60%.

	Count of Voting in prior year				
Union Sponsors	**>60%**	**[50%, 60%]**	**[40%, 50%]**	**<40%**	**Proposal Issues**
AFL-CIO	1	-	-	-	Golden parachutes
-	1	-	-	-	Majority vote to elect director
AFSCME	-	1	-	1	Majority vote to elect director
-	1	-	-	-	Redeem or vote on poison pill
-	-	1	-	-	Repeal classified board
BellTel Retirees	-	-	-	1	Approve/disclose/limit SERPs
Bricklayers	-	1	-	-	Golden parachutes
-	1	-	-	-	Repeal classified board
IBEW	-	-	1	1	Majority vote to elect director
-	1	-	-	-	Repeal classified board
Inter. Brotherhood Teamsters	-	-	1	-	Golden parachutes
-	-	-	-	1	Majority vote to elect directors
Laborers' Inter Union of NA	-	1	-	-	Approve/disclose/limit SERPs
-	-	1	-	-	Expense stock options
-	-	1	-	-	Majority vote to elect directors
Service Employee Inter. Union	1	-	-	-	Golden parachutes
-	-	-	-	1	Majority vote shareholder committee
Sheet Metal Workers	-	3	3	2	Link pay to performance
-	-	-	-	1	Majority vote to elect directors
-	-	-	-	1	Performance/time-based restricted shares
UBCJA	-	-	-	2	Link pay to performance
-	8	9	19	3	Majority vote to elect directors

Table 6 – Two Sample Wilcoxon Rank-Sum Test for Union Sponsored Withdrawn Proposals with prior voting record vs. Others

Table 6 reports the Wilcoxon Rank Sum test results for withdrawn proposals sponsored by unions between those with the prior voting record and the rest. In our sample, we have a total of 270 withdrawn proposals sponsored by unions, among which 70 are with prior voting record.

Variables	**p value**	**z value**
Executive Compensation	***0.00***	4.981
Staggered board	***0.02***	2.276
Poison pill	0.34	0.957
Board independence	0.14	-1.483
Insider ownership	***0.00***	3.461
Block-holder Ownership	***0.04***	2.066
Herfindahl index	***0.00***	3.413
Firm size	***0.09***	-1.703
Market to book	0.93	-0.085
Stock return	0.36	0.914

Table 7 – Logistic Regression Studying Withdrawn Proposals Sponsored by Unions

Table 7 reports the logistic regression results for withdrawn proposals sponsored by unions between those with the prior voting record and the rest. In our sample, we have a total of 270 withdrawn proposals sponsored by unions, among which 70 are with prior voting record.

Variables	**Marginal Effect**	**z value**	**Marginal Effect**	**z value**	**Marginal Effect**	**z value**	**Marginal Effect**	**z value**
Exec. compensation	-0.2786***	-6.28	-0.2687***	-6.02	-0.2567***	-5.98	-0.2541***	-5.90
Market to book	0.0315	0.43	0.0071	0.09	-0.0609	-0.79	-0.0630	-0.82
Leverage	0.0147	0.10	0.0015	0.01	0.0796	0.55	0.0716	0.50
Firm size	0.0363***	2.62	0.0289**	2.03	-0.0107	-0.56	-0.0091	-0.48
Stock return	-0.0959	-0.84	-0.1146	-0.97	-0.1324	-1.10	-0.1568	-1.34
Staggered board			-0.0878*	-1.71			-0.0812*	-1.68
Poison pill			-0.0038	-0.07			0.0245	0.45
Board independence			0.8177**	1.98			0.4294	1.08
Insider ownership					-1.1319**	-2.26	-1.0894**	-2.49
Blockholder %					-0.3908*	-1.70	-0.3900*	-1.65
Herfindahl index					-0.0550*	-1.88	-0.0425	-1.47
Sample size	279		279		279		279	
Wald chi square	26.36		35.32		24.67		31.28	

Note: ***, ** and * represent probabilities less than 1%, between 1% and 5%, and between 5% and 10%, respectively.

Table 8 – Logistic Regression Studying Settled Withdrawn Proposals by Unions

Table 8 reports the logistic regression results for union sponsored proposals with prior voting record between those that are withdrawn vs. voted. In our sample, we have a total of 148 such proposals, among which 70 are withdrawn.

	Model 1		Model 2		Model 3		Model 4	
Variables	**Marginal Effect**	**z value**	**Marginal Effect**	**z value**	**Marginal Effect**	**z value**	**Marginal Effect**	**z value**
Prior vote rate	1.4593***	3.56	1.4126***	3.47				
Prior Majority Vote Dummy					0.3689***	3.83	0.3524***	3.69
Stagger Board	-0.1834*	-1.72	-0.1523	-1.49	-0.2195**	-2.07	-0.1845*	-1.82
Board Independence	0.3049	0.36	0.4333	0.52	0.2883	0.35	0.4052	0.5
Insider Ownership	-0.2733	-0.53	0.0231	0.06	-0.2332	-0.46	0.0748	0.18
Stock Return	-0.2508	-1.32	-0.2577	-1.38	-0.1647	-0.86	-0.1753	-0.94
ROA	-0.2353	-0.31	-0.3453	-0.48	-0.7552	-0.99	-0.8167	-1.12
Herfindahl index (log)	0.1052**	1.97	0.0996*	1.94	0.0899*	1.72	0.0874*	1.71
Total Asset	0.0000	0.97	0.0000	0.74	0.0000	0.64	0.0000	0.42
Proposal_vote	-0.2580	-1.25			-0.2721	-1.38		
Proposal_antitakeover	-0.0502	-0.21			-0.0699	-0.3		
Proposal_exec_compensation	-0.1742	-0.82			-0.1867	-0.92		
Number of obs	123		123		123		123	
LR chi2	27.42		24.41		24.79		21.71	
Prob>chi2	0.004		0.002		0.0098		0.0055	
Log likelihood	-71.2165		-72.7212		-72.5308		-74.0742	
Pseudo R2	0.1614		0.1437		0.146		0.1278	

Note: ***, ** and * represent probabilities less than 1%, between 1% and 5%, and between 5% and 10%, respectively.

Appendix – High Approval Rate Proposals versus Low Approval Rate Proposals

We perform a two sample Wilcoxon Rank-Sum test to compare the differences between the high approval rate proposals and the low approval rate proposals among all 70 withdrawn proposals with a prior voting record. The cutoff point between high and low approval rates is 50%. The results are reported in the following table.

Table – Two Sample Wilcoxon Rank-Sum Test

Variables	**p value**	**z value**
Executive Compensation	*0.95*	0.069
Staggered board	*0.51*	0.654
Poison pill	0.87	0.170
Board independence	0.27	-1.105
Insider ownership	*0.75*	0.323
Block-holder Ownership	*0.77*	-0.293
Herfindahl index	*0.10*	-1.611
Firm size	*0.54*	0.606
Market to book	0.23	1.190
Stock return	0.74	0.335

The results in the above table show that there are no significant differences between the two groups.