



# Consequences to Directors of Shareholder Activism

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## Consequences to Directors of Shareholder Activism

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### Abstract

We examine how shareholder activist campaigns affect the careers of directors of the targeted firms. Using a comprehensive sample of shareholder activism between 2004 and 2011, we find that directors are almost twice as likely to leave over a two-year period if the firm is the subject of a shareholder activist campaign. While it has been argued that proxy contests are an ineffective mechanism for replacing directors, as they rarely succeed in getting a majority of shareholder support, our results suggest that director turnover takes place following shareholder activism even without shareholder activists engaging in, let alone winning, proxy contests. Performance-sensitivity of director turnover is also higher in the presence of shareholder activism. We also find that director election results matter for director retention: directors are more likely to leave in the year following activism when they receive lower shareholder support. Contrary to consequences on the targeted firm's board, we find no evidence that directors lose seats on other boards, a proxy for reputational consequences, as a result of shareholder activism.

*JEL Classification:* G30; G34; J33; K22; M41.

**Keywords:** Shareholder activism; hedge funds; Independent directors; Director reputation; Accountability; Shareholder voting

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## **Consequences to Directors of Shareholder Activism**

### **1. Introduction**

We examine career consequences for directors when firms are subject to activist shareholder interventions. Activism by hedge fund and other investors to improve governance and performance of companies has become a significant phenomenon in recent years. Many recent papers (e.g., Brav et al., 2008; Bebchuk et al., 2013) examine the performance consequences of such activism with a focus on identifying whether and how hedge fund activism improves firm performance. Our focus is on the consequences for the board of directors, a group that occupies a central place in corporate governance and in interactions with shareholders involved in activism.

We examine a number of different consequences for directors. First, we examine director turnover at the firm subject to activism. Next, we examine whether activism is associated with reduced voting support in director elections. We then study the relation between voting and subsequent departure of directors at targeted firms. Finally, we examine changes in the number of board positions held by directors at other public firms as a proxy for reputational effects of shareholder activism.

Our sample of 1,868 activism events comprises all publicly disclosed shareholder activism from 2004 to 2012 conducted by hedge funds or other major shareholders (those that own greater than five percent of shares and file a Form 13D with the Securities and Exchange Commission). Using this sample, we find that directors exit the board at a higher rate when their firms are targeted by activists: 20.8 percent of directors are no longer on the board of targeted firms at the end of the year after the activism is initiated compared to 13.8 percent for non-targeted firms. Unsurprisingly, directors targeted by activists in proxy fights are significantly more likely to leave the board after the activism event. Less expected, we find that directors not

specifically targeted by dissident shareholders are also likely to leave the board, as are directors at firms targeted by activism with no board-related demands, let alone a formal proxy fight. All these results hold after controlling for firm performance and other factors driving director turnover and activism. The increased departure rate exists for both inside and independent directors. Shareholder activism also improves sensitivity of director turnover to poor firm performance for both board related and non-board related activism. This evidence is consistent with greater director accountability for firm performance in the presence of shareholder activism, even when such activism does not involve a proxy contest.

We find that shareholders penalize directors with lower support in director elections both in the year of, and the year following, the activism event. We find that directors receive 10.3 percent negative vote in the year of activism and 9.8 percent in the year after activism compared with less than 6 percent for non-targeted firms. While an increase in negative votes is perhaps expected when there is an activism event, it is noteworthy that the negative sentiment remains after the event is completed and the director stays on the board. The negative vote for non-board related activism, board-related activism, and proxy fights is 8.6%, 13.2%, and 12.2% respectively in the year of activism. All these three categories exhibit higher levels of negative vote even after the activism ends (9.8%, compared to 5.9% negative vote for non-targeted firms).

While the persistent negative vote is interesting in itself, we also find evidence consistent with the shareholder vote affecting director turnover. Directors that receive a greater negative vote percentage in the year of shareholder activism are less likely to remain on the board in the year after activism. For inside directors, the inclusion of negative votes subsumes the effect of activism, suggesting that voting is an important mechanism through which activism operates. This finding provides some relief to skeptics who worry that lack of shareholder support does not

affect director turnover: Directors seem to heed the message in the negative vote and resign their positions even though it is unclear what forces them to do so.

Directorships at other firms seem to be unaffected by activism. Prior research has considered directorships as an indication of director prestige (Fich and Shivdasani, 2007; Yermack, 2004), suggesting that if being targeted by activists were viewed as an indication of poor director performance, directors would lose seats on other boards. However, neither proxy fights nor other forms of shareholder activism have any apparent impact on the number of other directorships in the year after the activism event. Even directly targeted directors experience no loss in directorships and this apparent non-effect holds for both inside and independent directors.

Our paper contributes to the literature by showing that shareholder activism is associated with career costs for directors. We find evidence consistent with shareholder interventions in companies resulting in career consequences for directors even when the activism is not directed explicitly at board representation. Cai et al. (2009) argue that negative votes against directors are ineffective in removing directors from their positions. Prior research argues that proxy contests are not an effective mechanism for disciplining boards as they rarely succeed in getting a majority of shareholder support (Bebchuk, 2007). Our results suggest director turnover occurs even without activists engaging in, let alone winning proxy contests, and that shareholder activism is a mechanism to improve director turnover-performance sensitivity.

Our paper also adds to the body of research that examines labor market consequences of director performance. Empirical research has provided evidence consistent with the Fama and Jensen (1983) conjecture that the market for directorships rewards or penalizes director performance (e.g., Srinivasan, 2005; Fich and Shivdasani, 2007). We find no evidence of an impact of activism on director reputation as reflected in directorships on other boards.

While all the above results are robust to a variety of control variables, there are some caveats we should point out. First, it is difficult to draw unequivocally causal inferences from our results because activists do not select target firms at random. It is possible that activists target those firms possessing unobserved characteristics associated with director turnover. To partially address this concern, we conduct a within-firm analysis of directors on staggered boards (see Table 8) where a causal inference seems more appropriate and find results that are consistent with our main analyses. Second, even if the causal explanation is valid, it is difficult to discern from public data the precise mechanism through which activism causes director turnover. A director who leaves the board in response to activist demands for his or her departure is difficult to distinguish empirically from one who leaves the board because the activism imposes additional personal costs on directors. But, note that whether the departure is voluntary or not, our evidence is consistent with turnover being a (significant) consequence of activism. Third, our paper does not speak to the optimality of activist-driven director turnover. While prior research has found evidence consistent with increased performance-sensitivity increasing firm value (Weisbach, 1988), we do not suggest that our evidence implies that turnover following activism is optimal. Overall, whether departure is voluntary, optimal, or otherwise, our evidence does suggest that activism is associated with career consequences for directors.

The rest of the paper proceeds as follows. Section 2 describes features of shareholder activism campaigns and the prior literature. Section 3 describes our data and descriptive statistics. Section 4 presents results of effect on directors in targeted companies. Section 5 examines voting results. Section 6 examines reputational impact on other boards. Section 7 examines consequences to directors targeted individually by activists and Section 8 provides additional analyses. Section 9 concludes.

## 2. Prior research and institutional setting

### 2.1. Director turnover

Prior papers provide evidence that directors lose their positions when firms experience financial crises or financial misconduct. For instance, greater director turnover is observed in firms subject to securities litigation (Romano, 1991; Brochet and Srinivasan, 2013), firms in financial distress (Gilson, 1990), companies that report accounting restatements (Srinivasan, 2005), and firms that backdated options (Ertimur et al. 2012).<sup>1</sup> Overall, the evidence points to higher board turnover after poor performance, consistent with directors being held accountable for monitoring failures. While prior papers examine board turnover, they do not explore the mechanism that brings this about. We identify shareholder activism as one such mechanism and seek to understand the effect of different kinds of direct shareholder action on director turnover.

While we focus on director turnover at firms targeted by activist shareholders, we also examine director reputational consequences by looking at the effect of shareholder activism on directorships at other firms. Our paper is therefore related to the literature on director reputation, which shows that directors incur labor market penalties when they are perceived as weak monitors (Srinivasan, 2005; Fich and Shivdasani, 2007).

### 2.2. Effect of shareholder votes and institutional shareholder activism

Prior research has found that shareholders use voting in director elections as a way to communicate dissatisfaction with performance. Cai, Garner, and Walking (2009) find that directors receive fewer votes after a securities lawsuit and when the director serves on the board

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<sup>1</sup> In contrast with these papers, other papers find that director turnover is unchanged after fraud (Agarwal, Jaffe, and Karpoff, 1999) and after litigation (Fich and Shivdasani, 2007).



of another firm that faces a shareholder lawsuit. Ertimur, Ferri, and Maber (2012) find that compensation committee members of option backdating firms receive fewer votes than other directors in these firms.<sup>2</sup>

Grundfest (1993) suggests that directors value their reputation as monitors and therefore respond to negative shareholder votes even when such votes are not binding. Consistent with this, prior literature provides evidence consistent with shareholder voting having some efficacy in bringing about changes in corporate policy. Del Guercio, Seery, and Woitke (2008) provide evidence that firms respond to “vote no” campaigns by activist institutional investors by improving operating performance, increasing CEO turnover-performance sensitivity, and making governance changes. Ertimur et al. (2010) find that CEOs who receive excess pay and are targeted by “vote no” campaigns subsequently receive lower compensation.

While prior research suggests directors heed the message conveyed by these campaigns, it is not clear that directors are more likely to leave the board in the face of weak shareholder support. Under a plurality-voting system, a director is elected even if minority of investors vote in his or her favor since shareholders can only withhold votes (they cannot vote against a director). Consistent with such voting being ineffective, Cai et al. (2009) find no relationship between the percent of withheld votes and subsequent director turnover. In contrast, Fischer et al. (2009) find that board-level shareholder approval is negatively associated with board-level turnover, albeit using a much smaller sample. While under a majority-voting regime a director is not elected unless a majority of votes are cast in their favor, Ertimur et al. (2013) find that votes withheld are not related to director turnover even under that regime. Even when directors fail to win a majority vote, which is itself a rare occurrence, turnover is infrequent and is not related to

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<sup>2</sup> Yermack (2010) contains a comprehensive review of the larger shareholder voting literature.

the voting outcome, regardless of the election standard. We add to this literature by examining how shareholder activism and shareholder voting coexist in affecting director turnover and, by providing evidence that shareholder voting has a significant effect on board turnover. Our results can help explain why directors are responsive to shareholder concerns expressed by votes in director elections.

### *2.3. Director elections and proxy fights*

The apparent ineffectiveness of uncontested elections has led to the concern that the only way for shareholders to remove underperforming directors is to initiate a proxy solicitation campaign in a contested election. Contested elections are contests between the incumbent set of directors put forward by the company and a dissident slate nominated by an outside investor. Dodd and Warner (1983) provide early evidence consistent with proxy fights being value-creating for shareholders. They find a statistically significant positive share price effect associated with a proxy contest regardless of whether the contest was successful or not. However, a number of studies find limits to the effectiveness of proxy contests. While Mulherin and Poulsen (1998) find evidence “that proxy contests create value,” using a sample of 270 proxy contests covering 1979–1994, but they also find that “the bulk of the wealth gains stemming from firms that are acquired.” Pound (1988) identifies cost and management incumbency as impediments to successful proxy fights. More recently, Bebchuk (2007) claims that shareholders’ power to replace the board is largely a “myth,” due to free-rider issues associated with investing in costly proxy contests. We contribute to this debate by providing evidence consistent with director being held accountable for firm performance in the presence of shareholder activism, even when such activism does not involve a proxy contest.

#### *2.4. Hedge fund and other institutional activism*

The phenomenon of shareholder activism that we examine is driven in large part by activist hedge funds over the last decade. Brav, Jiang, and Kim (2010) identify structural benefits enjoyed by hedge funds—such as fewer regulations and better incentives—that have allowed such funds to be more active in pursuing governance changes in companies than mutual fund or pension managers.

While hedge fund activism is a recent phenomenon, a body of prior research has examined the effect of shareholder activism by pension and labor union funds. Early research focused on the activities of pension plans, such as CalPERS (Smith, 1996) and TIAA-CREF (Carleton, Nelson, and Weisbach, 1998). While pension plans have typically focused on governance changes generally proposed as part of 14a-8 shareholder proposals, hedge funds often seek to make more wide-ranging changes to the firms they target (see Appendix B for examples). One conclusion from research on pension plan activism is that activist shareholders and firms often reach agreement without a formal 14a-8 proposal being voted upon – for instance Carleton, Nelson, and Weisbach (1998) find that TIAA-CREF is able to reach agreements with targeted companies 95 percent of the time and in over 70 percent of cases without a shareholder vote on the proposal. In the UK, Becht et al. (2008) study a mutual fund (Hermes) and find that this fund acts “predominantly through private interventions.” This is consistent with our finding that activism is associated with board turnover, even when there is no formal proxy fight.

Our paper is similar in some respects to Fos and Tsoutsoura (2013), which also examines the effect of activism on director turnover and other directorships. Our paper differs in a number of respects. First, while Fos and Tsoutsoura (2013), focuses exclusively on proxy contests, we examine other forms of shareholder activism and find that these are also associated with director

turnover. Additionally, Fos and Tsoutsoura (2013) do not examine voting outcomes, and their analysis of director turnover focuses on targeted firms *without* non-targeted control firms as a baseline. Finally, Fos and Tsoutsoura (2013) find that other directorships decline for directors targeted in proxy fights relative to their non-targeted colleagues on the same boards, while we do not find evidence of this effect in our sample.

Prior research suggests that hedge fund activists typically target smaller firms, value-oriented firms (low market-to-book), and firms with sound operating cash flows but low sales growth, leverage and dividend payouts (Brav et al., 2010). This evidence motivates us to introduce firm-level covariates to control for factors causing firms to be targeted by activist investors.

### **3. Data and sample description**

Our analysis uses data on directors, firms, and activism events. Each of these is described in turn.

#### *3.1. Directorship data*

Our sample consists of all directorships held in firms in the Equilar database for fiscal years ending between January 1, 2004 and December 31, 2011. The data in Equilar comprises directors of every company that files both an annual report and an annual proxy statement (forms 10-K and DEF 14A, respectively) with the SEC. This database provides us with names and other director characteristics. Drawing on data from both Equilar and BoardEx, we construct an identifier for each director that allows us to track directors across firms and over time.

#### *3.2. Firm-level data*

Most firm-level financial data come from Compustat and CRSP. Our source for data on voting is ISS Voting Analytics, which provides data about matters voted on at shareholder

meetings between 2001 and 2012 for a sample that roughly corresponds to the Russell 3000 index. We also use I/B/E/S for analyst coverage and data from WhaleWisdom, which provides comprehensive coverage of 13F and 13F/A filings, for institutional ownership.

### 3.3. *Activism events*

Our data on activism comes from FactSet's SharkWatch database, which contains information on shareholder activism events, primarily in the United States. From SharkWatch, we collect information on all publicly disclosed activism events that commenced in the period 2004–2012, where the event is not corporate control contests initiated by another corporation and the targeted firm is incorporated in the United States and is not an investment trust or mutual fund. This provides us with 2,560 activism events, which are primarily conducted by hedge fund activists or other major shareholders (i.e., 13D filers). Note that this does not include activism that consists only of routine shareholder proposals submitted under Rule 14a-8.

We supplement this sample by collecting all PREC14A and DEFC14A filings made with the Securities and Exchange Commission (SEC) between January 1, 2004 and December 31, 2012. Shareholders are required to file these two forms, PREC14A—a preliminary proxy statement followed by DEFC14A—a definitive proxy statement, when initiating a proxy contest. This allows us to identify 554 activism events, of which 469 are in our SharkWatch sample and 85 are additional observations. Thus, between these two sources, we have 2,645 activism events. We match the target companies in these events to companies in the Equilar database which is our source for director data and find 1,868 matches.

We classify these 1,868 activism (*Targeted Firm*) events into three mutually exclusive subcategories: *Targeted Firm – Non-Board*, *Targeted Board – Non-Proxy*, and *Targeted Board – Proxy*. All activism events not related to a demand for board representation are classified as

*Targeted Firm – Non-Board*. We classify as *Targeted Board – Non-Proxy* all events identified by SharkWatch as relating to “Board Representation,” “Board Control,” “Remove Directors(s),” or “Withhold Vote for Director(s),” but which do not result in a formal declaration of a contested director election (proxy fight). We classify as *Targeted Board – Proxy* as activism events that resulted in a declared proxy fight. This is measured as both (i) activism events involving filings on forms DEF14A and PRE14A and (ii) cases where the dissident publicly disclosed that it delivered formal notice to the company that it intends to solicit proxies from stockholders. Appendix A provides definitions of all variables used in the analysis. Appendix B provides examples of activism events in each of the above categories.

Of the total sample, 832 events are board-related (555 as *Targeted Board – Proxy* and 277 *Targeted Board – Non-Proxy*) and the remaining 1,036 relate to other campaigns by shareholders. Table 1 Panel A provides a distribution of the sample by year and by category. We observe no particular time series patterns in the nine years of data for any of the subgroups except for a slightly higher rate in the years 2007 and 2008 in the overall rate of activism. There are no specific patterns in the activism sub categories. Nevertheless, we include year fixed effects in all our multivariate tests to account for any year specific effects. Several of our analyses use director-firm-years as the units of observation and Table 1 Panel B provides the number of such observations by year and category of activism.

Table 1 Panel C provides univariate statistics on director turnover on the board for the five years after shareholder activism. As a benchmark, in the measurement window that we use for our multivariate tests (two-year window from  $t$  to  $t + 2$ ), we observe a director turnover rate of 13.8 percent for firms that are not targeted for any form of activism (*Non-Targeted Firm*) that remain in our sample for that period. The comparable turnover rate for companies targeted for

shareholder activism (*Targeted Firm*) is significantly higher at 20.8 percent in the two-year period that includes the initiation of the activism and the year following it. For non-proxy fight, board-related activism (*Targeted Board – Non-Proxy*), 26.3 percent of directors leave in two years. Proxy fights (*Targeted Board – Proxy*) also lead to greater director turnover with a 24.1 percent departure rate. We explore these univariate results further in our multivariate regressions of director departure in the next section.

Table 1 Panel D presents univariate statistics for voting support in director elections for the year prior to activism ( $t$ ) to the year after initiation of activism ( $t + 2$ ). *Against Votes* represents the percentage of votes from director election voted “against” each director, calculated for uncontested elections as (voted against + voted withheld) divided by (voted for + voted against + voted withheld). For contested elections, the calculation is similar, but votes for one director are treated as votes against the rival director. *ISS Against* represents an unfavorable voting recommendation for each individual director nominee by Institutional Shareholder Services (ISS), a leading proxy advisory firm. The average director in a firm not targeted for activism (*Non-Targeted Firm*) receives 5.7 percent negative votes from shareholders and an unfavorable ISS recommendation in 10.9 percent of cases. Levels of negative votes and recommendations are higher for targeted companies. The average level of negative votes for directors of targeted firms (*Targeted Firm*) is 10.3 percent in the year of activism and 9.8 percent in the year after activism suggesting a continued negative sentiment against directors. The negative votes are 13.2 percent and 11.1 percent in years  $t + 1$  and  $t + 2$ , respectively, for non-proxy, board-related activism (*Targeted Board – Non-Proxy*) and 12.2 percent and 11.2 percent for proxy fight events (*Targeted Board – Proxy*). The lingering negative effect against directors of targeted firms is explored in our multivariate regression analysis.

In Table 1 Panel E, we provide univariate statistics for other directorships of our sample directors. The average director in a non-targeted firm has 0.609 directorships in other firms. This number reduces over next five years to 0.561. Other directorships of directors in targeted firms display a somewhat similar decline over time and this pattern is repeated in each category of targeted firms. While the univariate statistics do not suggest a pattern of differential impact between targeted and non-targeted firms, we explore the impact of activism on other directorships in a multivariate regression framework.<sup>3</sup>

#### 4. Director turnover in targeted companies

In this section, we discuss our analyses of the relationship of shareholder activism and director turnover.

##### 4.1. Shareholder activism and director turnover

We first examine how shareholder activism affects director turnover in target companies estimating the following specification for all director-firm-years in our sample.

$$Departure_{(t, t+2)} = F(\textit{Targeted Firm} - \textit{Non-Board}, \textit{Targeted Board} - \textit{Non-Proxy}, \textit{Targeted Board} - \textit{Proxy}, \textit{firm controls}, \textit{director controls}, \textit{year fixed effects}), \quad (1)$$

where the dependent variable,  $Departure_{(t, t+2)}$ , takes the value 1 if a director of the firm in year  $t$  is no longer on the board in year  $t + 2$ . *Targeted Firm – Non-Board* takes the value 1 for all directors of a firm that is the target of a non-board related activism event in year  $t + 1$ . We classify activism events in which the activist seeks either the removal of existing directors or appointment of new ones into two groups—those that result in a declared proxy fight (*Targeted Board – Proxy*) and those that do not, due to settlement with the activist or the activist dropping

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<sup>3</sup> Additional descriptive statistics on various firm- and director-level control variables are provided in the Internet Appendix.



its demands (*Targeted Board – Non-Proxy*). Declared proxy fights do not necessarily result in contested elections—the company and dissident might settle before going to a vote even after a proxy fight is initiated. The benchmark group is director-firm-years in the Equilar database related to firm-years not targeted by activists.

We also include firm, director, and activism characteristics as controls. Poor firm performance has been shown to be an important cause of director turnover (Gilson, 1990; Yermack, 2004). Brav et al. (2008) identify several firm characteristics that distinguish activism targets from other firms. We include these variables in the regression model so as to control for firm characteristics associated with activism. Firm-level controls include firm performance (*Size-Adj. Return, ROA, Sales Growth*), log of market capitalization for firm size (*Market Value*), book-to-market ratio (*Book-to-Market*), leverage (*Leverage*), dividend payout ratio (*Dividend*), the number of analysts covering the firm (*Analyst*) and percent of shares held by institutional investors (*Institution*).

Director characteristics include director age (*Age*), director tenure (*Tenure*), and director shareholding (*Percent Owned*). We expect age and tenure to be positively associated with director turnover. We identify directors that are on the audit (*Audit Committee*) and compensation committees (*Compensation Committee*) as these directors are more likely to play a prominent role on the board (Yermack, 2004). We include year fixed effects to control for unobserved time-related effects. All standard errors are clustered at the firm level.<sup>4</sup>

We examine director departure over a two-year period including the activism event. This allows us to examine up to two nomination cycles for companies with unitary boards. While directors in companies with staggered boards typically serve three-year terms and are not up for

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<sup>4</sup> Clustering by both firm and director does not change our inferences.

nomination within two years, this does not prevent these directors from leaving boards before their tenure is up. Ertimur, Ferri, and Maber (2012) also use a two-year measurement window, arguing that the effect of a shareholder campaign dissipates over time and longer time windows increase the likelihood of unrelated events affecting director turnover.

Table 2 presents the results of an OLS regression of Equation 1. We tabulate an OLS regression for ease of interpretation of coefficients. (All inferences are identical when we conduct a logit regression - see Table IA2 of the Internet Appendix).<sup>5</sup> Table 2 Panel A presents results for all directors—-independent, inside, and related or “grey” directors. Column 1 of Panel A presents results for all firms, including firms that disappear from Equilar because they were acquired or delisted (goes private, bankrupt, etc.). In this analysis, directors can lose their positions either by leaving the board or by the firm ceasing to be a public company. Column 1 results suggest that directors in firms targeted by activist shareholders are more likely to lose their board seats in the two-year period immediately following the activism—the coefficient on *Targeted Firm* is positive and significant (coefficient = 18.27, p-value <0.01).

Columns 2 and 3 of Panel A include only firms that continue to exist in year  $t + 2$ ; in this way, the analysis focuses on the likelihood of directors leaving boards of firms that continue to exist as public firms. The effect of being a director of a targeted company continues to remain positive and significant (coefficient on *Targeted Firm* = 12.13, p-value <0.01). A coefficient lower in magnitude than that reported in Column 1 is expected, as prior research (Greenwood and Schor, 2009) has shown that a consequence of activism is increased probability of takeover and this is clearly one way in which board turnover can occur. However, the results in Column 2

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<sup>5</sup> We use the linear probability models in the paper because, while these models also provide consistent estimates when logit regressions do, they are easier to interpret.

suggest that directors face significantly increased likelihood of turnover even when the company continues to exist. The OLS coefficient estimate implies an increase of 12.13 percentage points in the likelihood that a director will leave the board when the firm is targeted, which is a 88% increase over the 13.8 percent rate for non-targeted firms reported in Panel C of Table 1. The signs of the coefficients on control variables are as expected; e.g., directors are less likely to leave in better-performing firms (both ROA and stock returns) and in larger firms. Directors on the compensation or audit committees are less likely to leave the board. Older directors are more likely to turnover.

Column 3 presents results using the finer classification of activism events. We find not only that directors from targeted firms are more likely to leave their company, but directors are also incrementally more likely to leave if their company is targeted by activists seeking board representation or the removal of directors: the coefficients on *Targeted Firm – Non-Board*, *Targeted Board – Non-Proxy*, and *Targeted Board – Proxy* are all positive and significant and the coefficients are progressively higher (coefficients of 8.49, 14.33 and 16.92, respectively, with p-values < 0.01 in each case). However, surprisingly the coefficients on *Targeted Board – Non-Proxy* and *Targeted Board – Proxy* are not statistically distinguishable from each other (F-stat of 1.088, p-value = 0.297), suggesting that directors on boards targeted by activism resulting in a formal proxy fight have no greater likelihood of leaving than directors in firms with board-related activism that does not reach that level. In short, these results show that directors in firms targeted by shareholder for activism campaigns face increased likelihood of leaving the board of targeted firms, even when the activism is not explicitly directed at board-representation or when the activism does not result in a proxy fight.

In untabulated analysis, we include an indicator variable *SharkWatch50*, which identifies activism by the top 50 hedge fund activists (classified as *SharkWatch50* by Factset based on publicly disclosed campaigns waged and size of the targeted companies). This set includes noted activist hedge funds such as Pershing Square, Relational Investors, Third Point, and Icahn Enterprises. Overall, 688 of the 1,868 events include the top 50 hedge funds as part of the dissident group. We use this classification to examine if outcomes are different when the activism is directed by these prominent activists. While we might expect that activism by more prominent investors would result in higher levels of turnover due to these investors being taken more seriously, we do not find evidence supporting this in our analysis; in fact the coefficient on *SharkWatch50* is negative and equal to -5.54 (p-value < 0.01) suggesting that turnover is less likely in these cases. We also interacted *SharkWatch50* with the activism classification variables, but found no statistically significant effects.

In columns 4 and 5, we divide  $Departure_{(t, t+2)}$  into  $Departure_{(t, t+1)}$  and  $Departure_{(t+1, t+2)}$ , separately looking at directors who leave in year  $t + 1$  (Column 4) and year  $t + 2$  (Column 5), respectively. We do this to identify to what extent directors leave before the first election ( $t$  to  $t+1$ ) when activism is announced and the extent to which directors leave after the first election ( $t+1$  to  $t+2$ ). Note that the coefficient on the activism variables in Column 3 will be the sum of the coefficients on the same variable in columns 4 and 5. The significant and positive coefficients on all activism classifications suggest directors involved in activism events leave in the year of, as well as in the year after, activism.

The results in columns 4 and 5 highlight that much director turnover occurs before the annual meeting in the year of the activism event—i.e., in the period  $(t, t+1)$ —especially when the activism does not involve a proxy fight. The positive and significant coefficient in Column 4

$(Departure_{(t, t+1)})$  for *Targeted Board – Non-Proxy* is consistent with board seats being granted to dissidents as part of settlement negotiation with the activist investors thereby preventing a proxy fight; in such cases, some incumbent directors would step down as part of the settlement. Turnover in the period  $(t+1, t+2)$  is therefore lower for *Targeted Board – Non-Proxy* than in the period  $(t, t+1)$ . Some proxy fights represent cases where the firm and the activist did not reach a settlement and the activist escalated to a formal proxy fight. While turnover is greater in the period  $(t+1, t+2)$  for proxy fights, there is some increased turnover in the period  $(t, t+1)$  as well consistent with directors yielding board seats prior to a vote when confronted with a potential proxy fight. Separating director turnover into two periods shows that a significant amount of turnover occurs concurrent with activism likely as a conflict avoidance mechanism.

In Panel B of Table 2 we separate the sample into independent directors and inside directors to examine possibly differential effects of activism on the two groups. Columns 1 through 3 present coefficient estimates for the sample of independent directors and Columns 4 through 6 for inside directors (“grey” or affiliated directors are dropped from the sample). In general the results are very similar to those reported in Panel A of Table 2, so we focus on the differences. While the estimated impact of being targeted is greater for inside directors (coefficient on *Targeted Firm* = 14.32, p-value < 0.01) than for independent directors (coefficient = 11.84, p-value < 0.01), the difference is not statistically significant (p-value = 0.16). The coefficients between insider directors and independent directors are not different in a statistically significant way when we examine the activism types as well.

#### 4.2. *Shareholder activism and performance sensitivity of director turnover*

We next examine if activism increases the sensitivity of director turnover to poor firm performance. Prior literature (e.g., Weisbach, 1988) suggests that increased turnover-

performance sensitivity can be viewed as a positive governance effect. In Panel A of Table 3, we examine the effect of activism on the performance sensitivity of director turnover. We find that performance sensitivity is significantly increased by shareholder activism: the coefficients on *Size-Adj. Return* interacted with *Targeted Firm – Non-Board*, *Targeted Board – Non-Proxy*, and *Targeted Board – Proxy* are all negative and significant.<sup>6</sup> Independent directors are 7.31%, 12.90% and 8.59% more likely to leave the board for one percentage point size-adjusted lower return for *Targeted Firm – Non-board*, *Targeted Board – Non-Proxy* and *Targeted Board – Proxy*, respectively. Similar effects are observed for independent directors, but only for *Targeted Board – Non-Proxy* do we find a significant interaction effect for inside directors. This suggests that shareholder activism is a mechanism for enhancing board accountability for poor performance, at least for independent directors

#### 4.3. Settlements with activists and director turnover

In Panel B of Table 3, we examine the effect of settlements with activists on director turnover. We define settlements as cases where board seats were granted, but the activism did not proceed to a contested election (i.e., a proxy fight). We distinguish between activism events with and without formal proxy filings. In the former category of events, we find differences in coefficients between settled (*Non-Proxy – Settled*) and non-settled (*Non-Proxy – Not Settled*) cases ( $12.50 = 19.54 - 7.04$ ,  $p\text{-value} < 0.01$ ). For cases with formal proxy filings, we distinguish cases that were not settled (*Proxy – Not Settled*), from cases that were settled before the shareholder meeting (*Proxy – Not Settled*) and cases that went to election (*Proxy – Went to Election*). The difference in the coefficient estimates for the first two cases is positive and

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<sup>6</sup> Note that the effects are generally not significant when the sample includes firms that are delisted. This presumably reflects the fact that directors' loss of such board seats is a function of acquisitions, etc., rather than of performance.

significant as well ( $Proxy - Settled$  less  $Proxy - Not Settled = 20.12 - 14.32 = 5.80$ ,  $p\text{-value} = 0.067$ ), suggesting that settlement with activists is positively associated with turnover of directors. However, there is no significant difference between  $Proxy - Settled$  and  $Proxy - Went to Election$  ( $17.09 - 20.12 = -3.03$ ,  $p\text{-value} = 0.413$ ). Overall, these coefficients are consistent with boards deciding to settle in cases where they are less likely to prevail in a proxy fight and with contested elections in proxy fights being just the tip of the iceberg in terms of driving director turnover.

## 5. Voting in director elections

In this section we discuss how shareholder activism affects voting in director elections. We also assess the effect of voting on director turnover to relate the voting results to the findings in the previous section.

### 5.1. Determinants of shareholder support

Shareholders can express displeasure with directors by withholding votes or, if applicable, by voting for an alternative candidate. We examine the effect on activism campaign on director election using the following model.

$$\begin{aligned} \textit{Against Votes \%} = F(\textit{Targeted Firm - Non-Board, Targeted Board - Non-Proxy,} \\ \textit{Targeted Board - Proxy, firm controls,} \\ \textit{director characteristics, activism characteristics, year fixed effects}) \end{aligned} \quad (2)$$

The dependent variable is the extent of negative voting received by the director (*Against Votes*). Firm-level controls include size-adjusted return, return on assets, sales growth, market value, book-to-market ratio, leverage, dividend payout ratio, the number of analysts, and institutional ownership percentage. Director-level controls include director age, director tenure, director shareholding, and audit and compensation committee position. We include voting

recommendations by ISS (*ISS Against<sub>t+1</sub>*), since ISS vote recommendation has been shown to have a significant influence on director elections (Cai et al., 2009).<sup>7</sup>

In our first analysis we examine shareholder votes in the year of the activism campaign. Columns 1 to 3 of Table 4 present results when the dependent variable is *Against Votes<sub>t+1</sub>*, the percentage of votes against the director in elections in the year of the shareholder activism. Column 1 presents results when the sample includes all directors and columns 2 and 3 present results for independent and inside directors, respectively. As expected, directors in targeted firms receive more negative votes than directors of firms that are not targeted. There is an incremental effect when the activism is board-related, for both non-proxy fights and proxy fights. Overall, the extent of negative votes for a director in targeted firms is between 1.92 and 5.13 percentage points greater than for a director in a non-targeted firm. This is a significant increase over the mean negative vote for directors of non-targeted firms of about 5.7 percent (see Table 1 Panel D). These effects exist after controlling for unfavorable ISS recommendation (*ISS Against<sub>t+1</sub>*) and votes against the director in the previous year (*Against Votes<sub>t</sub>*).

While the results above are largely expected, the results in columns 4 to 6, which examine voting support in the year after the activism (t+2), reveal longer-term effects of activism. The goal of this analysis is to assess the extent of support for directors who survive the activism event, which we require to be completed prior to the votes used in this analysis. Results suggest that negative shareholder sentiment lingers even after the end of the activism period. Column 4 results show that directors with non-board-related activism receive a 1.00 percentage-point reduction in shareholder support. The impact increases for more serious types of activism—those involving the board both with and without proxy fights. Board-related activism

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<sup>7</sup> Inferences are unaffected when *ISS Against<sub>t+1</sub>* is omitted.



not involving a proxy fight leads to an additional 2.86 (3.86 – 1.00, p-value < 0.01) percentage-point increase in negative votes in the year following such activism and proxy fight activism results in an additional 2.03 (3.03 – 1.00, p-value < 0.05) percentage-point increase in negative votes, even after the proxy fight itself has ended. The results for independent directors and inside directors are similar to those observed for the full sample.

The negative vote in the year of the activism and persistence of that effect in the year after the activism is suggestive of how shareholders register their displeasure with directors through the election mechanism. While meaningful, the extent of the negative vote is unlikely to directly (e.g., by denying a majority) lead to director turnover, which allows shareholder dissatisfaction with director performance to continue into the subsequent year.

### *5.2. Do shareholder votes matter for board turnover?*

In this sub-section we relate negative votes in director elections to director departure in the year after the vote. Prior research suggests that, while negative votes are not large in magnitude, directors appear to heed the message they deliver. Shareholder dissatisfaction expressed via negative votes is associated with subsequent governance and performance changes by firms, consistent with directors responding to shareholder disapproval. Cai, Garner, and Walking (2009) document a decrease in excess CEO compensation in the year following a higher negative vote for the compensation committee directors. They also find that the likelihood of CEO turnover increases when independent directors receive lower votes. Interestingly, Cai, Garner and Walking (2009) do not find an effect of votes against directors on director turnover. Fischer, Gramlich, Miller, and White (2009) show that firms whose directors receive fewer votes are more likely to experience subsequent CEO turnover and to hire an outside CEO. These firms also subsequently exhibit lower excess CEO compensation and make better acquisition and spin-

off decisions. Ertimur, Ferri, and Muslu (2011) show that excess CEO compensation declines following “vote no” campaigns.

We extend our voting results and findings in the prior literature by examining whether negative votes are associated with subsequent director turnover in the presence of activism. Results of this analysis are presented in Table 5, where the dependent variable is the director turnover in the year after shareholder activism. Column 1 presents results from the specification used in Panel A of Table 2 with  $Departure_{(t,t+2)}$  as the dependent variable, but with the sample restricted to the cases where we have data on voting in year  $t + 1$ . Columns 2, 3 and 4 present results for all directors, independent directors and insider directors, respectively. The main variable of interest is  $Against\ Votes_{t+1}$ , which is the percentage of negative votes in the year of activism. The positive and significant coefficients on  $Against\ Votes_{t+1}$  in all three columns show that directors, both independent ones and insiders, are less likely to depart if they receive greater support. While the coefficients on the activism indicators are all positive, that on *Targeted Board - Non-Proxy* is not statistically significant for independent directors and none are significant for inside directors, perhaps due to loss of power from the smaller sample with the requirement for voting data. While activism itself contributes to the greater extent of negative vote in year  $t+1$ , the effect of activism on director turnover exists even after controlling for the effect of negative shareholder votes.<sup>8</sup>

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<sup>8</sup> Table IA4 in Internet Appendix reports results from logit regressions analogous to the OLS results reported in Table 5. Inferences are identical in most cases except that there is a marginally significant coefficient on *Targeted Firm* (coef. 0.59, p-value<0.10) and *Targeted Board - Non-Proxy* (coef. 0.77, p-value<0.05) reported in column (4), which examines inside directors, consistent with activism having an effect on board turnover separate from its effect on shareholder support.

## 6. Directorships on other boards

We extend our voting and director turnover results to other directorships of directors subject to shareholder activism. The impact of activism in the targeted firm on other directorships allows us to examine the reputational impact on directors of targeted firm and inform the literature on reputational penalties for directors. Fama (1980) and Fama and Jensen (1983) posit that firm performance affects directors' reputations as corporate stewards, which are rewarded or penalized in the market for directorships. Prior papers have found evidence that directors lose their positions on other boards when they serve as directors of firms experiencing a financial crisis or financial misconduct (e.g., Srinivasan, 2005; Fich and Shivdasani, 2007; Ertimur, Ferri and Maber, 2012). As before, directors in firms with no shareholder activism in Equilar database provide the baseline. We use the following regression specification.

$$\begin{aligned} \text{Other Boards}_{t+2} = F(\text{Targeted Firm} - \text{Non-Board}, \text{Targeted Board} - \text{Non-Proxy}, \\ \text{Target Board} - \text{Proxy}, \text{firm controls, director characteristics,} \\ \text{activism characteristics, year fixed effects}) \end{aligned} \quad (3)$$

The dependent variable is the number of other directorships held in year  $t + 2$  by a director who was on the board in year  $t$ . The independent variables are as defined earlier.

Table 6 presents results of an OLS regression of Equation 3. As before, we present results for the full board (Column 1 and 2), independent directors (Column 3 and 4) and inside directors (Column 5 and 6). In columns 1, 3, and 5, we find little evidence of activism being associated with loss of seats on other boards. We do not observe a significant decline in other directorships for any of the activism categories. We find a small positive effect for independent directors for *Targeted Firm – Non-Board* and a small negative effect for all directors for *Targeted Board – Non-Proxy*. One possible explanation for a positive coefficient is that independent directors have increased availability for other directorships when they lose a board seat and are more likely to

lose a board seat when the firm is targeted. To account for this possibility, we include an indicator for departure from the targeted board— $Departure_{(t, t+2)}$ —and interact this with the activism indicators. These results are in columns 2, 4, and 6. The coefficient on  $Departure_{(t, t+2)}$  for independent directors (coef. =  $-0.09$ , p-value  $<0.01$ ) seems consistent with turnover being correlated across firms (e.g., due to directors retiring from multiple boards). The coefficients on  $Targeted Firm - Non-Board \times Departure_{(t, t+2)}$  (coef. =  $0.07$ , p-value =  $0.032$ ) and  $Targeted Board - Non-Proxy \times Departure_{(t, t+2)}$  (coef. =  $0.07$ , p-value =  $0.059$ ) provide some (weak) evidence consistent with activism leading to more directorships at other firms when it results in loss of a board seat by an independent director. For inside directors, the coefficient on  $Departure_{(t, t+2)}$  (coef. =  $0.04$ , p-value  $<0.01$ ) plausibly reflects executives gaining other board seats when they lose their positions *independent* of activism, but we find limited effects of activism when the executive loses his or her seat ( $Targeted Board - Non-Proxy \times Departure_{(t, t+2)}$ ) (coef. =  $-0.08$ , p-value =  $0.094$ ). Overall, Table 6 provides no evidence of directors bearing reputational costs through loss of other directorships following shareholder activism.

## 7. Analysis of individually targeted directors

In this section we examine the consequences for the directors who are specifically targeted by shareholder activism involving proxy fights. We identify directors as being targeted for replacement ( $Targeted Board - Proxy - Targeted Director$ ) as those that are either (i) up for election during an activism year when dissidents do not explicitly identify the directors they seek to replace or (ii) explicitly named as a target by activists. Appendix C provides examples of both types of cases.

Panel A of Table 7 presents results from a regression analogous to those in Panel A of Table 2. We focus on  $Departure_{(t+1, t+2)}$  as the dependent variable, as a director needs to be on the

board at the time of activism (year  $t + 1$ ) to be explicitly or implicitly targeted, so turnover of targeted directors is only possible from  $t + 1$ . The coefficient on *Targeted Board – Proxy – Targeted Director* is large and significant (27.05, p-value  $< 0.01$ ), which suggest that the targeted directors are 27 percentage points (26 and 32 percentage points for independent and inside directors, respectively) more likely to leave the board by the year after activism than non-targeted directors ( $27.05 - 6.69 = 20.36$ , p-value  $< 0.01$ ).

Panel B of Table 7 presents regressions analogous to those in Table 6, where the dependent variable is *Other Boards* <sub>$t+2$</sub> . We find no evidence that directors suffer reputational consequences from being individually targeted. In fact there appears to be evidence that targeted independent directors pick up board seats when they lose their seat on the targeted firm (*Targeted Board – Proxy – Targeted Director*  $\times$  *Departure* <sub>$(t,t+2)$</sub>  coefficient = 0.17, p-value = 0.01).

In short, Table 7 presents evidence consistent with consequences for individually targeted directors being greater in terms of loss of seats on the targeted firm, but provides no evidence of reputational consequences in the form of loss of directorships on other boards.

## 8. Robustness analyses

In this section we provide robustness tests of our prior results using within firm analysis and a propensity score matched sample.

### 8.1. Within-firm analysis

One issue with our results is that activists are unlikely to target firms at random and it is difficult to control for all determinants of activists' targeting decisions, as some of these are likely not observable by us. If some of these omitted determinants are correlated with director turnover, our estimates will be biased. With a view to addressing this endogeneity concern, we

exploit the feature of staggered boards. The presence of a staggered board for a targeted firm means that only some directors will be nominated for election during the activism event and it is these nominated directors that are targeted by activists (see Example 2 of Appendix C for an instance of this). This gives rise to within-firm variation in whether an individual director was targeted that is plausibly exogenous, as there is no reason to expect that the class of directors up for election in the year of activism to be inherently different from the other classes of directors. Estimating a regression using such firms and including firm fixed effects allows us to estimate the effect of being a targeted director independent of any characteristics that led the firm to be targeted in the first place. As such, estimated coefficients from this regression are more plausibly capturing the causal effect of activism. One limitation of this approach is that it only permits identification of the incremental effect of being a *Targeted Director*, which our earlier results suggest is only one portion of the impact of a firm being targeted by activists, as the other treatment variables (e.g., *Targeted Firm*) do not vary across directors within a given activism event. An additional limitation is that the reduced sample size (790 directors) could lower the power of the test. However, to the extent that this analysis is unaffected by the inclusion of firm effects, it does provide a degree of indirect assurance that our other results would be similarly robust.

The sample for this analysis comprises 790 director-years of firms with staggered boards subject to a proxy fight. A positive and significant coefficient (5.83, p-value < 0.10) for *Targeted Director*—reported in Table 8 column (1) suggests that targeted directors (i.e. directors who are targeted by virtue of being up for election in the proxy fight year) are more likely to leave board by the year after activism. This result holds after including firm fixed effects (column 2). The results from this analysis are once again consistent with our finding that shareholder activism has

an impact on director turnover. On the other hand, the coefficients for *Targeted Director* are not significant in Columns 3 and 4, suggesting no reputational consequence for the directors of shareholder activism; again this is consistent with our earlier results.

We also confirm that our findings are robust to an alternative within-firm research design used by Fos and Tsoutsoura (2013). The results of this analysis—reported in Table IA5 of the Internet Appendix—are consistent with our main analyses. In particular, while we find significant effects of activism on a director’s seat on the board of the targeted firm, we find no evidence of reputation effects manifesting in the number of directorships on other boards.

While consistent with our earlier results, these inferences are quite different from those in Fos and Tsoutsoura (2013), who find evidence consistent with directors’ seats on other boards being negatively affected by proxy fights in which they are up for election. As discussed in the Internet Appendix, our analysis suggests that these differences in inferences are not attributable to research design, but are possibly attributable to differences in sample period and data source (i.e., Fos and Tsoutsoura, 2013 use BoardEx, which includes unlisted and non-profit boards).<sup>9</sup>

## 8.2. Propensity score matching

To confirm that our results are not driven by significant differences between targeted and non-targeted firms that are not effectively controlled for in a linear regression framework, we employ a propensity score matching procedure to achieve covariate balance between the treatment (targeted) and control (non-targeted) firms. We create a control sample of directors

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<sup>9</sup> The average number of other directorships in Fos and Tsoutsoura (2013) is 2.2, which is significantly greater than our 0.609 for non-targeted firms and 0.653 for firms targeted for shareholder activism. This difference is likely attributable to Fos and Tsoutsoura’s inclusion of directorships in private companies. We follow most prior research in considering only public companies, as this is where the reputational effect is expected to be stronger. Our numbers are fairly consistent with prior research. For example, Fich and Shivdasani (2007) report 0.95 other directorships for a sample of sued firms in 2002, and Ertimur et al. (2012) report 0.797 other directorships for their sample of firms.

whose board did not get targeted, but comparable on all observed covariates to a treatment sample of directors whose board was actually targeted by activists. We first use a logit regression using the control variables from Table 2 to estimate the probability (propensity score) that a firm would be targeted by an activist ( $\Pr(\textit{Targeted Firm})$ ) and match each targeted firm with a non-targeted firm from the same year with the nearest propensity score. Then we compare the difference in outcome variables (in particular,  $\textit{Departure}_{(t, t+2)}$ ,  $\textit{Other Boards}_{t+2}$ ) for the treatment and control firms. We verify that difference in means for each covariate after the match is insignificant, implying covariate balance between the treatment and control samples.

Consistent with our results in Table 2 Panel A, directors of targeted firms have higher likelihood of leaving the board of a targeted firm than directors of matched firms, the estimated effect increases as the activism becomes more board-related and targeted at individual directors. Additionally, results for independent directors and inside directors are similar and consistent with those found in Table 2 Panel B.<sup>10</sup> When the number of directorships held by a director on other boards is the outcome, the differences in means are small and statistically insignificant, consistent with our earlier results.<sup>11</sup>

## 9. Conclusions

We examine a number of career consequences for directors when firms are subject to activist shareholder interventions. First, we study director turnover on the board of the firm subject to activism, including whether activism increases director turnover-performance sensitivity. Next, we examine voting outcomes for directors in elections to assess if shareholders express their displeasure through their votes. We then examine the role of voting in precipitating

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<sup>10</sup> Results are presented in Panel A of Table IA6 of the Internet Appendix.

<sup>11</sup> Results are presented in Panel B of Table IA6 of the Internet Appendix.



departures of targeted directors. Finally, we examine reputational consequences of shareholder actions by looking at changes in the number of board positions held by directors at other public firms.

Our results suggest that directors exit the board at higher rates when their firms are targeted for shareholder actions: 20.8 percent of directors are no longer on the boards of firms targeted for shareholder activism at the end of the year after the activism event compared to 13.8 percent for firms that are not targets of activism. Unsurprisingly, directors targeted by activists in proxy fights are significantly more likely to leave the board after the activism event. We find that directors not directly targeted by dissident shareholders are also likely to leave the board, as are directors at targeted firms even when no board-related demands are made as part of the activism, let alone a formal proxy fight. All these results hold after controlling for factors driving director turnover and targeting by activists. The increased turnover exists for both inside and independent directors.

Activism is also associated with lower shareholder support both in the year of, and the year following, the activism event. We find that directors receive 10.3 percent negative vote in the year of activism and 9.8 percent in the year after activism compared to 5.7 percent and 5.9 percent for non-targeted firms in the two years. While an increase in negative votes is to be expected when there is an activism event, it is noteworthy that the negative sentiment continues after the event is completed and the director has managed to remain on the board. The negative vote in the year of activism is higher for board-related activism and proxy fights at 13.2% and 12.2%, respectively. All these categories exhibit around 10% negative vote even after the activism ends compared to 5.9% negative vote for non-targeted firms.

We also find that shareholder voting matters for director turnover. Directors that receive a greater negative vote percentage in the year of shareholder activism are less likely to remain on the board in the year after activism. This finding may provide some relief to skeptics who worry that shareholder voting is ineffective in disciplining directors: Directors seem to heed the message in the negative vote and resign their positions even though it is unclear what forces them to do so.

Director reputation as measured by number of directorships at other firms is not associated with activism. Neither proxy fights nor other forms of shareholder activism have any apparent association with the number of other directorships in the year after the activism event. Even directly targeted directors experience no loss in directorships and the lack of association holds for both inside and independent directors.

Our paper is among the first to provide evidence consistent with shareholder activism imposing career costs on directors. The results are consistent with shareholder interventions in companies resulting in career consequences for directors even if the activism is not directed explicitly at board representation. Evidence from prior research suggests that proxy contests are not an effective mechanism for disciplining boards since they rarely succeed in getting a majority of shareholder support. Our results suggest that activists need not even engage in, let alone win, proxy contests to remove directors. Overall, our results are consistent with shareholder activism increasing board turnover and accountability for poor performance, but we do not find evidence of broader reputational consequences.

## Appendix A. Variable Definitions

Variable	Definition
<b>Classification of activism events</b>	
<i>Targeted Firm</i>	Indicator for activism events identified either (i) by FactSet SharkRepellent and (ii) based on SEC filings, Form DEFC14A or PREC14A, filed by dissident
<i>Targeted Firm – Non-Board</i>	All activism events that are neither <i>Targeted Board – Proxy</i> nor <i>Targeted Board – Non-Proxy</i>
<i>Targeted Board – Non-Proxy</i>	Activism events not included in <i>Targeted Board – Proxy</i> , but identified by SharkRepellent as relating to “Board Representation,” “Board Control,” “Remove Directors(s),” or “Withhold Vote for Director(s).”
<i>Targeted Board – Proxy</i>	(i) Activism events identified based on SEC filings, Form DEFC14A or PREC14A, filed by dissident and (ii) activism events where the dissident publicly disclosed that it delivered formal notice to the company that it intends to solicit proxies from stockholders
<i>Targeted Board – Proxy – Targeted Director</i> (also <i>Targeted Director</i> )	Indicator for a director being either (i) up for election during an activism year when dissidents do not explicitly identify the directors they seek to replace or (ii) explicitly named as a target by activists
<i>Targeted Board – Proxy – Non-Targeted Director</i>	Indicator for a director being involved in a proxy fight ( <i>Targeted Board – Proxy</i> ), but not being individually targeted by activists
<b>Classification of activism events by settlement (Table 3 Panel B)</b>	
<i>Non-Proxy – Settled</i>	Indicator for a non-proxy fight event resulting in a board seat for dissidents, but did not go to shareholder election
<i>Non-Proxy – Not Settled</i>	Indicator for a non-proxy fight event not resulting in board seats for activists
<i>Proxy – Settled</i>	Indicator for a proxy fight event resulting in a board seat for dissidents, but not going to shareholder election
<i>Proxy – Not Settled</i>	Indicator for a proxy fight event not resulting in any board seats for activists
<i>Proxy – Went to Election</i>	Indicator for a proxy fight going to shareholder election
<b>Dependent variables</b>	
<i>Departure<sub>(t, t+2)</sub></i>	Indicator for the director leaving the board of the firm between years $t$ and $t + 2$ (i.e., the year after the activism event, if any)
<i>Against Votes<sub>t+2</sub></i>	Percentage of votes against the director in director elections in year $t + 2$ (votes against + votes withheld) / (votes for + votes against + votes withheld)
<i>Other Boards<sub>t+2</sub></i>	Number of directorships a director has with companies other than the company of interest in year $t + 2$
<b>Firm controls</b>	
<i>Size-Adj. Return</i>	Twelve-month size-adjusted return, calculated as the return minus the return for the size-matched decile provided by CRSP
<i>ROA</i>	EBITDA divided by lagged total assets
<i>Sales Growth</i>	Sales divided by lagged sales
<i>Market Value</i>	Natural log of market capitalization
<i>Leverage</i>	Sum of long-term debt and current liabilities divided by sum of long-term debt, current liabilities and the book value of common equity

Variable	Definition
<i>Dividend</i>	Sum of common dividends and preferred dividends divided by earnings before depreciation, interest, and tax
<i>Analyst</i>	Number of analyst forecasts for each firm-year (Source: I/B/E/S)
<i>Institution</i>	Percentage of shares held by institutions (Source: WhaleWisdom)

#### **Director characteristics**

<i>Age</i>	Director's age in year $t$
<i>Tenure</i>	Number of years a director served on the firm's board at time $t$
<i>Percent Owned</i>	Number of shares held by a director divided by shares outstanding at fiscal year-end (Source: Equilar)
<i>Audit Committee</i>	Indicator for the director being on the audit committee at time $t$
<i>Compensation Committee</i>	Indicator for the director being on the compensation committee at time $t$
<i>Independent Director</i>	Indicator for director being independent
<i>ISS Against<sub>t+2</sub></i>	Unfavorable recommendation by Institutional Shareholder Services (ISS) in year $t + 2$ for each individual director nominee

## **Appendix B: Activism Classification – Examples**

### ***Case 1: Firm is targeted for activism but not for board related issues***

*(Targeted Firm and Targeted Firm – Non-Board)*

*Target:* Bioenvirion, Inc.

*Dissident:* Elliott Management Corporation

*Dates:* 5/30/2007 – 10/4/2007

*Proposals/Outcome:* Campaign to vote against company's acquisition by Genzyme Corporation for \$5.60 per share. Court granted company's petition to reconvene the special meeting and re-open the polls. At the reconvened special meeting the merger was approved.

*Target:* 99 Cents Only Stores

*Dissident:* Akre Capital Management LLC

*Dates:* 1/4/2008 – 9/18/2008

*Proposals/Outcome:* Campaign urged board to concentrate resources on markets other than Texas. Company announced on 9-18-2008 it will exit the Texas market.

### ***Case 2. Firm is targeted for a board related issue not resulting in a proxy fight***

*(Targeted Firm and Targeted Board – Non-Proxy)*

*Target:* American Bank Note Holographics, Inc.

*Dissident:* Levy, Harkins & Co., Inc.

*Dates:* 3/30/2007 – 5/24/2007

*Proposals/Outcome:* Dissident seeking 5 of 5 seats on the company's board and threatened a formal proxy fight if the company failed to address its concerns. Later company settled with the Dissident whereby 2 dissident nominees were appointed on the board.

*Target:* Exide Technologies

*Dissident:* Soros Fund

*Dates:* 12/22/2004 – 4/19/2005

*Proposals/Outcome:* Dissident met with company to discuss its operating and board concerns. Company appointed one dissident nominee to nine-person board and submitted proposals to declassify the board and to allow 15% of shareholders to call special meetings.

*Target:* Southwest Gas Corporation

*Dissident:* GAMCO Asset Management Inc. (2/18/2004 – 5/6/2004)

*Proposals/Outcome:* Dissident campaign to nominate Salvatore J. Zizza to board. Dissident did not solicit proxies for its nominee, but instead nominated candidate from the floor of the annual meeting. Company's nominees overwhelmingly elected to Board.

***Case 3. Firm is target of a proxy fight which is settled without going to a shareholder vote  
(Targeted Firm, Targeted Board – Proxy and Proxy – Settled)***

*Target:* Alloy, Inc.

*Dissident:* Becker Drapkin Management LP/Kleinheinz Capital Partners, Inc.

*Dates:* 3/17/2010 – 7/15/2010

*Proposals/Outcome:* Proxy fight for three board seats settled. Company increased the size of the board by one seat and appointed a dissident nominee to fill the vacancy.

*Target:* The Brink's Company

*Dissident:* MCM Management, LLC

*Dates:* 11/30/2007 – 5/2/2008

*Proposals/Outcome:* Proxy fight for four board seats settled, with company agreeing to nominate two dissident representatives at the 2008 annual meeting and announcing plans to spin-off its Home Security Unit.

***Case 4. Firm is target of a proxy fight that goes to a shareholder vote  
(Targeted Firm, Targeted Board – Proxy and Proxy – Went to Election)***

*Target:* Blockbuster Inc.

*Dissident:* Icahn Associates Corp.

*Dates:* 4/8/2005 – 5/11/2005

*Proposals/Outcome:* Dissident slate elected, winning three of three seats up for election to seven-member board).

*Target:* Alaska Air Group, Inc.

*Dissident:* Richard D. Foley/Stephen Nieman/Terry K. Dayton/William Davidge

*Dates:* 3/20/2006 – 5/16/2006

*Proposals/Outcome:* Three-person dissident slate defeated (management won all four seats up for election to twelve-person board). Management's proposals to declassify board and remove supermajority vote for mergers was passed and implemented.

***Case 5. Firm is target of a proxy fight that is not settled, but does not go to a shareholder vote  
(Targeted Firm, Targeted Board – Proxy and Proxy – Not Settled)***

*Target:* Friendly Ice Cream Corporation

*Dissident:* Biglari Capital Corp.

*Dates:* 11/8/2006 – 6/17/2007

*Proposals/Outcome:* Proxy fight to elect two people to the five-person board at the 2007 annual meeting was withdrawn after company agreed to be acquired. Dissident entered into agreement to vote for the merger.

## Appendix C: Identification of Targeted Directors – Examples

In some proxy fights, dissidents specifically name on DEFC14A filings those directors they seek to replace with their own nominees, in which case we consider these directors as *explicitly targeted*. In other cases, dissident do not specify the directors they are trying to replace, but we infer the targeted directors from proxy filings by management. We recognize those director nominees as *implicitly targeted*.

### **Example 1: Explicitly Targeted Directors**

*Target:* Lions Gate Entertainment Corp. *Dissident:* Carl C. Icahn *Duration:* 12/6/2010 – 12/14/2010

*Excerpt from DEFC14A filed by Carl C. Icahn:*

“If no specification is made, your shares will be voted (i) FOR Mr. Jay Firestone; (ii) FOR Dr. Michael Dornemann; (iii) FOR Mr. Christopher J. McGurk; (iv) FOR Mr. Daniel A. Ninivaggi; (v) FOR Dr. Harold T. Shapiro; (vi) FOR the persons who have been nominated by Lions Gate to serve as directors, OTHER THAN Mr. Michael Burns, Mr. Harald Ludwig, Mr. G. Scott Paterson, Mark H. Rachesky, M.D. and Mr. Hardwick Simmons.”

Full list of director nominees from DEFC14A filed by Lions Gate Entertainment Corp.:

<b>Management Nominees</b>	<b>Targeted Director</b>	<b>Management Nominees</b>	<b>Targeted Director</b>
Michael Burns	True	Norman Bacal	False
Harald Ludwig	True	Arthur Evrensel	False
G. Scott Paterson	True	Jon Feltheimer	False
Mark H. Rachesky	True	Frank Giustra	False
Hardwick Simmons	True	Morley Koffman	False
		Daryl Simm	False
		Phyllis Yaffe	False

### **Example 2: Implicitly Targeted Directors**

*Target:* Target Corp. *Dissident:* Pershing Square LP *Duration:* 4/21/2009 – 5/28/2009

*Excerpt from DEFC14A filed by Target Corp.*

“Proxies solicited by the Board of Directors will, unless otherwise directed, be voted for the election of four nominees to serve as Class III directors for three-year terms expiring in 2012 and until their successors are elected. The four nominees are Mary N. Dillon, Richard M. Kovacevich, George W. Tamke, and Solomon D. Trujillo. All of the nominees are currently directors and have consented to be named in this proxy statement and to serve if elected.”

*Excerpt from DEFC14A filed by Pershing Square LP*

“PROPOSAL 2A: To elect William A. Ackman, Michael L. Ashner, James L. Donald and Richard W. Vague as directors of Target Corporation.”

<b>Management Nominees</b>	<b>Targeted Director</b>
Mary N. Dillon	True
Richard M. Kovacevich	True
George W. Tamke	True
Solomon D. Trujillo	True

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**Table 1: Descriptive Statistics****Panel A: Activism events by year**

This panel reports number of activism events by year. Our sample (*Targeted Firm*) comes from two sources: (i) FactSet SharkRepellent and (ii) SEC filings on forms DEFC14A and PREC14A filed by dissident when launching a proxy fight. Activism events that do not involve board related demands by the activist are classified as *Targeted Firm – Non-Board*. *Targeted Board – Non-Proxy* are board of directors related activism events identified by SharkRepellent as relating to “Board Representation,” “Board Control,” “Remove Directors(s),” or “Withhold Vote for Director(s)” but that do not lead to a declared proxy contest. *Targeted Board – Proxy* are declared proxy contests including both (i) activism events involving filings on forms DEFC14A and PREC14A and (ii) activism events where the dissident publicly disclosed that it delivered formal notice to the company that it intends to solicit proxies from stockholders. *Proxy Fight Went to Election*, a subset of *Targeted Board – Proxy*, are those declared proxy contests that went to a shareholder vote. We match data on directorships in Equilar with activism events that begin in the twelve-month period after proxy filings (the source of Equilar’s data).

Year	Activism events			Activism events matched to Equilar				
	Shark Watch	SEC filings	Combined ( <i>Targeted Firm</i> )	Targeted Firm	Targeted Firm – Non-Board	Targeted Board – Non-Proxy	Targeted Board – Proxy	Proxy Fight Went to Election
2004	88	44	103	52	29	3	20	7
2005	182	59	192	135	78	13	44	8
2006	353	60	361	261	156	34	71	23
2007	406	76	419	319	198	44	77	25
2008	390	85	398	286	159	49	78	23
2009	274	77	285	198	85	24	89	19
2010	296	56	304	216	112	37	67	15
2011	277	50	285	197	100	36	61	22
2012	294	47	298	204	119	37	48	20
Total	2,560	554	2,645	1,868	1,036	277	555	162

**Panel B: Director observations by year and activism category**

	2004	2005	2006	2007	2008	2009	2010	2011	Total
Targeted Firm	443	1,135	2,133	2,668	2,421	1,605	1,816	1,623	13,844
Targeted Firm – Non-Board	264	685	1,259	1,616	1,318	686	991	845	7,664
Targeted Board – Non-Proxy	20	95	301	359	426	188	309	296	1,994
Targeted Board – Proxy	159	355	583	693	677	731	516	482	4,196

**Table 1: Descriptive Statistics (cont.)****Panel C: Director departure**

We classify directorship-year observations on Equilar into categories based on activism related to the firm in the subsequent year ( $t + 1$ ). See Panel A for explanation of the classification of activism events. *Non-Targeted firm* are all firms in Equilar database that were not targeted for activism.

	Year $t$	$t+1$	$t+2$	$t+3$	$t+4$	$t+5$
Non-Targeted Firm	0.000	0.077	0.138	0.186	0.222	0.249
Targeted Firm	0.000	0.135	0.208	0.230	0.241	0.237
Targeted Firm – Non-Board	0.000	0.113	0.175	0.193	0.203	0.205
Targeted Board – Non-Proxy	0.000	0.180	0.263	0.311	0.324	0.279
Targeted Board – Proxy	0.000	0.153	0.241	0.262	0.275	0.280

**Panel D: Shareholder support in director elections**

*Against Votes* represents the percentage of votes against the director in director elections, calculated as (votes against + votes withheld) divided by (votes for + votes against + votes withheld). *ISS Against* represents an unfavorable recommendation by Institutional Shareholder Services (ISS) for each individual director nominee. See Panel A for explanation of the classification of activism events. *Non-Targeted firm* are all firms in Equilar database that were not targeted for activism.

	Against Votes <sub><math>t</math></sub>	Against Votes <sub><math>t+1</math></sub>	Against Votes <sub><math>t+2</math></sub>	ISS Against <sub><math>t+1</math></sub>	ISS Against <sub><math>t+2</math></sub>
Non-Targeted Firm	0.053	0.057	0.059	0.109	0.105
Targeted Firm	0.085	0.103	0.098	0.146	0.135
Targeted Firm – Non-Board	0.078	0.086	0.088	0.116	0.136
Targeted Board – Non-Proxy	0.104	0.132	0.111	0.136	0.147
Targeted Board – Proxy	0.090	0.122	0.112	0.213	0.133

**Panel E: Number of directorships in other firms**

The panel indicates the number of directorships a director has with companies other than the company of interest each year. See Panel A for explanation of the classification of activism events.

	Year $t$	$t+1$	$t+2$	$t+3$	$t+4$	$t+5$
Non-Targeted Firm	0.609	0.603	0.597	0.589	0.576	0.561
Targeted Firm	0.653	0.628	0.620	0.616	0.600	0.578
Targeted Firm – Non-Board	0.700	0.682	0.670	0.662	0.636	0.616
Targeted Board – Non-Proxy	0.558	0.517	0.523	0.495	0.510	0.498
Targeted Board – Proxy	0.608	0.577	0.572	0.593	0.578	0.549
Year-on-year ratio (Non-Targeted)		0.990	0.990	0.987	0.978	0.974

**Table 2: Effect of shareholder activism on director turnover**

**Panel A: Entire sample**

The table presents results from OLS regressions where the dependent variable is  $Departure_{(t, t+2)}$ , i.e., an indicator for the director leaving the board of the firm by year  $t + 2$  (i.e., the year after the activism event, if any). Column 1 presents OLS results for all directors where the firm is present in year  $t + 2$  in the Equilar database. Columns 2 through 5 exclude observations where the firm is not in Equilar in year  $t + 2$ , presumably due to bankruptcy, delisting, mergers, etc. All variables are defined in Appendix A. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1) All Directors, All Firms	(2) All Directors	(3) All Directors	(4) Departure ( $t, t+1$ )	(5) Departure ( $t+1, t+2$ )
(Intercept)	30.52*** (1.64)	-0.71 (1.37)	-0.76 (1.37)	-0.40 (0.83)	-0.35 (0.77)
Targeted Firm	18.27*** (1.12)	12.13*** (1.03)			
Targeted Firm – Non-Board			8.49*** (1.21)	5.23*** (0.92)	3.26*** (0.87)
Targeted Board – Non-Proxy			14.33*** (2.00)	9.70*** (1.58)	4.63*** (1.31)
Targeted Board – Proxy			16.92*** (1.77)	6.37*** (1.20)	10.55*** (1.33)
<b>Control Variables</b>					
Size Adj. Return	-0.80** (0.37)	-1.66*** (0.24)	-1.65*** (0.24)	-0.80*** (0.18)	-0.85*** (0.16)
ROA	-14.67*** (1.45)	-13.69*** (1.08)	-13.71*** (1.08)	-7.07*** (0.69)	-6.63*** (0.61)
Sales Growth	0.04 (0.56)	0.82** (0.41)	0.85** (0.41)	0.23 (0.28)	0.61** (0.29)
Market Value	-7.66*** (0.43)	0.27 (0.32)	0.27 (0.32)	-0.04 (0.18)	0.31* (0.18)
Book-to-Market	3.38*** (0.54)	0.95** (0.43)	0.93** (0.42)	0.73*** (0.27)	0.21 (0.24)
Leverage	4.38*** (0.76)	1.17** (0.56)	1.22** (0.56)	0.47 (0.32)	0.75** (0.31)
Dividend	-3.77*** (1.20)	-0.53 (0.84)	-0.52 (0.83)	-0.32 (0.54)	-0.20 (0.46)
Analyst	0.37*** (0.05)	0.03 (0.03)	0.03 (0.03)	0.03 (0.02)	0.00 (0.02)
Institution	0.66 (0.87)	1.55** (0.61)	1.50** (0.61)	0.87** (0.38)	0.63* (0.34)
Age	0.29*** (0.02)	0.31*** (0.02)	0.31*** (0.02)	0.19*** (0.01)	0.12*** (0.01)
Tenure	-0.17*** (0.02)	0.06*** (0.02)	0.06*** (0.02)	-0.04*** (0.01)	0.10*** (0.01)

Percent Owned	3.86 (2.38)	-11.28*** (2.35)	-11.23*** (2.35)	-4.72*** (1.45)	-6.50*** (1.20)
Audit Committee	-3.03*** (0.23)	-3.57*** (0.23)	-3.56*** (0.23)	-2.01*** (0.14)	-1.55*** (0.13)
Compensation Committee	-0.94*** (0.22)	-1.11*** (0.22)	-1.10*** (0.22)	-0.63*** (0.14)	-0.47*** (0.12)
Independent Director	-2.18*** (0.34)	-2.44*** (0.33)	-2.47*** (0.33)	-1.78*** (0.20)	-0.68*** (0.18)
Adj. R <sup>2</sup>	0.04	0.02	0.02	0.01	0.01
Num. obs.	207,211	180,109	180,109	180,109	180,109

**F-Test for Column (3)**

$H_0$ : Targeted Board – Proxy = Targeted Board – Non-Proxy for All Directors

$F$ -stat = 1.088,  $Pr(>F) = 0.297$

**Table 2: Effect of shareholder activism on director turnover (cont.)**

**Panel B: Separating independent and inside directors**

The table presents results from OLS regressions where the dependent variable is  $Departure_{(t,t+2)}$ , i.e., an indicator for the director leaving the board of the firm by year  $t + 2$  (i.e., the year after then activism event, if any) with the sample partitioned into independent and inside directors, as classified by Equilar (no results are provided for related directors). Columns 1 and 4 present results for directors where year  $t + 2$  is covered by Equilar, even when the firm is not on Equilar in year  $t + 2$ , presumably due to bankruptcy, delisting, mergers, etc.. The remaining columns include only observations where the firm is in the Equilar database in  $t + 2$ . Control variables include all variables in Panel A of Table 2 and are suppressed for parsimony. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1) Independent Directors, All Firms	(2) Independent Directors	(3) Independent Directors	(4) Inside Directors, All Firms	(5) Inside Directors	(6) Inside Directors
(Intercept)	25.42*** (1.88)	-6.88*** (1.66)	-6.93*** (1.66)	25.81*** (2.43)	-4.87** (2.27)	-4.94** (2.27)
Targeted Firm	18.43*** (1.17)	11.84*** (1.12)		18.98*** (1.53)	14.32*** (1.76)	
Targeted Firm – Non-Board			9.03*** (1.37)			8.91*** (2.00)
Targeted Board – Non-Proxy			12.69*** (2.17)			18.04*** (3.55)
Targeted Board – Proxy			15.69*** (1.92)			22.33*** (2.85)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.04	0.03	0.03	0.05	0.03	0.03
Num. obs.	143,091	124,556	124,556	39,841	34,480	34,480

**Table 3: Effect of shareholder activism on director turnover (cont.)****Panel A: Director turnover at targeted firm: Impact of activism on performance-sensitivity**

The table presents results from OLS regressions where the dependent variable is  $Departure_{(t,t+2)}$ , i.e., an indicator for the director leaving the board of the firm by year  $t + 2$  (i.e., the year after then activism event, if any). All columns exclude observations where the firm is not on Equilar in year  $t + 2$ , presumably due to bankruptcy, delisting, mergers, etc. Column 1 presents results for all directors, Column 2 presents results for independent directors and Column 3 presents results for inside directors. Control variables include all variables in Panel A of Table 2 and are suppressed for parsimony. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1) All Directors	(2) Independent Directors	(3) Inside Directors
(Intercept)	-0.87 (1.37)	-7.05*** (1.66)	-4.97** (2.27)
Targeted Firm – Non-Board	8.23*** (1.19)	8.76*** (1.34)	8.44*** (1.95)
Targeted Board – Non-Proxy	12.57*** (1.79)	11.04*** (2.00)	15.07*** (3.23)
Targeted Board – Proxy	15.89*** (1.69)	14.62*** (1.82)	21.36*** (2.81)
Size Adj. Return	-1.31*** (0.24)	-1.11*** (0.26)	-1.88*** (0.40)
Targeted Firm – Non-Board × Size Adj. Return	-7.42*** (1.77)	-7.31*** (1.88)	-3.18 (3.30)
Targeted Board – Non-Proxy × Size Adj. Return	-15.20*** (4.57)	-12.90** (6.12)	-23.55*** (7.02)
Targeted Board – Proxy × Size Adj. Return	-8.34*** (3.11)	-8.59*** (3.31)	-8.04 (5.67)
Controls	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.02	0.03	0.03
Num. obs.	180,109	124,556	34,480

**Table 3: Effect of shareholder activism on director turnover (cont.)****Panel B: Directorship at targeted firm: Impact of settlement**

The table presents results from OLS regressions where the dependent variable is  $Departure_{(t,t+2)}$ , i.e., an indicator for the director leaving the board of the firm by year  $t + 2$  (i.e., the year after the activism event, if any). *Non-Proxy – Settled* and *Proxy – Settled* are indicators for non-proxy fight and proxy fight events, respectively, where an activism event resulted in a board seat for dissidents, but did not go to shareholder election. *Non-Proxy – Not Settled* and *Proxy – Not Settled* are indicators for non-proxy fight and proxy fight events, respectively, where an activism event did not result in any board seat for dissidents. *Proxy – Went to Election* is an indicator variable for those proxy fights that went to election. All activism classification variables are mutually exclusive. All columns exclude observations when the firm is not on Equilar in year  $t + 2$ , due to bankruptcy, delisting, mergers, etc. Column 1 presents results for all directors, Column 2 presents results for independent directors and Column 3 presents results for inside directors. Control variables include all variables in Panel A of Table 2 and are suppressed for parsimony. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1)	(2)	(3)
	All Directors	Independent Directors	Inside Directors
(Intercept)	-0.75 (1.37)	-6.90*** (1.66)	-4.95** (2.27)
Targeted Firm – Non-Board	8.50*** (1.21)	9.04*** (1.37)	8.91*** (2.00)
Non-Proxy – Not Settled	7.04*** (2.13)	5.16** (2.52)	12.60** (5.30)
Non-Proxy – Settled	19.54*** (2.90)	17.54*** (3.09)	22.77*** (4.57)
Proxy – Not Settled	14.32*** (2.65)	11.72*** (2.95)	19.37*** (4.71)
Proxy – Settled	20.12*** (2.36)	18.61*** (2.61)	26.14*** (4.44)
Proxy – Went to Election	17.09*** (3.12)	17.06*** (3.42)	22.15*** (4.40)
<b>Equality of coefficients: p-values</b>			
Non-Proxy – Settled = Non-Proxy – Not Settled	0.001***	0.002***	0.151
Proxy – Settled = Proxy – Not Settled	0.067*	0.053*	0.264
Proxy – Went to Election = Proxy – Settled	0.413	0.705	0.501
Proxy – Went to Election = Non-Proxy – Settled	0.556	0.914	0.917
Controls	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.02	0.03	0.03
Num. obs.	180,044	124,505	34,471



**Table 4: Shareholder activism and director elections**

The table presents results from OLS regressions where the dependent variable is *Against Votes*<sub>*t*+1</sub> for Columns 1 through 3 and *Against Votes*<sub>*t*+2</sub> for Columns 4 through 6. *Against Votes*<sub>*t*+1</sub> (*Against Votes*<sub>*t*+2</sub>) represents the percentage votes against the director in director elections in year *t* + 1 (*t* + 2). Columns 1–3 (4–6) include *Against Votes*<sub>*t*</sub> (*Against Votes*<sub>*t*+1</sub>), shareholder opposition for the director in the year before (of) activism. Columns 1 and 4 present results for all directors, Columns 2 and 5 present results for independent directors and Columns 3 and 6 present results for inside directors. Firm-level controls are size-adjusted return, return on assets, sales growth, market value, book-to-market ratio, leverage, dividend payout ratio, the number of analysts, and institutional ownership. Director-level controls are director age, director tenure, director shareholding, and audit and compensation committee position. All variables are defined in Appendix A. Controls are suppressed for parsimony. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>Dependent Variable: Against Votes</i> <sub><i>t</i>+1</sub>			<i>Dependent Variable: Against Votes</i> <sub><i>t</i>+2</sub>		
	All Directors	Ind. Directors	Inside Directors	All Directors	Ind. Directors	Inside Directors
(Intercept)	-0.89*** (0.27)	0.32 (0.32)	0.61 (0.53)	-1.26*** (0.38)	0.21 (0.35)	-1.24** (0.59)
Targeted Firm – Non-Board	1.92*** (0.17)	2.06*** (0.18)	1.48*** (0.39)	1.00*** (0.28)	1.26*** (0.31)	0.11 (0.34)
Targeted Board – Non-Proxy	5.13*** (0.30)	4.70*** (0.32)	5.66*** (0.67)	3.86*** (0.61)	4.64*** (0.68)	4.47** (1.76)
Targeted Board – Proxy	3.51*** (0.23)	2.59*** (0.25)	3.48*** (0.54)	3.03*** (0.98)	3.00*** (0.90)	4.27* (2.23)
ISS Against <sub><i>t</i>+1</sub>	15.81*** (0.08)	21.24*** (0.11)	8.32*** (0.15)			
ISS Against <sub><i>t</i>+2</sub>				16.60*** (0.31)	21.99*** (0.30)	8.60*** (0.38)
Against Votes <sub><i>t</i></sub>	24.17*** (0.33)	20.71*** (0.36)	34.52*** (0.80)			
Against Votes <sub><i>t</i>+1</sub>				22.54*** (0.72)	19.21*** (0.64)	32.69*** (1.49)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.47	0.53	0.39	0.47	0.53	0.38
Num. obs.	61,901	44,097	12,000	47,199	33,237	9,264

**Table 5: Impact of shareholder support on director turnover in year after activism**

The table presents results from OLS regressions where the dependent variable is  $Departure_{(t,t+2)}$ , i.e., an indicator for the director leaving the board of the firm by year  $t + 2$  (i.e., the year after the activism event, if any). Classification into independent and inside directors comes from Equilar (no results are provided for related directors).  $Against\ Votes_{t+1}$  represents shareholder opposition for the director in the year of activism. Columns 1 and 2 study all directors while Column 3 focuses on independent directors and Column 4 focuses on insider directors. We include all control variables from Panel A of Table 2 but these are not tabulated for parsimony. All regressions control for year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1) All Directors	(2) All Directors	(3) Independent Directors	(4) Inside Directors
(Intercept)	-6.44*** (1.37)	-6.77*** (1.38)	-8.72*** (1.64)	-9.79*** (2.21)
Targeted Firm – Non-Board	2.89** (1.27)	2.72** (1.25)	3.32** (1.33)	5.39 (3.48)
Targeted Board - Non-Proxy	4.98* (2.80)	4.64* (2.80)	3.93 (2.87)	7.41 (4.69)
Targeted Board - Proxy	2.78** (1.32)	2.42* (1.30)	2.35* (1.41)	3.38 (3.23)
Against Votes <sub>t+1</sub>		6.13*** (1.59)	5.02*** (1.91)	16.33*** (4.10)
Controls	Yes	Yes	Yes	Yes
Adj. R2	0.01	0.01	0.02	0.02
Num. obs.	70,628	70,628	49,661	13,529

**Table 6: Impact of shareholder activism on other directorships**

The table presents results from OLS regressions where the dependent variable is *Other Boards*<sub>*t*+2</sub>, which is the number of directorships a director has with firms other than the firm of interest in year *t* + 2 (i.e., the year after then activism event, if any). Columns 1 and 2 present results for all directors. Columns 3 and 4 present results for independent directors and Columns 5 and 6 present results for inside directors. Firm-level controls include size-adjusted return, return on assets, sales growth, market value, book-to-market ratio, leverage, dividend payout ratio, the number of analysts, and institutional ownership. Director-level controls include director age, director tenure, director shareholding, and audit and compensation committee position. All variables are defined in Appendix A. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level. Intercept is not tabulated.

	(1) All Directors	(2) All Directors	(3) Ind. Directors	(4) Ind. Directors	(5) Inside Directors	(6) Inside Directors
(Intercept)	0.17*** (0.01)	0.17*** (0.01)	0.27*** (0.02)	0.26*** (0.02)	-0.08*** (0.02)	-0.08*** (0.02)
Other Boards <sub><i>t</i></sub>	0.80*** (0.00)	0.80*** (0.00)	0.80*** (0.00)	0.80*** (0.00)	0.83*** (0.01)	0.83*** (0.01)
Targeted Firm – Non-Board	0.02 (0.01)	0.01 (0.01)	0.02* (0.01)	0.01 (0.01)	0.01 (0.02)	0.00 (0.02)
Targeted Board – Non-Proxy	-0.03* (0.02)	-0.03* (0.02)	-0.02 (0.02)	-0.03 (0.02)	0.02 (0.03)	0.04 (0.04)
Targeted Board – Proxy	-0.01 (0.01)	0.00 (0.01)	-0.01 (0.01)	-0.01 (0.01)	0.01 (0.02)	0.01 (0.02)
Departure <sub>(<i>t</i>, <i>t</i>+2)</sub>		-0.06*** (0.01)		-0.09*** (0.01)		0.04*** (0.01)
Targeted Firm – Non-Board × Departure <sub>(<i>t</i>, <i>t</i>+2)</sub>		0.05** (0.02)		0.07** (0.03)		0.01 (0.05)
Targeted Board – Non-Proxy × Departure <sub>(<i>t</i>, <i>t</i>+2)</sub>		0.04 (0.03)		0.07* (0.04)		-0.08* (0.05)
Targeted Board – Proxy × Departure <sub>(<i>t</i>, <i>t</i>+2)</sub>		0.01 (0.03)		0.03 (0.03)		-0.01 (0.05)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.72	0.72	0.72	0.72	0.68	0.68
Num. obs.	180,109	180,109	124,556	124,556	34,480	34,480

**Table 7: Impact of shareholder activism on individually targeted directors****Panel A: Effects on director turnover**

The table presents results from OLS regressions where the dependent variable is  $Departure_{(t+1, t+2)}$ , i.e., an indicator for the director who was on the board in year  $t + 1$  leaving the board by year  $t + 2$  (i.e., the year after the activism event, if any). *Targeted Board – Proxy – Targeted Director* is an indicator for targeted directors who are either (i) up for election during an activism year when dissidents do not explicitly identify the directors they seek to replace or (ii) explicitly named as a target by activists. *Targeted Board – Proxy – Non-Targeted Director* is an indicator for the rest of directors in *Targeted Board – Proxy*. Observations where the firm is not on Equilar in year  $t + 2$ , presumably due to bankruptcy, delisting, mergers, etc. are excluded. We include all control variables from Panel A of Table 2 but these are not tabulated for parsimony. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1) All Directors	(2) Independent Directors	(3) Inside Directors
(Intercept)	-0.30 (0.77)	-2.57*** (0.92)	-1.82 (1.28)
Targeted Firm – Non-Board	3.23***	4.10***	1.62
Targeted Board – Non-Proxy	-0.86 4.63*** (1.31)	(0.96) 4.09*** (1.43)	(1.40) 8.14*** (2.77)
Targeted Board – Proxy	6.69***	6.21***	7.36***
– Non-Targeted Director	(1.22)	(1.35)	(2.00)
Targeted Board – Proxy	27.05***	26.12***	32.20***
– Targeted Director	(3.44)	(3.76)	(6.34)
Controls	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.01	0.02	0.01
Num. obs.	180,109	124,556	34,480

**Table 7: Impact of shareholder activism on targeted directors (cont.)**

**Panel B: Other directorships**

The table presents results from OLS regressions where the dependent variable is how many directorships a director has with firms other than the firm of interest in year  $t + 2$  (i.e., the year after then activism event, if any). *Targeted Board – Proxy – Targeted Director* is an indicator for targeted directors who are either (i) up for election during an activism year when dissidents do not explicitly identify the directors they seek to replace or (ii) explicitly named as a target by activists. *Targeted Board – Proxy – Non-Targeted Director* is an indicator for the rest of directors in *Targeted Board – Proxy*. Columns 1 and 2 present results for all directors. In Columns 2, 4, and 6 we include interaction variables with  $Departure_{(t,t+2)}$ , i.e., an indicator for the director leaving the board of the firm by year  $t + 2$  (i.e., the year after the activism event, if any). Columns 3 and 4 present results for independent directors and Columns 5 and 6 present results for inside directors. All control variables from Table 6 are included but not tabulated for parsimony. All regressions include year fixed-effects and robust standard errors (in parentheses) clustered at the firm level. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1) All Directors	(2) All Directors	(3) Ind. Directors	(4) Ind. Directors	(5) Inside Directors	(6) Inside Directors
(Intercept)	0.17*** (0.01)	0.17*** (0.01)	0.27*** (0.02)	0.26*** (0.02)	-0.08*** (0.02)	-0.08*** (0.02)
Other Boards	0.80*** (0.00)	0.80*** (0.00)	0.80*** (0.00)	0.80*** (0.00)	0.83*** (0.01)	0.83*** (0.01)
Targeted Firm – Non-Board	0.02 (0.01)	0.01 (0.01)	0.02* (0.01)	0.02 (0.01)	0.01 (0.02)	0.00 (0.02)
Targeted Board – Non-Proxy	-0.03* (0.02)	-0.03* (0.02)	-0.02 (0.02)	-0.03 (0.02)	0.02 (0.03)	0.04 (0.04)
Targeted Board – Proxy – Non-Targeted Director	-0.01 (0.01)	0.00 (0.01)	-0.02 (0.02)	-0.01 (0.02)	0.00 (0.03)	-0.02 (0.02)
Targeted Board – Proxy – Targeted Director	0.02 (0.02)	0.00 (0.03)	0.00 (0.03)	-0.04 (0.03)	0.07 (0.05)	0.13*** (0.07)
Departure <sub>(t,t+2)</sub>		-0.06*** (0.01)		-0.09*** (0.01)		0.04*** (0.01)
Targeted Firm – Non-Board × Departure <sub>(t,t+2)</sub>		0.05** (0.02)		0.07** (0.03)		0.01 (0.05)
Targeted Board – Non-Proxy × Departure <sub>(t,t+2)</sub>		0.04 (0.03)		0.07* (0.04)		-0.08* (0.05)
Targeted Board – Proxy – Non-Targeted Director × Departure <sub>(t,t+2)</sub>		-0.01 (0.03)		0.00 (0.03)		0.02 (0.06)
Targeted Board – Proxy – Targeted Director × Departure <sub>(t,t+2)</sub>		0.09 (0.06)		0.17** (0.07)		-0.17 (0.11)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R <sup>2</sup>	0.72	0.72	0.72	0.72	0.68	0.68
Num. obs.	180,109	180,109	124,556	124,556	34,480	34,480

**Table 8. The effect of proxy fights on directorships: Within-firm analysis**

This table reports results from OLS regression where the dependent variable is either  $Departure_{(t,t+2)}$ , i.e., an indicator for the director leaving the board of the firm by year  $t + 2$  (i.e., the year after the activism event, if any) or  $Other\ Boards_{t+2}$ , which is the number of directorships a director has with firms other than the firm of interest in year  $t + 2$  (i.e., the year after then activism event, if any). Sample comprises director-years of firms with staggered boards subject to a proxy fight. *Targeted Director* indicates that the director was targeted by activists due to being nominated for election in the proxy-fight year. Numbers in parentheses are robust standard errors. \*\*\* (\*\*, \*) indicates significance at the 1% (5%, 10%) level.

	(1) <b>Departure<sub>(t,t+2)</sub></b>	(2) <b>Departure<sub>(t,t+2)</sub></b>	(3) <b>Other Boards<sub>t+2</sub></b>	(4) <b>Other Boards<sub>t+2</sub></b>
(Intercept)	22.10*** (1.86)	-2.75 (13.30)	0.08*** (0.03)	0.10 (0.18)
Targeted Director	5.83* (3.22)	7.32** (2.97)	0.05 (0.04)	0.06 (0.04)
Other Boards <sub>t</sub>			0.80*** (0.02)	0.78*** (0.02)
Firm fixed effects	No	Yes	No	Yes
Director-years	All	All	All	All
Adj. R <sup>2</sup>	0.00	0.23	0.71	0.72
Num. obs.	790	790	790	790