Can Institutional Investors Improve Corporate Governance Through Collective Action?

Craig Doidge, Alexander Dyck, Hamed Mahmudi, and Aazam Virani*

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Abstract

Can institutional investors generate sufficient power through collective action to drive improvements in governance? We use proprietary data on the private communications of a coalition of Canadian institutional investors and find that its private engagements influence firms' adoption of shareholder democracy measures, say-on-pay advisory votes, improve compensation structure and disclosure, and influence CEO incentive intensity. Spillovers from engaged firms to non-engaged firms through board interlocks and informal regulation through definition and dissemination of performance relative to best practices, suggest a broader impact. This form of activism is both a substitute and complement to other interventions to address governance concerns.

* Doidge and Dyck are at the Rotman School of Management, University of Toronto. Mahmudi is at the Price College of Business, University of Oklahoma. Virani is at the Eller College of Management, University of Arizona. We thank the Canadian Coalition for Good Governance for making their information available to us and Matt Fullbrook and the Shareholder Association for Research and Education (SHARE.ca) for providing data. David Beatty, Susan Christoffersen, Craig Dunbar, Stephen Erlichman, Bing Han, Ed Iacobucci, Wayne Kozun, and Randall Morck provided many useful comments as did seminar participants at Imperial College London, Rotman-ICPM Discussion Forum, University of Alberta, UC San Diego, University of South Florida, and Warwick University. Mary Lou, Ashley Newton, Livia Nguyen, and Eric Wilson provided excellent research assistance. We are grateful to the Rotman International Centre for Pension Management for financial support.

In *The Modern Corporation and Private Property* (1932), Berle and Means warned that with the separation of corporate ownership and control, the interests of shareholders and managers may diverge and that "no shareholder is in the position to place important pressure upon the management..." (p. 84). However, over the last few decades, ownership has been transformed by the emergence and growth of institutional investors. In aggregate, these investors now own substantial stakes in many firms and could have significant influence if they coordinated their efforts. But, do institutional investors work collectively? If so, are they effective in engaging firms to represent shareholder interests and address governance concerns? What mechanisms are important for success and are there limitations of shareholder engagement through collective action? These questions are of more than academic interest. Effective institutional investor activism provides a potentially attractive alternative to regulated solutions to governance concerns, as advocated by Berle and Means and others.

In this paper we examine the formation of a collective action organization that seeks to increase institutional investors' power and test whether it has been effective in influencing firms' governance. We focus on the Canadian Coalition for Good Governance (CCGG) over the period from 2005 to 2013. The CCGG is a collective action organization comprised of some of the largest institutional investors in Canada. Its mandate is to promote good governance among Canadian firms by acting as the "Voice of the Shareholder" and there is considerable anecdotal support for the CCGG's importance. The announcement of the formation of the CCGG in 2002 was covered in the press globally, including *The Wall Street Journal* and *Financial Times*. In 2006, activist and governance expert Ira Millstein called the CCGG "an example for the rest of the world to emulate," and in 2008, the Global Proxy Watch described it as "a powerhouse in Canada and global model of collective investor activism".

To identify investor-lead governance changes our setting offers several key advantages. The CCGG serves as a focal point for institutional investor activism and its members use the CCGG rather than shareholder proposals or proxy fights to advance their agenda. Collectively, CCGG members hold an average stake of 14% (21% by value-weight) in Canadian firms included in the leading index. Thus it has significant influence. The CCGG privately engages specific firms through letter writing campaigns, phone calls, and meetings with independent directors and it made its records of these engagements available to us. These records allow us to form a complete picture of the CCGG's activism efforts and to construct

tests that estimate the influence of collective institutional investor activism on governance. Our tests exploit the fact that only some firms were engaged by the CCGG on a specific governance issue in a given year. Finally, governance in Canada is largely guideline based with a comply-or-explain requirement and there were no mandated governance changes during our sample period. This alleviates the concern that the governance changes we observe are due to regulatory requirements.

We first look at which institutional investors chose to form, and belong, to the CCGG. The institutional investor activism literature predicts that benefits of activism are higher and costs are lower for institutions that hold large, long-term stakes, are independent, and are foreign. These institutions are classified as "independent" or "active". Others are classified as "grey" or "passive". CCGG members are all Canadian-domiciled institutions by constraint, and aside from scale, these characteristics have limited power to explain CCGG membership. Thus, institutions traditionally viewed as passive because of potential conflicts, e.g., bank-affiliated asset managers, are members. One interpretation of these results is that the CCGG enables activism by all types of institutional investors.

During our sample period, the CCGG engaged firms on three main governance issues that it considers important. We examine the extent to which its engagements resulted in governance changes. In each case, we find that CCGG engagement is associated with a statistically significant and economically meaningful increase in the likelihood of adoption. In 2005, the CCGG engaged 42% of the firms in the S&P/TSX Composite Index on majority voting. We find that engaged firms were more likely to subsequently adopt majority voting compared to firms not engaged by 32 percentage points. In subsequent engagements from 2008 to 2012, the CCGG engaged about one out of eight index firms each year. It frequently pushed firms to adopt say-on-pay and for specific improvements to compensation structure and disclosure, including capped pension payouts, clawback provisions, and using and disclosing performance peer groups ("compensation policies"). For both say-on-pay and compensation policies, engaged firms were more likely to adopt by about 45 percentage points compared to firms not engaged. Finally, we test whether engagements focused on compensation are followed by changes in performance-based incentives. We find that CEO total pay is unchanged, but that the equity pay ratio (EPR) increases by 11%.

These differences are large and attributing them to the influence of the CCGG faces at least two potential concerns. First, firms that adopted may have done so absent CCGG engagement and/or because of external pressures other than the CCGG. We estimate logit regressions and control for other external pressures and firm characteristics. With these controls, we continue to find strong evidence that CCGG engagements are associated with subsequent adoptions. The probability of adopting majority voting is 17% higher for engaged firms and it is 11% and 22% higher for say-on-pay and compensation policies, respectively. After controlling for other influences, EPR increases by 7%.

Second, there are concerns about endogeneity. The specific timing of CCGG engagements and firms' subsequent adoptions rules out reverse causality. Although we include a broad set of control variables, there could be unobservable differences between engaged and non-engaged firms that lead engaged firms to adopt the governance changes, absent engagement by the CCGG. Of course, if this was the case, it is not clear why the CCGG would spend its limited resources engaging these firms in the first place. Nonetheless, we verify that the results for the 2008 to 2012 engagements and for changes in EPR hold after controlling for unobservable differences.

In general, improving internal governance creates value (Cunat, Gine, and Guadalupe (2012)), but do the specific governance changes sought by the CCGG matter? Clearly, these issues are important to the CCGG and its members. We examine abnormal returns around the date when the formation of the CCGG and find statistically and economically significant higher abnormal returns for firms that were more likely to be engaged by the CCGG. We also note that evidence from other countries and settings provides further support. For example, majority voting and say-on-pay are valued by shareholders (e.g., Cunat et al. (2014), Cai and Walkling (2011), Ertimur, Ferri, and Oesch (2013), and Ferri and Maber (2013)) although this conclusion is not unanimous (e.g., Cai, Garner, and Walkling (2013) and Larcker, Ormazabal, and Taylor (2011)). Clawback provisions in compensation contracts are associated with higher valuations (e.g., Iskandar-Datta and Jia (2013)) while performance peer groups filter out the common factor of firms' performance measures to ensure that executives are not paid for luck (e.g., Holmstrom (1982)) and improves executives' incentives (Bettis, Bizjak, Coles, and Young (2014)). There is an extensive literature dating back to Jensen and Meckling (1976) that advocates pay-for-performance as a mechanism to provide value-increasing incentives for managers.

Does the CCGGs impact extend beyond engaged firms? One potential channel to create a broader influence is the spillover of governance practices to non-engaged firms through board interlocks (e.g., Bouwman (2011)). We test for such spillovers by focusing on firms not engaged by the CCGG and identify which firms share at least one director with a firm previously engaged by the CCGG on a particular governance issue. We test and find that non-engaged firms with overlapping directors are more likely to adopt than other non-engaged firms and that this effect is stronger when the overlapping directors are more powerful (e.g., Fogel, Ma, and Morck (2014)). We also document one important regulatory change and efforts towards "informal regulation" by defining best practices, measuring firms' governance relative to these practices, and sharing this information, which was subsequently incorporated into widely reported governance scores.

Were there strategic and organizational decisions that made issuers responsive to CCGG requests for governance changes? The CCGG choice to seek large investors as members, regardless of ownership type, ensured the group had a substantial stake in firms, and reduced issuer concern that CCGG requests were not representative of their investor base. The CCGG choice to focus much of its activities on engagement meetings between owners and independent directors also was important, as insiders and their interest groups who might oppose such changes were not part of the conversation. Finally, in addition to economic incentives, the CCGG leveraged social incentives to encourage firms to adopt governance changes. These efforts include repeat engagements with the same firms and restricting membership to Canadian-domiciled investors. Both decisions created a higher likelihood of repeated face-to-face contact that create reputational and social penalties for directors that do not respond to CCGG requests.

Does the CCGG's collective action approach to activism offer a compelling substitute for other governance mechanisms, or is it complementary? For large, widely-held firms, the CCGG had considerable success with majority voting, say-on-pay, and improved compensation structure. These firms were responsive and had some flexibility as to when and how to respond, likely lowering adoption costs. The CCGG is less likely to engage controlled corporations, and thus, has less influence with them. We also find some evidence that when engaged controlled corporations are less likely to respond. Therefore, other interventions may be required for these firms. Compared to hedge fund activism (e.g., Brav, Jiang, Partnoy, and Thomas (2008)), the CCGG appears to be a complement. As a matter of policy, the CCGG

does not to engage firms on issues such as business strategy, financial policy, or leadership. Instead, it restricts its focus to issues that do not require significant firm-specific information or analysis and on which its members can reach consensus.

Our paper contributes to the literature on institutional investor activism and governance (see Gillan and Starks (2007) and Yermack (2010) for reviews)). Prior research typically focuses on total institutional ownership or ownership concentration (e.g., Hartzell and Starks (2003)), but cannot identify specific coordination mechanisms. Black and Coffee (1994) and McCahery, Sautner, and Starks (2014) survey institutional investors and find evidence of a willingness to coordinate and provide examples of informal, event driven coordination. The Council of Institutional Investors' Focus List of underperforming firms is a well-known example of limited coordination (e.g., Opler and Sokobin (2000) and Song and Szewczyk (2003)). Huang (2013) infers when institutional investors are more likely to coordinate and concludes that there are benefits to coordination. There is also a literature that identifies and examines proxy advisory firms' voting recommendations as an alternative coordination mechanism (e.g., McCahery et al. (2014), Choi, Fisch, and Kahan (2010)). We provide new evidence that firms change their governance practices in response to a formal collective action organization of institutional investors. We highlight the scope for collective action to proactively improve governance through non-legal channels, as well as the limitations. We also confirm the importance of engagements through private channels (e.g., Carleton, Nelson, and Weisbach (1998) and Becht, Franks, Mayer, and Rossi (2008)). Without access to information about CCGG's private engagements, one would reach different conclusions.

Finally, our paper highlights that it is possible for a broader set of institutional investors to be active in governance, given the right organizational structure. This evidence complements prior research that focuses on identifying which institutional investors are more active (e.g. Almazan, Hartzell, and Starks (2005), Chen, Harford, and Li (2007), Ferreira and Matos (2008), and Aggarwal, Erel, Ferreira, and Matos (2011)). Issues that appear to be important for the CCGG's success are consistent with prior work on collective action (e.g., Olson (1965)). Group size, the use of social norms, and creating and dissemination information support group functioning.

The paper is organized as follows. Section 1 provides some facts about institutional ownership of Canadian firms and discusses some of the challenges that limit institutional investor activism. Section 2

describes the CCGG and the private data on engagements we exploit in our empirical tests. Section 3 presents our main empirical results on the impact of engagements on adoptions. In Section 4 we consider broader impacts, including spillovers to non-engaged firms, informal regulation, and event study results. We discuss organizational choices, why firms respond to the CCGG, and whether the CCGG is a substitute or complement for other governance mechanisms in Section 5. Section 6 concludes.

1. Institutional Ownership in Canada and Challenges that Limit Activism

In this section we introduce some basic facts about institutional ownership in Canada, and outline three important challenges for institutional investor activism. To provide context, we also highlight some similarities and differences with the U.S. and U.K.

When discussing institutional ownership in Canada, we focus on firms included in the S&P/TSX index, the leading index for the Canadian equity market. It includes the largest, most liquid Canadian publicly-listed firms. We use institutional ownership data from Factset, downloaded via the Stock Ownership Summary application in WRDS. This application uses the classification scheme of institutional owners developed by Ferreira and Matos (2008). For Canadian index firms, we supplement data missing from Factset by using information from Capital IQ.

Institutional ownership is sufficiently high that if investors could speak with one voice they could dominate decision making in most firms. Figure 1A provides a snapshot in 2005 and in 2012, the first and last years of our sample period. In 2005 institutional investors held 51% of the shares of Canadian firms. To facilitate comparisons, we present similar data for U.S. and U.K. firms included in the leading indices in those countries (S&P 500 for the U.S. and FTSE 350 for the UK). Institutional ownership in the U.S. is higher than in Canada whereas it is lower in the U.K. (81% and 30%, respectively). The holdings are similar if we use value-weights, and for 2012.

Although aggregate institutional ownership is substantial, each individual institution typically holds a small stake, leading to the well-known free rider problem. An individual investor bears all of the costs of governance engagements but reaps only a small percentage of the benefits, leading to limited engagement activity in equilibrium (e.g., Admati, Pfleiderer, and Zechner (1994)). The extent to which ownership is concentrated may influence activism. To measure concentration we use the Hirschman-Herfindahl index

(HHI). It squares and sums the ownership stakes and ranges from 0 to 10,000. For example, if there are 100 institutional owners and each owns 1% of a firm, its HHI would be 100. Figure 1B shows that in Canada the HHI of institutional investors is 196 in 2005. In comparison the HHI for the U.S. and U.K. is 256 and 78, respectively. Again, results are similar in 2012.

Some institutional investors face additional costs of activism and as a result are more inclined to be passive. For example, investors that have business relationships with firms that extend beyond their ownership stakes may be reluctant to take active steps to address governance issues. This concern was developed in Brickley, Lease, and Smith (1988) and extended in Chen et al. (2007) and Ferreira and Matos (2008). Institutional investors are classified as either independent or grey (alternatively, active or passive). Ferreira and Matos (2008) focus on the type of institution and label pressure-sensitive institutions such as banks, insurers, pension plans, and governments as grey. Aggarwal et al. (2011) focus on geography. The idea is that foreign institutional investors are less likely to face potential conflicts and are more likely to be active compared to domestic institutional investors. Figures 1C and 1D show that the percentage of institutional ownership that is expected to be passive in Canada, either by virtue of institutions being grey or domestic, generally lies between similar measures for the U.S. and the U.K. Grey institutions account for 10% of total institutional holdings in Canada in 2005 while domestic institutions account for 61%.

A third challenge for institutional investors is the need to overcome legal and regulatory obstacles. If meetings and communications between investors were considered a ‘solicitation’ or a ‘joint action’ by securities regulators, this would invoke public disclosure obligations and a potentially costly public formal solicitation. Such concerns about legal impediments to collective actions are common in other jurisdictions as well. Concerns about legal risk are also important in the U.S. (see Black (1998) and McCaherty et al. (2014)). In the U.K., investors’ concerns include “acting in concert” and the potential to trigger takeover rules, improper disclosure, and insider dealing (Collective Engagement Working Group (2013)). Legal changes have reduced but not entirely eliminated such concerns. The U.S. introduced a changes to proxy rules in 1992. Canada followed in 2001 when the government changed the proxy solicitation provisions in the Canada Business Corporation Act (CBCA), removing doubts that communications between investors would constitute a “solicitation”.

2. The CCGG as a Collective Action Organization and its Engagement Campaigns

In this section we first describe the CCGG, its members, and the source of its voice. We then discuss the CCGG's engagement strategy and the governance changes sought in its engagement campaigns.

2.1. The CCGG as a Focal Point for Governance Activism

On June 27, 2002 two prominent investors that were active in governance announced the intention to form the CCGG. They were joined by a number of other important institutional investors. The announcement was covered in the national and international press. The press releases, as well as media commentary, noted that the recent change in legal rules facilitated the creation of such an organization.[1] The founders hoped that the CCGG would act as 'the voice of the shareholder.' By the spring of 2003, the organization hired a prominent Canadian independent director as managing director and created a high profile board. The board was chaired by the chair of UBS Canada, previously a Federal finance minister, and included chief executives of the institutional investors that joined the CCGG.

Over our sample period from 2005 to 2012, the CCGG was the main vehicle that its members used to advocate for the governance changes that are the focus of this paper. To confirm the importance of the CCGG we searched for signs of investor activity through other channels on these governance issues. First, we gathered data on shareholder proposals.[2] We found 108 related proposals, but that only two (small) CCGG members were active, filing eight of these proposals. Second, we looked for evidence of investor involvement in lawsuits on these issues and found one case.[3] Finally, we looked through 13D filings which indicate potential activity for firms with U.S. listings. We found two filings by CCGG members, but neither filing was related to governance issues addressed by the CCGG.[4]

For our study, another attractive feature of the Canadian setting is that governance is largely principles-based with a "comply or explain" approach (Anand, Milne, and Purda (2012)). During our

[1] See Dan Westell, "Canadian Investors Focus on Governance," *Financial Times*, July 1, 2002.
[2] We use a list compiled by SHARE.ca. We code each shareholder policy by category and restrict out attention to proposals related to majority voting, say-on-pay, and compensation structure and disclosure.
[3] Three CCGG members (the Canada Pension Plan Investment Board, RBC Global Asset Management, and Connor, Clark, and Lunn Investment Management) filed a lawsuit to force disclosure of director voting results for Magna in 2011. See Janet McFarland, "Mike Harris lacked shareholder support as Magna chairman," *The Globe and Mail*, December 7, 2011.
[4] In 2007, two CCGG members, the Canada Pension Plan Investment Board and the Ontario Teachers' Pension Plan made bids as part of an unsuccessful private equity purchase of BCE In 2009, the Ontario Teachers' Pension Plan was involved in the merger of PetroCanada.

sample period none of the governance changes advocated by the CCGG (at the time of the engagements) were required by corporate law, listing rules, or by securities regulators. Canada does not have a national securities regulator. Instead, the formal regulatory structures include provincial security commissions and stock exchange listing requirements. This contrasts with the U.S. where stronger and more active regulators periodically impose new governance requirements on firms. Thus, investors in Canadian firms have a potentially stronger incentive to act and it is easier for researchers to identify the impact of investors' actions because there is less concern that governance changes followed from mandatory requirements, or anticipation of their introduction.

2.2. Who Joins the Collective Action Group?

The characteristics of institutional investors that join the CCGG could be the same as those identified in the institutional investor activism literature that focuses on the costs and benefits of activism for an individual investor, e.g., an independent institution with large, long-term holdings in a firm. The collective action literature also focuses on costs and benefits to investors, but also highlights the need to provide specific benefit to members that are separate from the shared benefits that arise from activism. For example, one benefit could be private information that helps CCGG members identify investment targets (although this would produce legal difficulties), or it could be social rewards provided to members only. If social incentives are important, we predict membership by domestic rather than foreign investors as domestic investors are likely to have more frequent and repeated face-to-face contact.[5]

We first examine the characteristics of institutions that join the CCGG, which involves paying a small annual fee.[6] We then examine the characteristics of active members of the CCGG (sit on the board and/or a working-group of the CCGG). These roles require additional time and effort from a top executive (the investor's representative with the CCGG is almost always the CEO or Chief Investment Officer).

[5] "The recalcitrant individual can be ostracized, and the cooperative individual can be invited into the center of the charmed circle." (Olson (1965), p. 61) "In general, social pressure and social incentives operate only in groups of smaller size, in the groups so small that the members can have face-to-face contact with one another." (p. 62) Experimental research shows that face-to-face communication is important to reach a cooperative solution in public good games (Ostrom and Walker (1997)).

[6] The absolute dollar amount of fees changes over time, but the process has remained the same. "Fees are based on total assets under management (AUM). The annual fee for members with total AUM below $3.5 billion is $5,458. As the AUM increases above $3.5b, the fee escalates on a straight line basis, for $1,516 for every billion to a maximum of $38,202." (CCGG Annual Report, 2012, p. 23).

According to Factset, in 2005 there were 2,357 institutional investors in Canadian firms included in the S&P/TSX index. When the CCGG announced its intention to form, 12 of these investors expressed an interest in joining. It incorporated with 19 members in 2003 and by its first annual report in 2004 it had 34 full members. As of 2012 it had 50 members, the highest number of members since formation. All members are Canadian-domiciled investors, a requirement of the CCGG's bylaws.

In Table 1 we estimate logit regressions to identify the characteristics of CCGG members (models (1) to (4)) and those members that are active members of the CCGG (models (5) to (8)). We use Factset and CCGG annual reports to construct a dataset of institutional investors that could potentially be members of the CCGG over the period from 2003 to 2012. Most, but not all CCGG members, are mentioned by name in Factset. In some cases, we obtain information on holdings of Canadian equities from an institution's annual reports.[7] Given the CCGG's bylaws, we exclude foreign institutional investors. There are a maximum of 191 institutional investors per year in our sample period. Because an institutions' decision to join or not is likely persistent across years, we cluster standard errors by investor.

Institutions that join the CCGG have a larger economic interest in Canadian firms, measured by an institution's total equity holdings in S&P/TSX Index firms ("Log(1+$ ownership)"). The coefficient on this variable is positive and significant in model (1) through (4). It is also significant in models (5) through (8) and is about twice the size of those in (1) to (4). An institution's economic interest is an important determinant of CCGG membership and activity.

Controlling for economic interest, are other characteristics important? In models (1) and (5) we introduce a dummy to identify banks, insurers, pension plans, endowments, and sovereign wealth funds from other institutions. Ferreira and Matos (2008) classify these institutions as grey, and thus, more likely to be passive ("Grey Institutions"). In models (2) and (6), we use an alternative definition of grey that also includes bank-affiliated asset managers. Regardless of the definition, we find no evidence that grey institutions are less likely to join or be an active member of the CCGG. In (1) and (2), the coefficient is positive and significant while it is not significant in (5) or (6).

[7] We have data for 43 out of 49 distinct CCGG members in 2007. Members with missing data include five asset management companies and one pension plan.

We next estimate logit regressions with dummies for each type of institution. We split the grey group into its two main constituents, of bank-insurer-affiliated institutions and pension funds. We also include a separate category for investment management companies. The omitted category is mutual and hedge funds. The positive and significant coefficient on pension funds in model (3) indicates that pension funds are more to join the CCGG (than mutual funds and hedge funds) though its coefficient in model (5) suggests they are not more likely to be an active member. None of the coefficients on the other institution type dummies are significant. In models (4) and (8), we introduce a dummy that equals one during 2008 to 2012 ("Late Period") and interact it with dummies for each type of institution. In models (4) and (8) the coefficient on the pension fund interaction is positive and significant. These results are consistent with Coffee (1991) and Chen et al. (2007) who argue that pension funds long horizon and significant stakes make them good candidates to be active investors, if political influence can be addressed.

Perhaps more interesting is the result that bank-insurer-affiliated institutions are more likely to join the CCGG and take an active role in the later period after the CCGG established itself. The coefficient on the interaction term for bank-insurer-affiliated institutions is positive and significant in both models (4) and (4). These institutions were more willing to join the CCGG in later years and were more willing to take an active role. This is important because in terms of equity holdings, bank-affiliated asset managers account for a significant fraction of Canadian institutional equity holdings.

These results show that a central factor in participation is the economic interest of the institution, with independence not playing a significant role. One interpretation is that this collective action vehicle provides a mechanism that enables investors that are presumed to be passive or conflicted to become more active. As a result of the involvement of various types of owners, we also find that no one type of investor dominates decision making. We return to this later, as it may help explain why firms are responsive to CCGG requests for governance changes.[8]

2.3. The CCGG's Voice

Black (1992) argues that institutional voice requires that not only institutions join forces, but that the group include different types of institutions. The previous section shows that the CCGG pursued this

[8] In unreported regressions, we also examine the potential explanatory power of the speed of turnover of the investors' portfolio, using classifications provided in Factset. The coefficient on higher turnover indicators was consistently negative, but never significant.

approach. One benefit of having large shareholders, regardless of investor type, is that the CCGG's members control a substantial percentage of Canadian equities. The size and importance of its members, along with the broad representation of institutional investor types, gives the CCGG influence with firms it engages and a strong claim as "the voice of the shareholder".

Figure 2A shows CCGG members' combined percentage stakes of Canadian firms in the S&P/TSX index from 2005 to 2012. In 2005, CCGG members held an average stake of 14% (21% by value-weight) in Canadian firms. These holdings represent more than a quarter of the total institutional investor holdings. The figure also shows ownership by investor types. The largest owners are investment advisors, with bank-affiliated asset managers constituting more than half of this group, followed by investment companies (e.g., mutual funds) and finally pension funds. The biggest change over time is the decrease in pension plan holdings following a rule change in 2005 that allowed Canadian pension funds greater flexibility to diversify outside of Canada.

Figure 2B shows there is variation in CCGG ownership across firms at the beginning of the sample period in 2005 and at the end in 2012. In 2005, in more than 15% of firms, CCGG members held stakes of less than 4% while at the same time their stakes exceeded 20% in 20% of firms. Finally, CCGG members invest similarly compared to other Canadian institutional investors but invest in different types of firms compared to foreign institutional investors (not reported). The correlation between CCGG ownership and foreign ownership is only 0.136. For CCGG members there is no statistically significant difference in their ownership of widely-held firms and controlled firms (those with a shareholder with a stake of 20% or more, a significant minority of Canadian firms). Foreign institutional investors own significantly smaller stakes in controlled corporations. This is consistent with prior literature that finds foreign investors invest less in firms with weaker governance (e.g., Leuz, Lins, and Warnock (2010)).

2.4. Private Engagements on Measurable Governance Policies Facilitate Identification of Impact

The CCGG's strategic agenda includes working in the policy arena, developing and broadcasting best practices and guidelines, and directly engaging with firms' boards to promote good corporate governance policies and practices. Our empirical analysis focuses on the CCGG's engagements. These

engagements were done privately and information about them was not made public. These records specify the timing of the engagements, the identity of the engaged firms, the meeting attendees, and the specific governance changes discussed.

In these engagements, the CCGG pursued several specific governance campaigns. The first campaign focused on majority voting for directors, with the goal of improving shareholder democracy. In 2003, in all Canadian firms (except one) directors were elected by a plurality of votes cast. In uncontested elections, directors could be elected with a single vote. There were no votes for individual directors, and no required publication of the vote totals. As the CCGG stated in its letters to firms and in subsequent publicly posted board policies, the existing system "does not permit shareholders to vote against an underperforming director and allows an entrenched board to continue to be in charge of the company, even if they are opposed by a majority of the owners of the company. The only option … is to undertake a costly and confrontational proxy fight".[9] Instead, the CCGG suggested that "to ensure effective shareholder democracy in the election of directors, the CCGG recommends that the board of every public company adopt a majority voting bylaw or board policy".[10] Such policy changes can be tracked, as they are reported in the proxies associated with the annual reports.

The CCGG's second campaign focused on firm's compensation practices, with concerns about structure, disclosure, and accountability. The CCGG provided financial resources that supported the collection of data on current practices and began a dialogue with firms. In 2007 the CCGG issued its principles of executive compensation and provided user-friendly examples through "best practices in compensation disclosure". As part of these efforts, the CCGG identified gaps in the mandated disclosures, in choices around uncapped pension payments, the absence of clawback provisions, and the fact that few firms used meaningful performance peers when awarding performance-based executive compensation.[11] The adoption of these measures is likewise reported in annual disclosures.

[9] CCGG Majority Voting Policy, March 2011, available at www.ccgg.ca.

[10] It further specified this should include provisions for individual elections, disclosure of votes, use a majority standard whereby board members that failed by this standard submitted their resignation which would be accepted by the board absent extraordinary circumstances. With these changes, investors could focus their discontent on specific directors, thereby raising reputational and real costs for directors and firms.

[11] An issue perhaps notable for its absence was an initiative on anti-takeover devices or staggered boards. This reflects the fact that in Canada a number of features limit the impact of anti-takeover efforts. First, investors can call an Extraordinary General Meeting and replace directors, thus effectively eliminating staggered boards. Though they

A related, but distinct campaign became clear in April 2009 when the CCGG publicly advocated for firms to introduce an advisory say-on-pay vote, stating that it would give shareholders "an opportunity to express directly to the board their satisfaction with the prior years' compensation plan and actual awards".[12] Similar to its majority voting policy, after consulting with firms and legal experts, the CCGG issued a "model form on say-on-pay" for boards to consider introducing at their annual meetings in September 2010.

To summarize, the CCGG's distinct governance campaigns and its engagement strategy provide additional advantages to identify investor-led governance changes. First, each of its campaigns focused on specific governance issues that we can measure. Second, these campaigns, executed through private engagements, represent the bulk of its activity. Thus we have a complete picture of its activism efforts. Third, the engagements in each campaign focused on a targeted group of firms in any given year. Thus we can compare subsequent actions of firms engaged by the CCGG on a specific issue with those not engaged. After controlling for other factors that could influence governance changes, we can better identify the impact of collective institutional investor activism on governance.

2.5. The CCGG's Private Engagements With Firms

The private data we have access to consists of file records from the time period, including engagement letters with firms, *ex post* reports of those engagements, and assorted other information. With this data, we assembled a comprehensive record of the CCGG's engagements with firms, the specific items raised in the discussions, the identities of the meeting attendees (the specific CCGG members and the engaged firm's board members), and the timing of such communications.

For the majority voting campaign, we first identify the CCGG's efforts to convey its views to firms through letters and meetings. The 2005/2006 private engagement campaign had two related stages. It began in the fall of 2005 when the CCGG contacted the boards of the five major Canadian banks (RBC, TD Bank, Scotiabank, CIBC, and BMO) and two major insurers (Manulife and Sun Life). The lead contact at the CCGG was its managing director David Beatty, a prominent Canadian business leader who

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are rarely used, EGMs do make investors potentially more powerful. Second, in Canada investors can appeal to the Securities regulator to cease trade poison pills which makes it more difficult for directors to just say no to potential takeover offers.

[12] CCGG Shareholder Engagement and "Say-on-pay" Policy.

also sat on the board of a leading bank. In the letter to each bank the CCGG stated the total shareholdings of its members and provided a model majority voting provision. The model provision was drafted by one of Canada's leading corporate law firms and was pre-vetted by the financial regulator. All seven firms committed to adopt majority voting by the spring of 2006 and it was widely acknowledged that the CCGG was the driving force behind the adoptions.[13] The CCGG then sent letters to 81 additional firms in which they identified majority voting for directors as an important issue. In many cases, the letters stated CCGG members' combined stakes and noted that the seven major financial institutions had agreed to adopt majority voting. Finally, the letter provided examples of ways of improvement. The engaged firms were sent a follow up letter, sometimes accompanied by a phone call, or other communication. Following these contacts by the CCGG with specific firms, the CCGG also published its policy guidelines on Majority Voting (in August 2006) to provide firms with additional guidance on best practices.

For the CCGG's say-on-pay initiative and its efforts to encourage changes in compensation policies, we focus on a second round of CCGG activity that started in 2008 and involved more intensive engagements between the CCGG and firms' boards. As they described: "the CCGG believes that institutional shareholders should have regular, constructive engagement with the boards and board compensation committees of public companies to explain their perspectives on governance, compensation and disclosure practices, and to provide detailed comment on the company's practices to the board. CCGG expects boards will welcome this direct constructive interaction with large shareholders, which will normally be held without management or advisors, and that it will lead to a better alignment of the interests of shareholders with the interest of the board and management".[14]

Over a period of five years from 2008 to 2012, the CCGG conducted (attempted) 143 (146) engagements. It met with 76 different firms so that 65 of these were repeat engagements, providing some form of accountability. The CCGG has an escalation protocol that it follows when firms decline to meet.[15]

[13] See for example, "Big banks to allow election of individual directors," *National Post, November 9, 2005*. A few of the banks also mentioned CCGG by name in their proxy statements when they disclosed adoption of the policy.
[14] CCGG Shareholder Engagement and "Say-on-pay" Policy.
[15] Three firms refused to meet with the CCGG. Requests to meet, sent in writing by the CCGG managing director to the lead independent director were followed by phone calls from CCGG staff to the corporate secretary. If this failed, the CCGG's managing director proposed to call directly, emphasizing the percentage of equity held by CCGG members and to express surprise at the board's lack of interest in the views of major shareholders and to reiterate the need for a meeting. Failing this, the CCGG chair would notify all members advising them of the process

In advance of most meetings, CCGG staff compiled a briefing report on the company that was shared with CCGG members attending the meeting. After the meeting CCGG staff prepared a meeting report that summarized the issues discussed and who was present. To ensure accuracy and a form of accountability, meeting reports were sent to the independent directors of the engaged firm and to CCGG members who checked it for accuracy before it was posted on the members' only version of the web site. We read each report and identified the issues raised. We identified four issues that were commonly raised in the engagements: say-on-pay, capped pensions, clawbacks, and performance peer groups. Table 2, Panel A provides summary statistics on the number of engagements by year as well as the issues raised.

Table 2, Panel B provides summary statistics on meeting attendees. The CCGG typically met with independent directors without interference from management. In almost all cases at least two independent directors attended the meetings (93% of meetings). The independent chair of the board or the lead independent director was at 82% of the meetings. In 75% of the engagements, the meeting took place without any members of management, legal counsel, or investor relations staff allowing for direct communication between shareholders and board members. CCGG staff members attended all meetings. In 55% of the meetings, a senior executive from a prominent Canadian pension plan also attended.

2.6. Data on Adoptions and Other Variables

To identify whether firms adopted the governance practices that the CCGG raised in the engagements, we read firms' proxy circulars which were circulated in advance of annual shareholder meetings and are available on SEDAR.[16] In particular, we identified whether the proxy circulars disclosed that the firm had an internal policy requiring the resignation of a director receiving a majority of withheld votes during director elections (majority voting); had a policy of holding shareholder advisory votes (say-on-pay); had a policy to allow for it recoup performance-based executive compensation in the event of a restatement of performance metrics (clawback); imposed a limit on the pension or retirement benefits that could be paid out as a part of executive compensation packages (capped pensions); evaluated performance relative to a specified group of peer firms when determining performance-based compensation

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that was followed and to ask members to consider this in their voting decisions for the board at the next AGM. [Internal email March 11, 2011]

[16] The System for Electronic Document Analysis and Retrieval (SEDAR) is a document system operated by the Canadian Securities Administrators which contains filings made by Canadian public companies. It is similar to EDGAR, operated by the Securities and Exchange Commission in the U.S.

(performance peer groups). Table 2, Panel C provides a summary of adoptions for engaged and non-engaged firms. The adoptions sample is smaller than the engagements sample because not all firms survive over the subsequent two years.

We use several additional variables in our analysis. Table A.I provides definitions and Tables A.II to A.IV provide summary statistics. We collect data on institutional investor holdings for firms included in the S&P/TSX index from Factset and use Capital IQ to fill in missing data for a small number of firms IQ. Each year we categorize institutions as CCGG members and compute their total holdings in each firm ("Log(1+CCGG $ Ownership)" or "CCGG % Ownership"). We do the same for Canadian non-CCGG institutional investors ("Canadian Institutional % Ownership ex CCGG") and foreign institutional investors (Foreign Institutional % Ownership). We identify as controlled corporations those that have multiple voting shares or a shareholder (or affiliated shareholders) that controls 20% or more of a firm's votes ("Controlled Corporation").[17] As an alternative to the controlled corporation dummy, we use a good governance dummy. Our results throughout are robust to using this measure (not reported). In regressions where the coefficient on the controlled corporation dummy is negative and significant, the coefficient on the good governance dummy is positive and significant.[18]

Firm size ("Log(Assets)") and the financing deficit ("Financing Deficit") are from Worldscope. We follow Frank and Goyal (2003) and construct the financing deficit as the sum of dividends, investment and change in net-working capital less cash flow, deflated by total assets. We use data from Datastream to measure stock returns ("1-year Stock Return") and compute a proxy for liquidity ("Turnover"). Information on shareholder proposals is collected from SHARE.ca, the website of the Shareholder Association for Research and Education. We focus on shareholder proposals specifically related to the governance practices that the CCGG discussed with firms in their engagements ("Majority Voting Proposal", "Say-on-Pay Proposal", "Compensation Policy Proposal"). We use a variety of sources to

[17] A 20% cutoff to define control is commonly used in the literature, e.g., La Porta, Lopes-de-Silanes, and Shleifer (1999). The CCGG uses a 30% cutoff to identify controlled corporations. Our results are robust to using this cutoff.

[18] We use governance scores, reported by Canada's national business paper, *The Globe and Mail*. The governance practices of firms included in the S&P/TSX index are rated based on four categories (board composition, shareholding and compensation, shareholder rights, and disclosure). By construction, the scores also capture some of the governance differences between controlled corporations and widely-held firms. Because the criteria for these scores change over time, we set a dummy equal to one for firms ranked in the top third in a given year ("Good Governance").

identify cross-listed firms and create a dummy that equals one for firms cross-listed on a US stock exchange in a given year ("Cross-Listed Firm"). For media exposure we use the log of one plus the number of media citations ("Log(1+Firm Media Cites)") found in *The Globe and Mail* and *The Financial Post* during a given year. Finally, we use data from the Clarkson Centre for Business Ethics and Board Effectiveness to construct measures of CEO compensation and incentive intensity and to construct a measure of board interlocks.

3. Empirical Results

In this section, we present the results of tests that examine the CCGG's influence on the adoption of governance changes, including majority voting, say-on-pay, and compensation policies. For each governance policy, we first examine the determinants of CCGG engagements, i.e., which firms did the CCGG choose to engage? We estimate logit regressions, where the dependent variable equals one if a firm was engaged on a given policy by the CCGG in a given year and zero otherwise. The majority voting engagements and explanatory variables are from 2005. The logit regressions for say-on-pay and compensation policies use data on engagements and explanatory variables from 2008 to 2012. To test for an impact of CCGG engagements on firms' adoptions of governance policies, we estimate logit regressions where the dependent variable is a dummy that equals one if a firm adopted a given governance policy within the subsequent two years and zero otherwise. The key explanatory variable of interest is the engagement dummy variable that equals one if the CCGG previously engaged the firm. The other explanatory variables are also lagged in the adoption logit regressions.

The majority voting logit regressions include industry fixed effects based on one digit SIC codes and we report robust standard errors. Summary statistics for the variables used in the majority voting engagement and adoption logit regressions are in Table A.II. The logit regressions for say-on-pay and compensation policies include industry and year fixed effects and the standard errors are clustered at the firm-level. Summary statistics for the variables used in the say-on-pay and compensation policy engagement and adoption logit regressions are in Table A.III.

3.1. Majority Voting: Engagements and Adoptions

The sample we use for majority voting engagements includes 212 firms in the S&P/TSX index with complete data for 2005. Of these, 88 firms were sent letters by the CCGG requesting that the firm adopt majority voting. The dependent variable is set to one for these firms ("Engaged on Majority Voting"). Models (1) and (2) of Table 3 present the results of logit regressions that examine the determinants of the majority voting engagements. In this table we want to understand better the importance of the economic incentives of the CCGG to engage firms, captured by either CCGG members' dollar or percentage stakes in a firm. The choice of firms to engage could also be influenced by other factors that could affect the success of the engagement. For example, ownership by other institutions could provide the CCGG with additional influence, cross-listed firms might be more receptive to engagements, while controlled corporations might be more difficult to influence. We also use firm size as a catch-all measure for openness to external influences. Finally, the CCGG might engage underperforming firms.

Consistent with statements made by the CCGG in annual reports, the driving force behind engagements is CCGG members' stake in the firm. The coefficient on *Log(1+CCGG $ Ownership)* in model (1) is significant at the 1% level and the Pseudo R^2 is 0.479. In model (2) *CCGG % Ownership* is statistically significant also at the 1% level. The Pseudo R^2 is 0.413. Other factors also play a role. The coefficient on *1-year Stock Return* is negative and significant at the 10% level in model (1) but not model (2). The *Cross-Listed Firm* dummy is negative and significant in both models. In model (2) Log(Assets) is positive and significant.[19] Finally, the coefficient on *Foreign Institutional % Ownership* is positive and significant. The *Controlled Corporation* dummy is positive but not significant in both models.

The majority voting adoption results are in models (3) to (6). We focus on adoptions in the two years (2006 and 2007) subsequent to the engagements. The sample includes the same set of firms but is smaller because 16 firms die in 2006 and 2007. These firms could not potentially adopt majority voting and are dropped. Of the 85 engaged firms that survived through 2007, 40 adopted majority voting. Of the 111 firms that were not engaged, 17 adopted.

The coefficient on the *Engaged on Majority Voting* dummy is positive and significant in each model. In model (3), which includes the *Engaged on Majority Voting* dummy without any controls other than

[19] We do not include Log(Assets) in model (1) because the correlation with Log(1+CCGG $ Ownership)is 0.78.

industry fixed effects, the marginal effect is 0.303, e.g., CCGG engagement increases the probability of adopting majority voting by 30%. We next estimate specifications that include controls for other internal factors that could influence adoptions that are unrelated to CCGG engagements as well as other external influences. To capture key internal factors, we first add the *Controlled Corporation* dummy. Model (4) shows that controlled corporations are significantly less likely to adopt majority voting. Model (5) is similar but also controls for firm size as a catch-all measure for internal factors and openness to external influences. The coefficient on *Log(Assets)* is positive and significant, but the results are otherwise similar to those in models (3) and (4).

In model (6) we consider specific factors that could influence adoption decisions. Higher percentage ownership by CCGG members and by other institutional investors could influence firms' adoption decisions. With higher turnover, institutional investors can more easily express their displeasure by exiting, which could put pressure on firms to consider the CCGG's request. Firms with poor prior performance may be more readily influenced by investor pressures as might firms with a greater need to raise external capital. The coefficient on *CCGG % Ownership* is positive and significant while that on *Financing Deficit* is significant at the 10% level but has a negative coefficient. None of the other variables are significant. Other external factors that could lead to adoptions are media exposure, pressure from shareholder proposals, or pressure from the U.S. markets. The coefficients on *Log(1+Firm Media Cites)*, *Majority Voting Proposal*, and *Cross-Listed Firm* are all positive, but only that on *Log(1+Firm Media Cites)* is significant, and only at the 10% level. In this model that includes a full set of controls, the marginal effect for the *Engaged on Majority Voting* dummy is 0.17. We also estimated a model that includes an interaction of the engaged dummy with the controlled corporation dummy (not reported). It is negative and significant at the 10% level. That is, controlled corporations were less likely to respond to the engagement than widely-held firms.

Overall, the variables that reliably explain the decision to adopt majority voting are whether or not the firm was engaged by the CCGG, whether or not it is controlled by insiders. Our catch-all variable, firm size, is statistically significant, but most of the specific proxies we use for internal factors and external pressures are not. Because we use prior engagements to explain subsequent adoptions, reverse causality cannot explain the results. However, we cannot rule out that there are unobservable differences

between firms engaged by the CCGG and those not engaged and it these differences that explain adoptions rather than CCGG engagements. Unfortunately, all majority voting engagements occurred in 2005 and there is little we can do to formally address this issue. We do note however, that as the most important determinant of majority voting engagement is the aggregate dollar stake of CCGG members and that these members acquired their holdings independently from each other. Thus concerns about causality must stem from unobserved differences between firms in which CCGG members held larger dollar stakes and those in which CCGG members held smaller stakes. In the next sub-section that examines say-on-pay and compensation policies, we can more formally examine the impact of unobserved differences between engaged and non-engaged firms.

3.2. Say-on-pay and Compensation Policies: Engagements and Adoptions

In its second campaign, the CCGG focused on engagement meetings with firms' boards to discuss governance issues. To facilitate the engagements, CCGG staff contacted the board and requested a meeting. These meetings involved a considerable time commitment for the CCGG's board members, e.g., reading an analysis of the firm's most recent proxy before the meeting, attending a meeting that usually lasted one hour, and reading and commenting on briefing notes summarizing the meeting. These notes were subsequently made available to all CCGG members. For the firm's board members, the meetings were, at least initially, an unusual event. Because they met directly with the CCGG without top executives present, the meetings often required additional preparation. And, there was always the prospect of a follow-on meeting where the board members would be asked to describe steps, if any, taken in response to the CCGG's previous requests.

Over the period from 2008 to 2012, the CCGG conducted 143 such engagement meetings. In 40% of these engagements the CCGG informed firms of its preference for the firm to introduce say-on-pay. It also raised concerns about the firms' policies related to compensation structure and disclosure (including capping pension payouts, introducing clawback provisions, and using performance peer groups) in half of these engagements. For our analysis, we include firms in the S&P/TSX index during 2008 to 2012 with complete data. For the say-on-pay engagement logits in models (1) and (2) of Table 4, there are 894 observations. The dependent variable equals one for 57 observations ("Engaged on Say-on-Pay"). Similarly, for compensation policies in Table 5, there are 989 observations and the dependent variable

equals one for 69 observations ("Engaged on Compensation Policies").[20] We focus on the same explanatory variables we used for majority voting engagements in Table 3, but we now have a five-year panel. We cluster the standard errors at the firm-level.

Do the determinants of engagements differ for these more time consuming meetings compared to the letter writing and phone call engagements for majority voting? As with majority voting, the total dollar stake of CCGG members in a firm drives engagements. In model (1) of both Tables 4 and 5, the coefficient on *Log(1+CCGG $ Ownership)* is statistically significant at the 1% level. However, in model (2), the *CCGG % Ownership* is positive but not significant. More interesting, in these engagements, the evidence suggests that the CCGG sought to economize its time by avoiding firms least likely to respond. In particular, the *Controlled Corporation* dummy is negative and statistically significant in both tables. We also find robust evidence of a negative and significant coefficient on *1-year Stock Return*, suggesting that the CCGG focused on weaker performing firms. Aside from these variables, we find engagements are more likely for larger firms and in Table 5 we find a significant impact of foreign ownership.

The logit regressions that examine say-on-pay adoptions are in models (3) – (7) of Table 4. The sample construction is the same as with the engagements, but drops firms that die in the two years following a potential engagement. Of the 49 engaged firms that survived, 28 adopted say-on-pay within two years of the engagement. We focus on adoptions from 2009 to 2013 so that engagements and explanatory variables are lagged. We also drop firms in the years after they adopt say-on-pay as they no longer face a choice to adopt or not. This leaves a sample 751 firm-year observations.

The coefficient on the *Engaged on Say-on-Pay* dummy is positive and significant in each model. The marginal effect in model (3) is 0.24, e.g., CCGG engagement increases the probability of adopting say-on-pay by 24%. Model (4) shows that Controlled corporations are less likely to adopt say-on-pay and this inference holds no matter whether we control for internal factors and external pressures with firm size in models (5) or whether we use more explicit proxies in model (6). In model (5) the coefficient on *Log(Assets)* is positive and significant but CCGG members' percentage stakes and ownership by other institutions does not influence adoption. Model (6) shows that prior stock returns, turnover or need to

[20] In Table 4, firms that adopt say-on-pay are dropped from the sample in subsequent years. For Table 5, compensation policies include capped pensions, clawback provisions, and performance peer groups. We drop a firm from the sample only after it has adopted all three of these policies.

raise external finance do not influence adoptions either. However, media attention, whether or not a firm received a say-on-pay proposal, and cross-listing status, are all positively related to adoptions. Note that legislation mandating changes regarding say-on-pay was passed during our sample period, cross-listed firms were exempted from this requirement. In (6), the marginal effect for the *Engaged on Say-on-Pay* dummy is 0.11. We also estimated a model that includes an interaction of the engaged dummy with the controlled corporation dummy (not reported). The coefficient is negative as expected, but not significant.

As with majority voting, the specific timing of the CCGG's engagements and firms' subsequent adoptions allows us to rule out reverse causality as an explanation for the results. However, the potential concern that adoption decisions could be driven by unobservable differences between engaged and non-engaged firms remains. In its second campaign, the CCGG engaged firms in different years and on different issues. We exploit these differences to address endogeneity concerns and set a dummy variable that equals one for firms that were engaged by the CCGG on any issue in any year between 2008 and 2012 ("Engaged Firm"). For example, if a firm was engaged in 2010 on any issue, we set the dummy to one each year from 2009 to 2012. When we include the *Engaged Firm* dummy in the say-on-pay adoption regressions, it controls for unobservable differences between engaged and non-engaged firms and allows the *Engaged on Say-on-Pay* dummy to identify the specific impact of the say-on-pay engagements. The results are in model (7). Although the *Engaged Firm* dummy is positive and significant, the *Engaged on Say-on-Pay* dummy remains significant at the 1% level and our earlier inferences are similar.

We provide similar results for the adoption of compensation policies in models (3) – (7) in Table 5. Of the 66 engaged firms that survived, 40 adopted at least one of capped pensions, clawbacks, or performance peer groups within two years of the engagement. A firm is dropped from the sample once it adopts all three of these policies. The final sample includes 920 firm-year observations. Inferences are similar and we do not discuss them in detail though we note that the marginal effects are larger. The marginal effect on the *Engaged on Compensation Policies* dummy in model (3) is 0.29 implying that an engaged firm is 29% more likely to adopt the proposed changes in compensation policies than a non-engaged firm. Compared to say-on-pay, adding control variables does little to reduce the estimated economic impact. There were a lot of say-on-pay shareholder proposals during this period and to be conservative we allow them to influence our estimates even though many were not effective (out of 79

proposals, 26 received at least 50% of the votes or were withdrawn because the company adopted say-on-pay). In contrast to say-on-pay, there were few outside influences pushing for changes to compensation polices aside from the CCGG. The marginal effect in model (6) is 22%. Finally, we estimated a model that includes an interaction of the engaged dummy with the controlled corporation dummy (not reported). It is negative and significant at the 5% level. That is, controlled corporations were less likely to respond to the engagement than widely-held firms.

3.3. CEO Compensation and Incentive Intensity

The regressions so far focus on the specific issues raised in the engagements and adoption of those issues. Through their dialogue with firms' board members, the CCGG could also influence related choices. One important choice is the level of incentive intensity in the top executives' compensation plan. The CCGG actively promotes executive compensation principles that align long-term firm and shareholder success.[21]

We expect that engaged firms increase the proportion of CEO compensation that is sensitive to firm performance (i.e., incentive pay) following an engagement that discusses improvements in compensation practices. We measure CEO incentive pay with a proxy that is standard in the literature. We use the equity pay ratio, which is the ratio of equity pay to total pay (EPR). To ensure results are not driven by outliers, we winsorize it at the 1% and 99% tails each year.

To conduct these tests we use hand-collected data on CEO compensation contracts from firms' disclosures, compiled by the Clarkson Centre at the University of Toronto. Missing data is augmented with additional data collected using the same methodology. Each year we compute total pay (salary, bonus, stock, and options) and equity-based pay (stock plus options). We value options using standard methods. Table A.I provides further details and summary statistics are in Table A.III. The mean (median) CEO earns $4.4 million ($2.8) and has an EPR of 44% (49%).

Table 6 presents regressions estimated over the period from 2008 to 2013. We start in 2008 as this was the first year the CCGG engaged firms on compensation-related issues. The dependent variable is

[21] See Executive Compensation Principles, January 2013, available at www.ccgg.ca.

EPR. The main variable of interest is whether or not a firm was engaged by the CCGG on compensation policies during this period ("Engaged on Compensation"). It equals one in year t and all subsequent years if a firm was engaged on compensation polices in year t-1. Each model includes year and industry fixed effects and the *Engaged Firm* dummy to control for differences in unobservable firm characteristics between engaged and non-engaged firms.

In Model (1), the coefficient on the *Engaged on Compensation* dummy is 10.78 and is significant at the 1% level. That is, CEO EPR of engaged firms increases by 10.78% in the years following the engagement. This is economically significant when compared to the mean EPR of 44% and standard deviation of 26.87%. Model (2) adds controls for whether or not a firm is in the S&P/TSX index that year, whether or not it is controlled, and firm size.[22] The coefficient on the *Engaged on Compensation* dummy is 7.87 and remains statistically significant. Finally, model (3) controls for variation in a larger set of lagged observable firm characteristics. The coefficient on the *Engaged on Compensation* dummy is 6.81 and remains and significant. The coefficients of the control variables are generally consistent with existing empirical studies. In particular, CEO EPR tends to be higher for firms with better stock performance and more growth opportunities. In this model, the coefficient on the *Engaged on Compensation* dummy is 6.81%.

Overall, the results in Table 6 are consistent with the prediction that CCGG engagements are followed by improvements to the structure of CEO pay. That is, the proportion of CEO compensation that is sensitive to firm performance increases.

4. The CCGG's Broader Influence

The CCGG's goal is to influence a broad set of firms and in any year, engaged firms are a small fraction of all publicly-traded firms. To what extent does it have a broader impact beyond the firms it directly engages? In this section we consider three channels. First we examine potential governance spillovers through board interlocks. Next, we describe and discuss two other strategies the CCGG

[22] The sample focuses on S&P/TSX index firms but the group of firms included in the index changes from year to year. Rather than drop and add firms from the sample, we include all firms that were in the index during the sample period and include this dummy variable to indicate the specific years a firm is included.

employed. These latter two strategies actions likely impacted governance practices but identification is more of a challenge. Finally, we present event study evidence from the announcement of the formation of the CCGG to provide an assessment of its expected impact on firm values.

4.1. Spillovers to Firms Not Engaged by the CCGG: Director Interlocks

Prior research shows that governance practices spill over across firms through board interlocks (Bouwman (2011)). Interviews with CCGG staff and the CCGG's internal correspondence for example suggest that it believed interlocks would help magnify its impact and sought to leverage these interlocks in the engagements. Engaging the major financial institutions and getting them to be the first adopters of majority voting first was important. Directors of these institutions were viewed as influential and they sit on more boards of other firms. In its initial engagement letters to firms on majority voting, for example, the CCGG stated that these seven financial institutions had agreed to adopt majority voting. In some letters the CCGG also mentioned that the board might want to consult with a particular director who sat on the board of another firm that had recently adopted majority voting.

We examine whether firms not engaged by the CCGG are more likely to adopt governance policies advocated by the CCGG if they share a director with a firm that was engaged by the CCGG. To test whether board interlocks affected the probability of adoption, we focus on majority voting and say-on-pay, as the CCGG engaged a reasonably large number of firms on these issues. The CCGG also engaged firms on three policies related to compensation structure and disclosure (capped pensions, clawbacks, and performance peer groups) but each issue was raised only with a smaller number of firms. We use data from Clarkson Centre for Business Ethics and Board Effectiveness to construct a professional network of directors of Canadian public firms. The data indicates directorship positons and starting dates and end dates for each position that each director holds.[23]

Table 7, Panel A provides summary statistics on interlocks for firms that were not engaged by the CCGG on majority voting in 2005. The summary statistics highlight the majority voting sample because data for this campaign is cross-sectional and is easily summarized compared to say-on-pay which uses

[23] The advantage of focusing on professional connections is that they are objective and comparable across individuals. The disadvantage is that it misses other types of social connections that could also facilitate the flow of information and affect the power of a director in the network. Thus, the true unobservable network of directors has more connections than our professional network.

firm-year data. For the majority voting campaign, 111 firms were not engaged in 2005 and survived through 2007. Of these 111 firms 17 adopted majority voting in 2006 or 2007. Firms with an interlocking director to a firm engaged by the CCGG were over twice as likely to adopt compared to firms without an interlocking director. Firms with an interlocking director to one of the major seven financial institutions (for brevity we refer to these as "big banks") were almost five times more likely to adopt.

Table 7, Panel B provides evidence consistent with the idea that the big bank directors are indeed influential directors in the Canadian equity markets. They hold more additional board seats and sit on the boards of other firms that are larger. For example, in 2005, the mean (median) number of other board seats on other S&P/TSX index firms held by a big bank director is 1.3 (1) compared to 0.3 (0) for directors from other firms. The average size of the other firms on which a director sits on the board (measured by the natural logarithm of market capitalization) is 37.2 (31.0) versus 32.8 (29.4). These differences are statistically significant at the 1% level.

We also construct an interlock measure that utilizes concepts and tools from the network theory literature to capture a director's influence. This literature suggests interlock measures that are weighted by the power of the interlocked director(s) within the network of all directors (e.g., Milgram (1967), Watts and Strogatz (1998), Padgett and Ansell (1993), and Banerjee et al. (2012)). Like El-Khatib, Fogel, and Jandik (2015), we use director's network centrality to measure the power of engaged directors. Directors with high centrality measures have more connections with other more connected directors and this means that they have the potential to receive more information and pass it to other directors. Of the four common measures of network centrality, degree centrality, betweenness centrality, and closeness centrality, we focus on eigenvector centrality. It most closely captures the importance of an individual in the network. It weights the power of the interlocked director(s) within the network of all directors (see Fogel, Ma, and Morck (2014)). Table 7, Panel B shows that this measure is significantly higher for big bank directors.

Table 8 first presents the results for majority voting. The sample includes 111 firms with complete data that were not engaged on majority voting by the CCGG in 2005. It examines factors that influenced their decision to adopt majority voting in 2006 or 2007. We focus on a dummy that equals one if a firm has a director that also sits on the board of a firm that was engaged on majority voting by the CCGG in

2005 (“Interlock”). Models (1) and (2) show that the coefficient on the *Interlock* dummy is positive but not statistically significant, either with or without controls. In models (3) and (4) we separate the *Interlock* dummy into overlapping directors that sat on the boards of one of the big banks originally targeted by the CCGG (“Big Bank Interlock”) and those that sat on the boards of other firms engaged by the CCGG (“Non Big Bank Interlock”). In both models (4) the coefficient on *Big Bank Interlock* dummy is positive and significant while that on the *Non Big Bank Interlock* dummy is not (we drop the *Majority Voting Proposal* dummy from model (4) because only one of these firms received a proposal). In model (4), the marginal effect for the *Big Bank Interlock* dummy implies that having an influential director that also sits on the board of a firm engaged by the CCGG increases the probability a firm adopts majority voting by 14%. In Model (5) we use the summed eigenvector centrality of directors who sat on a board which was engaged by CCGG (“Interlock Eigenvalue”). The coefficient on this variable is positive and significant.

The sample for say-on-pay also focuses on firms not engaged by the CCGG and as before, once a firm adopts say-on-pay it is dropped. The final sample includes 615 firm-year observations from 2009 to 2013. For say-on-pay we do not estimate regressions that examine interlocks big bank and non-big bank director separately. The CCGG did not begin this campaign with a specific focus on the big banks. The *Interlock* dummy equals one for firms with a director who was also on the board of a firm that was engaged on say-on-pay by the CCGG during the prior two years. The coefficient is positive and significant in models (6) and (7) and that on the *Interlock Eigenvalue* is significant in (8), all at the 10% level. Compared to majority voting, the influence of overlapping directors is smaller, perhaps because the CCGG did not focus on more influential directors in this campaign. The bottom line, however, is that the CCGG’s influence extends beyond the firms that it directly engages and one way it does so is through overlapping directors.

4.2. Impact on Governance Regulation

Engaging individual firms is costly and firms may adopt different or incomplete responses. An alternative is to force regulatory change that mandates all firms adopt the same approach. Potential regulatory channels include national legislation, securities regulation, or stock exchange listing requirements. In 2014 the TSX made majority voting a listing requirement. This rule not only required

listed firms (with exemptions for firms where one holder or group controlled 50% or more of the voting shares) to adopt majority voting, it strengthened the majority voting policies many firms had previously adopted voluntarily. The CCGG's actions cannot be ignored in this change. As we showed in Section 3, its actions increased the likelihood of voluntary adoption and the TSX rule was close to the model first publicly advocated by the CCGG in 2006. External commentators, such as *The Globe and Mail* and Glass Lewis give the CCGG credit for this change.[24]

4.3. Informal Regulation Using Guidelines and Measurement to Change Norms

A second strategy the CCGG uses is a type of informal regulation. The goal is to shape norms through the creation and dissemination of good governance guidelines and related activities. The first CCGG guidelines focused on building high performance boards. Since then it has issued best practice guidelines on a variety of issues, including majority voting and executive compensation. An advantage of this approach is that the CCGG controls the agenda in setting these principles. It consults with firms and with outside experts, but it is not a political process open to other interest groups that invites comment letters or seeks a compromise across opposing views. As the CCGG's first chair stated: "… [regulators] can only enforce minimum standards. They cannot enforce best practices…. It is our mandate to establish best practices and encourage boards to adopt and live by these." (CCGG annual report (2005)).

Not only did the CCGG devise such norms, it also collected and helped publicize data that facilitated measurement against these norms. The CCGG's managing director summarized this approach to the CCGG's board: "measurement + best practices + exposure = board behavioural change." (Report to the Board of Directors of CCGG (2007)). For example, changes in publicly-reported governance scores and criteria coincide with CCGG-subsidized data collection efforts around later stages in the majority voting and compensation campaigns. *The Globe and Mail* rates firms' governance each year reports on them in a series of articles each year, a fact well-known by corporate secretaries and board members. The categories and scoring system were originally devised by *Globe and Mail* reporters, but given the costs and need for standardization of collection of information for this exercise, *The Globe and Mail* relied on the Clarkson

[24] The rule required that majority voting be embedded in statutes, articles, bylaws or similar instruments (rather than a board policy), and required that the board accept the resignation absent exceptional circumstances whereas in many voluntary policies boards had more latitude in how to respond. See Erlichman (2014), "TSX to make majority voting rule mandatory", *The Globe and Mail*, February 13, 2014, and www.glasslewis.com/tag/majority-voting/ [accessed May 23, 2014].

Centre at the University of Toronto to collect the raw data. CCGG members and the CCGG itself provided the bulk of the financing for the data collection and for several years, the managing director of the CCGG was also the director of the Clarkson Centre.

New CCGG governance principles influenced new data collection and measurement. In Figure 3, the grey dashed line (bottom line) shows that average governance increase over time but periodically decrease sharply. The downward inflection points coincide with new criteria and new data being made available in 2005 largely around majority voting, and in 2008 largely around compensation issues. What might have happened to governance scores absent proposing new governance issues and data? The top lines in the figure provide an indication. They shows the average score for a constant set characteristics that were in the scores overall all years. They steadily increased over time.

4.4. Event Study Results

A natural question is whether the CCGG's engagements and its broader impacts are value enhancing for firms.[25] As discussed in the introduction, evidence from other countries and settings provides support for the value impact of majority voting, say-on-pay, and clawbacks. In addition, performance peer groups and other pay-for-performance mechanisms provide value increasing incentives for managers.

We provide additional evidence that focuses on the announcement of the intention to form the CCGG. To the extent that market participants anticipated the CGGG's approach and the changes it would seek, we expect higher abnormal returns for firms most likely to be engaged or most likely to respond to CCGG activism. The press release announcing the planned formation of the CCGG on June 27, 2002 attracted international attention including *The Wall Street Journal* and *The Financial Times*. Twelve institutions were named as potential CCGG members in this press release. We collected information on their ownership of Canadian firms and test whether abnormal returns were higher for firms in which prospective CCGG members held larger holdings. We focus on the three-day abnormal announcement return surrounding this event. Table A.I. provides further details on how we estimated abnormal returns.

[25] We do not perform event studies around the adoption of specific governance issues. News of adoption is usually in the annual proxy along with other information which makes identification difficult. Gillan and Starks (2007) and Ertimur, Ferri, and Oesch (2013) discuss the challenges of identifying a causal impact relationship between investor activism, governance changes, and value.

Table 9 provides the results. Firms expected to be the focus of CCGG activism, measured either by dollar holdings (model (1)) or with percentage holdings (model (3)), have significantly higher abnormal returns. These results hold when we include control variables in models (2) and (4). Because the CCGG's organizational structure, membership, activities, and its actual impact were not known at the time of the announcement we place more emphasis on the sign and statistical significance of these coefficients rather than the specific magnitudes, although we note that the coefficients are economically significant. For example, in model (2), the coefficient on *Log(1+$ ownership)* is 0.436 which implies that a one standard deviation increase in the log of CCGG dollar holdings is associated with a 0.91% higher abnormal return

5. Discussion: Why Was the CCGG Effective?

Our results show that CCGG engagements are associated with adoptions of governance improvements. This suggests that the CCGG's actions increased the perceived net benefits of change for directors. Several questions remain: why do firms respond? Has the CCGG been a complement or a substitute for other efforts or mechanisms to improve firms' governance?

5.1. Why Do Firms Respond? Economic Incentives, Information, and Social Incentives

We consider alternative channels through which CCGG engagements could have affected directors' perception of the net benefits of change. At the firm level, the CCGG's sizable stake allows it to create costs for firms that fail to respond: CCGG members can file and vote on shareholder proposals to force change; alternatively, CCGG members can vote with their feet, creating market costs for inaction. A second channel of influence is informational. The CCGG could provide new or better information to directors about the benefits and costs of governance changes and thereby change perceptions of net benefits and/or mitigate uncertainty associated with change. A third channel is that CCGG actions may create social and reputational incentives for directors, again changing directors perceived net benefits about adoption but for reasons other than a potential impact on the firm.

The CCGG used the threat of its voting power. When its formation was announced, one of the founders stated: "The organizations forming this coalition are the large shareholders of Canadian companies. We have the voting power to influence governance practices that should benefit all shareholders." In almost all engagements with firms, the CCGG reminded directors of its members'

ownership stakes. In section 3, we showed that controlled corporations were less likely to improve their governance. We also found some weaker evidence that controlled corporations, where CCGG stakes would matter less, were less like to respond to engagements. This is consistent with the threat of voting power being important. But the evidence is not particularly strong. In the adoption regressions, the coefficient on *CCGG % Ownership* is always positive but is significant only for majority voting ((although in CCGG ownership may be secondary in importance to its status as a major shareholder). As discussed earlier, the CCGG prefers to engage in private and its members rarely file shareholder proposals.

We next examine whether CCGG members create explicit economic consequences for firms that do not respond to their private engagements. For example, CCGG members could exit, or threaten to exit by selling shares. In fact, when the CCGG was formed, the threat to sell shares was discussed as a weapon in its arsenal. For the majority voting and say-on-pay engagement campaign, we examine whether CCGG members sell shares in firms that do not respond compared to those that do. We examine CCGG member holdings in the quarter before the engagement and up to six quarters after (the last quarter where we have a constant sample of firms). In both cases, CCGG member holdings decrease more in firms that do not respond. For majority voting, the difference is 1.55 percentage points (*p*-value=0.13) and for say-on-pay it is 0.17 percentage points (*p*-value-0.45). Thus, there is little evidence to suggest that the threat of share sales is actually used.

Given that the evidence of firm-level responses to economic incentives is not very strong, we consider other reasons why firms are responsive to CCGG requests. The CCGG documentary record as well as interviews with CCGG members and staff and directors at engaged firms, suggest that the information channel is also important. Absent CCGG engagement, directors may not know about a particular governance issue or they may rely on insiders for information about benefits and costs. The engagements help overcome these information problems by creating a direct dialogue between shareholders and independent directors. The CCGG conducted research on a governance issue, collected data, and used credible third parties to certify the information. For example, the CCGG raised majority voting as an important governance issue in advance of any public discussion or introduction by proxy advisory firms. It solicited a legal opinion from a leading corporate law firm on how firms could adopt

majority voting without raising legal concerns and it solicited and shared regulators' endorsement of the change. In addition, the CCGG's membership and operating policies help make it a trusted source of information. To make a governance issue a priority requires support from its members. The CCGG's members include all types of institutional investors from across the country. This helped alleviate concerns that the CCGG has a particular bias or speaks for only certain types of investors. Finally, the CCGG has a policy of not publicly criticizing firms, filing shareholder proposals, or taking other more aggressive actions. This policy likely facilitates the CCGG's efforts to engage with firms, to get them to voluntarily share information, and to take part in data collection around new and evolving guidelines and best practices. Although we cannot construct specific tests, it seems likely that all of these steps increased the perceived net benefits of the changes proposed by the CCGG.

Finally, we consider social or reputation concerns for directors arising from engagements as another channel. CCGG membership is restricted to Canadian domiciled institutional investors and their members' top executives that are involved in the engagements are prominent Canadian individuals. The engagements created face-to-face interactions between these executives and independent directors. Many of these engagements are repeated, creating a circumstance where directors are asked to explain why they have not responded to 'reasonable' requests of their shareholders. These same top executives and independent directors are also likely to meet in social circles given the concentration of Canadian publicly-traded firms in a few Canadian cities. Finally, the CCGG subsidized the creation of information that enhanced such social penalties. This information was shared with the leading business newspaper and poorly performing firms were highlighted in the press.

5.3. Complement or Substitute?

What relevance does the effectiveness of a privately-organized collective action organization such as the CCGG have for a broader discussion about alternative mechanisms to address governance concerns? Specifically, does the CCGG offer a reasonable substitute to regulation, proxy advisors, or hedge fund activism, or is it sufficiently different that it should be viewed as a complement.

The CCGG focuses on firms in which its members have the largest dollar stakes – mainly large, widely-held firms. The CCGG had a significant impact on the governance choices of these firms. For these firms and the governance issues the CCGG engaged them on, the CCGG appears to be a substitute

with an advantage relative to regulatory solutions and proxy advisors. Regulatory responses are slower and less predictable in their outcome because they involve a public call for comments that provide an opportunity for insiders, and groups that support them, to lobby against change. For example, regulatory change for majority voting was implemented in 2014, more than 9 years after the initial CCGG campaign. There has been no regulatory movement on say-on-pay or on the other compensation issues identified in CCGG engagements. For the issues that we focus on the CCGG is proactive whereas proxy advisors are more reactive.

More broadly, however, the CCGG appears to be more of a complement than a substitute. Controlled corporations and smaller firms that do not attract significant investment from CCGG members are less likely to be engaged by the CCGG in the first place. Our evidence also shows that controlled corporations are less likely to adopt specific governance changes and some of our evidence shows that they are less responsive to CCGG engagements. Either the CCGG is reluctant to devote scarce resources to engage the boards of controlled corporations and / or these boards are less willing to meet with the CCGG. The CCGG's strategy of focusing on firms it would most likely have success with and interviews with CCGG staff suggest both factors play a role. The bottom line is that the CCGG has had less influence to promote governance changes at these firms and other mechanisms are required. For example, proxy advisors provide recommendations for all firms, even those in which CCGG members hold small stakes. Regulators have the power to force change on controlled corporations.

The CCGG engages a large number of firms on a common, but limited set of governance issues that do not require significant firm-specific information and that are measurable. In contrast, activist hedge funds typically engage individual firms on specific issues such as business strategy, financial policy, or leadership (Brav et al. (2008)). In an interview with the CCGG's managing director, a number of arguments are offered to explain the CCGG's different focus. The first is that the CCGG's mission is governance and nothing else. Second, the CCGG is a non-profit organization with limited resources. Third, it would be more difficult to reach sufficient consensus among CCGG members on more complex issues. Finally, its members have legal concerns about learning material non-public information in engagements. We found only a small number of firms that were engaged (almost) simultaneously by the

CCGG and by activist hedge funds. There was no overlap in the topics of the engagements. Thus, compared to hedge fund activism the CCGG is a complement.

6. Conclusion

In this paper we examine whether collective action by institutional investors can improve firms' governance practices. We exploit the fact that in Canada, a broad group of investors of different types including public pension plans and asset managers, formed such a group called the Canadian Coalition for Good Governance (CCGG) and used it as the primary vehicle to pursue governance reforms. We test whether the organization had an impact on governance by focusing on its engagement strategy with individual firms. We exploit information on private communications between the CCGG and firms to test whether these private engagements influenced adoptions of governance improvements advocated by the CCGG. The changes we focus on include the adoption of majority voting, say-on-pay, improved compensation structure and disclosure, and incentive intensity. We provide additional discussion and some related evidence on the CCGG's strategies to influence governance more broadly through public policy, publishing good governance guidelines, and measuring firms' governance practices against principles.

CCGG engagements had a statistically significant and economically meaningful impact on the likelihood of subsequent adoption of majority voting, say-on-pay, on compensation disclosure and structure, and on incentives. These results are robust to a large set of control variables as well as unobservable differences between engaged and non-engaged firms. Through board interlocks, we find the CCGGs influence extends beyond the engaged firms. An event study of the announcement of the intent to form the CCGG shows firms most likely to be engaged by the CCGG had positive and significant abnormal returns.

These results suggest that collective action organizations can have an impact on investor activism and on governance practices. The CCGG structure is one that encouraged activism by investors expected to be more passive. Factors that contribute to CCGGs effectiveness may have relevance elsewhere. These include forming a powerful group with a small number of members by focusing on investor scale rather than type, and harnessing social in addition to economic incentives to improve group functioning and

issuer adoption. Such findings are timely given that policy makers in the U.K. recently called for more collective action by institutional investors to engage with firms (e.g., Kay Report (2012)).

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Table 1. Who Joins the CCGG?

The table estimates logit regressions where the dependent variable equals 1 if the investor was a CCGG member or an active member in a given year. Log (1+$ Ownership) is the log of the total dollar holdings of an institution's holdings of all Canadian firms in the TSX index. Institutional owners are defined as 'grey' based on the Ferreira and Matos (2008) classification and includes banks, insurers, pension plans, endowments and sovereign wealth funds. The alternate definition also includes bank-affiliated asset managers. The omitted category in (3), (4), (7), and (8) is mutual funds and hedge funds. Late Period is a dummy variable that equals one for 2008 to 2012. *t*-statistics are computed by clustering standard errors at the institution level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	CCGG Membership				CCGG Board and / or Working Group			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-9.022***	-8.551***	-8.551***	-7.554***	-16.226***	-15.892***	-17.825***	-16.867***
	(-7.34)	(-6.90)	(-6.53)	(-6.05)	(-5.38)	(-5.55)	(-4.32)	(-4.15)
Log(1+$ Ownership)	0.488***	0.438***	0.461***	0.470***	0.869***	0.858***	1.007***	1.007***
	(5.76)	(4.86)	(4.87)	(4.89)	(4.51)	(4.44)	(3.87)	(3.91)
Grey Institution	2.338***				0.726			
	(3.65)				(0.98)			
Grey Institution (alternate)		1.861***				-0.029		
		(3.88)				(-0.04)		
Bank-Insurer-Affiliated Institutions			0.429	-0.331			-1.448	-2.825**
			(0.67)	(-0.43)			(-1.55)	(-2.40)
Pension Funds			2.657***	1.825***			0.255	-0.574
			(3.66)	(2.79)			(0.28)	(-0.55)
Investment Managers			-0.337	-0.497			-0.623	-1.030
			(-0.73)	(-0.99)			(-0.76)	(-1.15)
Late Period				-0.308				-0.553
								(-1.28)
Late Period × Bank Insurer-Affiliated Institutions					1			
				(2.13)				(2.31)
Late Period × Pension Fund				1.804***				1.459**
				(2.66)				(1.98)
Late Period × Investment Manager				0.300				0.740
				(0.85)				(1.14)
Year FE	YES	YES	YES	NO	YES	YES	YES	NO
Observations	1770	1770	1770	1770	1770	1770	1770	1770
Pseudo R^2	0.314	0.305	0.335	0.336	0.314	0.305	0.332	0.341

Table 2. CCGG Engagement Meetings and Adoptions.

Panel A shows the number of engagements between the CCGG and the boards of firms included in the S&P/TSX Composite Index in 2005, and from 2008 to 2012. The sample includes firms with complete data on firm characteristics, measured at the end of each year. Income trusts are excluded. The columns show the number of engagements in which the CCGG requested firms to adopt a majority voting policy, say-on-pay, or compensation policies (clawbacks, capped pensions, and performance peer groups). Panel B summarizes who attended the engagement meetings. Panel C summarizes adoptions. The adoptions sample is smaller than the engagements sample because not all firms survive over the subsequent two years. It compares adoptions by firms engaged by the CCGG with this not engaged. For majority voting, the counts correspond to the number of firms. For say-on-pay and compensation policies, the yes counts correspond to the number of firms and the no counts correspond to firm-years. Variables are defined in Table A.I.

Panel A. Board Engagements by the CCGG

Year	N	Majority Voting	Engaged	Say on Pay	Clawbacks	Capped Pension	Performance Peer Groups	Compensation Policies
2005	212	88						
2008	186		5	5	5	5	3	5
2009	169		26	15	7	14	4	15
2010	190		25	9	3	6	2	8
2011	237		49	18	11	7	7	20
2012	223		38	10	11	4	12	21
Total		88	143	57	38	36	28	70

Panel B. Participants in CCGG Engagement Meetings

	Yes	No	Yes %
Unimpeded board	105	35	75%
Unimpeded board with long-term investor at meeting	57	83	41%
CCGG represented by pension plan	77	63	55%
Chair or lead director present	115	25	82%
Two or more directors present at meeting	130	10	93%

Panel C. Adoptions

	Majority Voting				Say-on-Pay				Compensation Policies			
	Yes	No	Total	% Adopted	Yes	No	Total	% Adopted	Yes	No	Total	% Adopted
Engaged Firms	40	45	85	47%	28	21	49	57%	40	26	66	61%
Non-Engaged Firms	17	94	111	15%	64	638	702	9%	124	730	854	15%
Total (Difference)	*57*	*139*	*196*	*(32%)*	*92*	*659*	*751*	*(48%)*	*164*	*756*	*920*	*(46%)*

Table 3. The Majority Voting Engagement Campaign.

This table presents logit regressions that examine the determinants of CCGG engagements on majority voting during 2005 and the adoption of majority voting. The sample includes firms in the S&P/TSX Composite index in 2005 that have complete data on firm characteristics, measured at the end of 2005. Income trusts are excluded. In columns (1)-(2), the dependent variable equals 1 if, during 2005, the CCGG sent a letter to the firm requesting the adoption of a majority voting policy. In columns (3)-(6), the dependent variable equals 1 if a firm adopted majority voting in 2006 or 2007. In columns (3)-(6), the explanatory variables are lagged. All variables are defined in Table A.I. 1-digit SIC industry fixed effects are included. *t*-statistics are computed with robust standard errors. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Engagements		Adoptions			
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-9.915***	-17.132***	-1.545***	-1.392***	-10.721***	-3.143***
	(-6.51)	(-5.32)	(-4.30)	(-3.63)	(-4.23)	(-3.53)
Engaged on Majority Voting			1.582***	1.789***	0.904**	0.967*
			(4.40)	(4.41)	(2.14)	(1.88)
Controlled Corporation	0.334	0.478		-1.182***	-1.359***	-0.991**
	(0.74)	(1.12)		(-2.65)	(-2.92)	(-2.08)
Log(Assets)		0.934***			0.672***	
		(4.48)			(3.75)	
Log(1+CCGG $ Ownership)	1.553***					
	(6.54)					
CCGG % Ownership		0.123***				0.056**
		(4.33)				(2.09)
Canadian Inst. % Ownership ex CCGG		0.026				-0.004
		(0.99)				(-0.15)
Foreign Inst. % Ownership		0.032**				0.011
		(2.27)				(0.70)
1-year Stock Return	-0.013*	-0.001				0.005
	(-1.77)	(-0.08)				(0.72)
Turnover						0.015
						(0.04)
Financing Deficit						-0.036*
						(-1.78)
Log(Firm Media Cites)						0.299*
						(1.67)
Majority Voting Proposal						1.319
						(1.40)
Cross-Listed Firm	-0.883*	-1.326**				0.240
	(-1.82)	(-2.11)				(0.39)
Industry FE	YES	YES	YES	YES	YES	YES
Observations	212	212	196	196	196	196
Pseudo R^2	0.479	0.413	0.123	0.164	0.246	0.265

Table 4. The Say-on-Pay Engagement Campaign.

This table presents logit regressions that examine the determinants of CCGG engagements on say on pay from 2008 to 2012 and the adoption of say on pay. The sample includes firms in the S&P/TSX Composite index during those years that have complete data on firm characteristics, measured at the end of each year. Income trusts are excluded. In columns (1)-(2), the dependent variable equals 1 if, during the year, representatives from the CCGG met with a firm's board members and requested the adoption of say on pay. In columns (3)-(7), the dependent variable equals 1 if a firm adopted say on pay within two years of a potential engagement. In columns (3)-(7), the explanatory variables are lagged. All variables are defined in Table A.I. Year fixed effects and 1-digit SIC industry fixed effects are included. *t*-statistics are computed with standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Engagements		Adoptions				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Constant	-8.652***	-17.215***	-2.799***	-2.627***	-11.896***	-4.423***	-4.447***
	(-9.89)	(-7.17)	(-7.45)	(-7.06)	(-7.09)	(-7.73)	(-7.69)
Engaged on Say-on-Pay			2.711***	2.542***	1.802***	1.900***	1.439***
			(7.60)	(7.37)	(5.02)	(5.30)	(3.82)
Engaged Firm							0.696**
							(2.15)
Controlled Corporation	-0.701*	-0.880**		-1.566***	-2.140***	-1.639***	-1.553***
	(-1.77)	(-2.49)		(-4.17)	(-4.79)	(-3.81)	(-3.66)
Log(Assets)		0.776***			0.641***		
		(5.37)			(5.88)		
Log(1+CCGG $ Ownership)	0.667***						
	(5.60)						
CCGG % Ownership		0.026				0.022	0.017
		(1.54)				(1.28)	(0.94)
Canadian Inst. % Ownership ex CCGG		-0.011				0.001	0.003
		(-0.40)				(0.09)	(0.21)
Foreign Inst. % Ownership		0.014				0.012	0.012
		(1.22)				(1.10)	(1.07)
1-year Stock Return	-0.014**	-0.010				-0.007	-0.008*
	(-2.18)	(-1.46)				(-1.58)	(-1.71)
Turnover						0.345	0.347
						(1.21)	(1.20)
Financing Deficit						-0.532	-0.357
						(-0.44)	(-0.30)
Log(Firm Media Cites)						0.345**	0.299**
						(2.56)	(2.10)
Shareholder Proposal						2.609***	2.739***
						(4.13)	(4.36)
Cross-Listed Firm	0.104	-0.033				0.798*	0.825*
	(0.30)	(-0.07)				(1.73)	(1.74)
Year FE	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES
Observations	894	894	751	751	751	751	751
Pseudo R^2	0.220	0.239	0.147	0.194	0.257	0.297	0.303

Table 5. The Compensation Policy Engagement Campaign.

This table presents logit regressions that examine the determinants of CCGG engagements on Compensation Policies (one or more of clawbacks, capped pensions, or performance peer groups) from 2008 to 2012. The sample includes firms in the S&P/TSX Composite index during those years that have complete data on firm characteristics, measured at the end of each year. Income trusts are excluded. In columns (1)-(2), the dependent variable equals 1 if, during the year, representatives from the CCGG met with a firm's board members and requested the adoption of a compensation policy. In columns (3)-(7), the dependent variable equals 1 if a firm adopted a compensation policy within two years of a potential engagement on that particular policy. In columns (3)-(7), the explanatory variables are lagged. All variables are defined in Table A.I. Year fixed effects and 1-digit SIC industry fixed effects are included. *t*-statistics are computed with standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Engagements		Adoptions				
	(1)	(2)	(3)	(4)	(5)	(4)	(7)
Constant	-8.484***	-17.040***	-1.913***	-1.825***	-6.074***	-1.985***	-1.998***
	(-9.88)	(-7.53)	(-7.93)	(-7.70)	(-5.68)	(-5.38)	(-5.44)
Engaged on Compensation Policies			2.147***	2.069***	1.658***	1.763***	1.865***
			(6.95)	(7.02)	(5.62)	(5.85)	(6.08)
Engaged Firm							-0.197
							(-0.91)
Controlled Corporation	-0.722*	-0.803**		-0.744***	-0.804***	-0.769***	-0.797***
	(-1.86)	(-2.00)		(-3.16)	(-3.37)	(-3.20)	(-3.23)
Log(Assets)		0.784***			0.292***		
		(5.78)			(4.08)		
Log(1+CCGG $ Ownership)	0.739***						
	(5.35)						
CCGG % Ownership		0.024				0.011	0.012
		(1.20)				(0.89)	(0.98)
Canadian Inst. % Ownership ex CCGG		0.004				-0.011	-0.012
		(0.22)				(-0.89)	(-0.91)
Foreign Inst. % Ownership		0.025**				-0.015**	-0.015**
		(2.30)				(-2.06)	(-2.05)
1-year Stock Return	-0.017***	-0.011**				-0.006*	-0.006*
	(-3.04)	(-2.05)				(-1.88)	(-1.87)
Turnover						0.029	0.029
						(0.14)	(0.14)
Financing Deficit						-0.053	-0.089
						(-0.05)	(-0.09)
Log(Firm Media Cites)						0.221**	0.244***
						(2.55)	(2.63)
Shareholder proposal						0.631	0.626
						(0.60)	(0.62)
Cross-Listed Firm	-0.390	-0.653				0.313	0.308
	(-1.00)	(-1.40)				(1.08)	(1.07)
Year FE	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES
Observations	989	989	920	920	920	920	920
Pseudo R^2	0.229	0.241	0.095	0.109	0.128	0.135	0.136

Table 6. CEO Compensation.

This table presents OLS regressions that examine changes in CEO equity pay ratio (EPR) following CCGG engagements. The sample period is from 2008 to 2013 and includes firms that were included in the S&P/TSX index during any of those years and have complete data on lagged firm characteristics. Income trusts are excluded. The dependent variable is the CEO EPR. The Engaged on Compensation dummy equals 1 in the year of engagement on compensation issues and in all subsequent years. The Engaged Firm dummy equals 1 for all years if a firm was ever engaged by the CCGG. All variables are defined in Table A.I. Year fixed effects and 1-digit SIC industry fixed effects are included. *t*-statistics are computed with standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Equity Pay Ratio		
	(1)	(2)	(3)
Constant	42.371***	-11.752	-34.571**
	(17.81)	(-1.05)	(-2.20)
Engaged on Compensation	10.781***	7.868***	6.807***
	(4.05)	(3.02)	(2.65)
Engaged Firm	9.697***	2.143	1.154
	(3.48)	(0.71)	(0.38)
TSX Index Member		4.964**	2.955
		(2.06)	(1.08)
Controlled Corporation		-6.601***	-5.579**
		(-2.63)	(-2.27)
Log(Assets)		3.798***	4.831***
		(4.51)	(4.74)
1-year Stock Return			0.047**
			(2.46)
Institutional Investor HHI			0.001
			(0.07)
Volatility			0.270
			(0.49)
Tobin's Q			2.801**
			(2.35)
Leverage			-0.045
			(-0.64)
Cash/Assets			-0.003
			(-0.03)
Dividend Paid			-2.001
			(-0.72)
Cross-Listed Firm			4.000
			(1.53)
Year FE	YES	YES	YES
Industry FE	YES	YES	YES
Observations	1,307	1,307	1,307
Adjusted R^2	0.096	0.145	0.166

Table 7. Board Interlocks and Director Influence.

Panel A presents summary statistics on the adoption of majority voting by firms included in the S&P/TSX Composite index in 2005 that were not engaged by the CCGG. Inclusion in our sample requires complete data on firm characteristics, measured at the end of each year. Firms that are yet to adopt majority voting are included in the sample. Income trusts are excluded. The panel table compares firms that have director interlocks with engaged firms with firms that do not have such director interlocks. Panel B presents summary statistics on the directorships held by directors of firms for this sample based on their directorships in other firms that are also included in the index. Number of directorships, log of market capitalization of other firms in which directors are on the boards, and the eigenvector network centrality measure are reported. Big banks include the seven major financial institutions that were initially engaged by the CCGG on majority voting. Test statistics for the differences in means (medians) are t-statistics (Wilcoxon signed-rank z-statistics). *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A.I.

Panel A. Board Interlocks and Majority Voting Adoptions By Non-Engaged Firms

	N	Adopted	% Adopted
All non-engaged firms	111	17	15%
Non engaged firms *without* interlocks with engaged firms	36	3	8%
Non engaged firms *with* interlocks with engaged firms	75	14	19%
Non-engaged firms *with* interlocks with engaged big banks	27	10	37%
Non-engaged firms *with* interlocks with engaged non-big banks	71	13	18%

Panel B. The Influence of Big Bank vs. Non-Big Bank Directors

	Number of directorships		Log(Market capitalization)		Eigenvector network centrality of directorships	
	Mean	Median	Mean	Median	Mean	Median
Big bank directors	1.3	1	37.2	31.0	0.040	0.036
Non-big bank directors	0.3	0	32.8	29.4	0.011	0.007
Difference	1.0***	1.0***	4.4***	1.6***	0.029***	0.029***
Test statistic for difference	3.73	3.60	7.68	6.48	16.056	16.104

Table 8. Board Interlocks and the Adoptions By Non-engaged Firms.

This table presents logit regressions that examine majority voting and say-on-pay adoptions by firms not engaged by the CCGG. For majority voting, the sample includes firms included in the S&P/TSX Composite index in 2005 and have complete data on firm characteristics, measured at the end of the year. For say-on-pay, the sample includes that are in the S&P/TSX Composite index between 2008 and 2012. Firms that adopt say-on-pay are excluded in subsequent years. Income trusts are excluded. The dependent variable equals 1 if a firm adopted majority voting (say-on-pay) in 2006 or 2007 (2009 to 2013). The explanatory variables are lagged. All variables are defined in Table A.I. For say-on-pay year fixed effects and 1-digit SIC industry fixed effects are included. *t*-statistics are computed with robust standard errors for majority voting and with standard errors clustered at the firm-level for say-on-pay. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

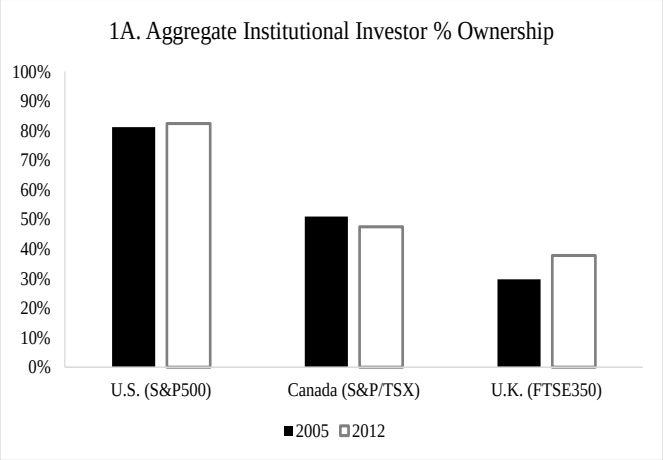
	Majority Voting Adoptions					Say-on-Pay Adoptions		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-2.398***	-3.187**	-2.475***	-2.984*	-2.639*	-2.755***	-4.747***	-4.613***
	(-3.96)	(-1.97)	(-4.32)	(-1.80)	(-1.73)	(-7.22)	(-7.41)	(-7.15)
Interlock	0.926	1.097				0.519*	0.535*	
	(1.37)	(1.60)				(1.78)	(1.68)	
Big Bank Interlock			1.635***	1.943**				
			(2.83)	(2.16)				
Non Big Bank Interlock			0.434	0.801				
			(0.67)	(1.10)				
Interlock Eigenvalue					5.330**			6.136*
					(1.96)			(1.75)
Controlled Corporation		-0.625		-0.744	-0.453		-1.834***	-1.797***
		(-1.06)		(-1.13)	(-0.74)		(-3.64)	(-3.62)
CCGG % Ownership		0.078		0.094*	0.077		0.023	0.020
		(1.57)		(1.86)	(1.34)		(1.15)	(0.96)
Canadian Inst. % Ownership ex CCGG		-0.031		-0.039	-0.018		0.005	0.004
		(-0.65)		(-0.76)	(-0.31)		(0.27)	(0.27)
Foreign Inst. % Ownership		0.018		0.006	0.019		0.026**	0.027**
		(0.99)		(0.31)	(1.02)		(2.30)	(2.35)
1-year Stock Return		0.024**		0.024**	0.020**		-0.007	-0.007
		(2.31)		(2.14)	(1.98)		(-1.54)	(-1.45)
Turnover		-0.286		0.032	0.077		0.345	0.372
		(-0.46)		(0.05)	(0.11)		(1.19)	(1.29)
Financing Deficit		-0.048		-0.040	-0.053*		-1.091	-1.036
		(-1.48)		(-1.24)	(-1.73)		(-0.83)	(-0.76)
Shareholder Proposal							1.898**	1.948***
							(2.50)	(2.64)
Log(Firm Media Cites)		-0.197		-0.439	-0.402		0.433***	0.397**
		(-0.53)		(-1.15)	(-1.02)		(2.60)	(2.26)
Cross-Listed Firm		0.813		1.093	0.628		0.191	0.168
		(1.06)		(1.24)	(0.78)		(0.40)	(0.36)
Year FE	NO	NO	NO	NO	NO	YES	YES	YES
Industry FE	NO	NO	NO	NO	NO	YES	YES	YES
Observations	111	111	111	111	111	615	615	615
Pseudo R^2	0.023	0.199	0.096	0.271	0.213	0.054	0.217	0.220

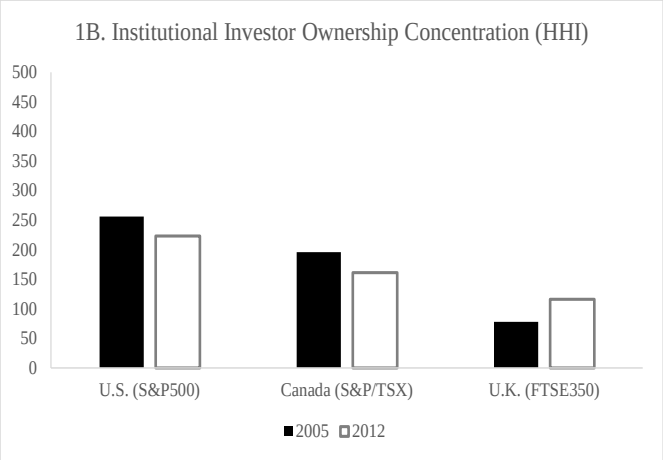
Table 9. Abnormal Returns Around the Announcement of CCGG Formation.

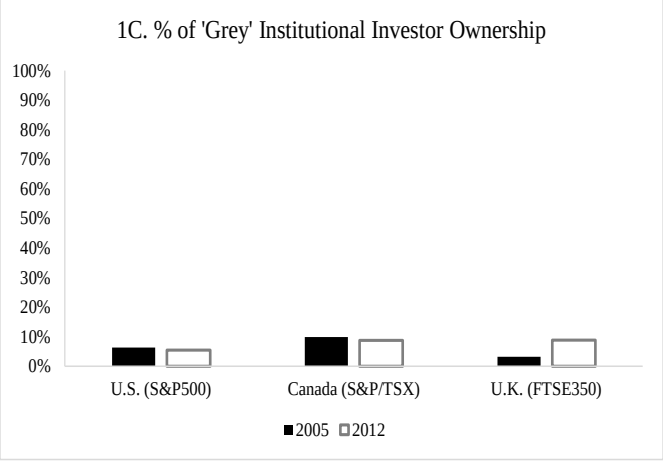
The dependent variable is the cumulative abnormal return over a 3 day window (t-1 to t+1) around the announcement of the intent to form the CCGG on June 27, 2002. The sample includes Canadian firms included in the TSX300 index with complete information in Datastream. The cumulative abnormal returns, in percent, are defined using the total return index (Canada-DS market) and a firm specific beta estimated from 60 days prior to the event date for each firm. CCGG holdings are based on the institutional investors mentioned in the press release. Institutional ownership data is from Factset. All other variables are defined in Table A.I. 1-digit SIC industry fixed effects are included. *t*-statistics are computed with robust standard errors. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
Constant	-3.7461***	-2.9801***	-3.4095***	-3.6655
	(-5.34)	(-3.87)	(-5.66)	(-1.54)
Log(1+CCGG $ Ownership)	0.2798*	0.4358**		
	(1.78)	(2.31)		
CCGG % Ownership			0.0903**	0.0925**
			(2.25)	(2.16)
Canadian Inst. % Ownership ex CCGG				0.0122
				(0.52)
Foreign Inst. % Ownership				-0.0058
				(-0.23)
Controlled Corporation		-0.9673		-1.0688*
		(-1.60)		(-1.76)
Cross-Listed Firm		-1.9161**		
		(-2.51)		(-1.51)
Log(Assets)				0.0819
				(0.48)
Industry FE	YES	YES	YES	YES
Observations	238	238	238	238
Adjusted R^2	0.135	0.165	0.132	0.140

Figure 1. Institutional Ownership of Canadian, U.S., and U.K. Index Firms in 2005 and 2012
This figure presents data on institutional ownership of firms included in the major indices in Canada (S&P/TSX), the U.S. (S&P 500), and the U.K. (FTSE 350). Institutional owners classified as 'grey' include banks, insurance companies, pension plans, endowments, and sovereign wealth funds. See Ferreira and Matos (2008). Variables are defined in Table A.1.







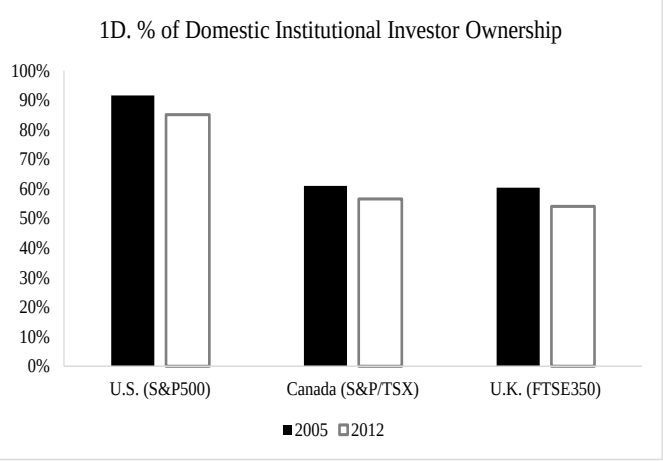
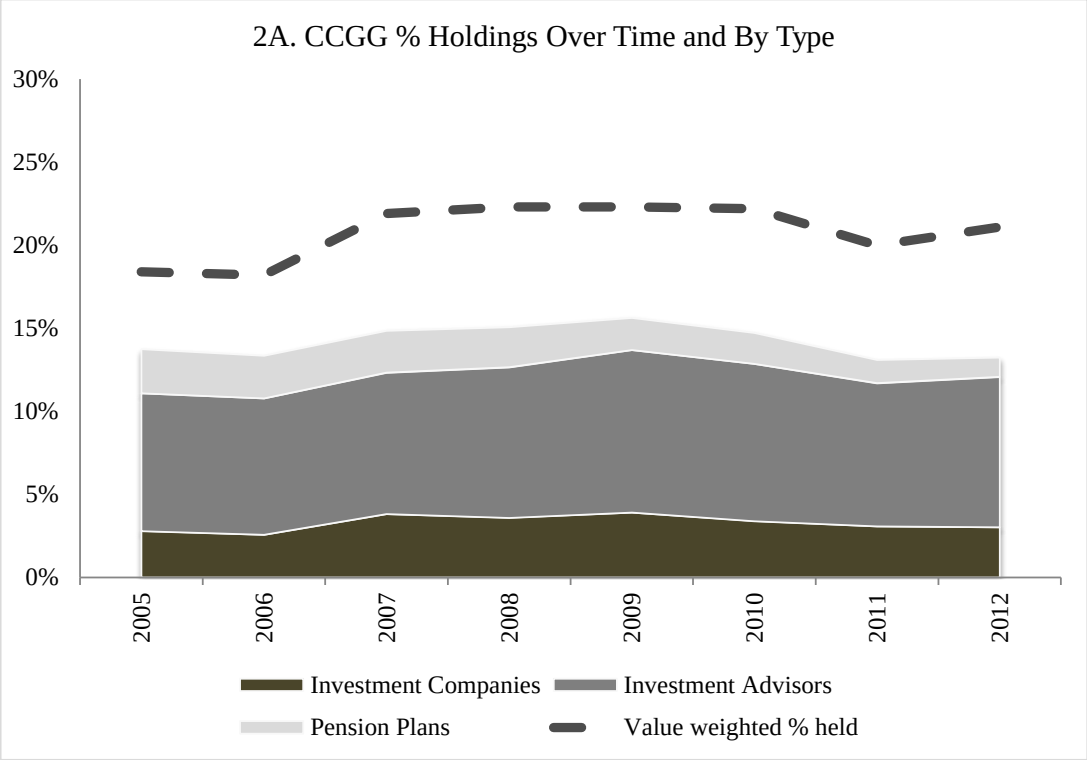


Figure 2. CCGG Members' Ownership of Canadian Firms.
The solid lines in Figure 2A shows the average, aggregate percentage holdings CCGG members in S&P/TSX index firms over time and by type of member. The dashed line shows the value-weighted aggregate percentage holdings. Figure 2B shows the distribution of CCGG ownership stakes in S&P/TSX index firms in 2005 and 2012. CCGG % Ownership is defined in Table A.I



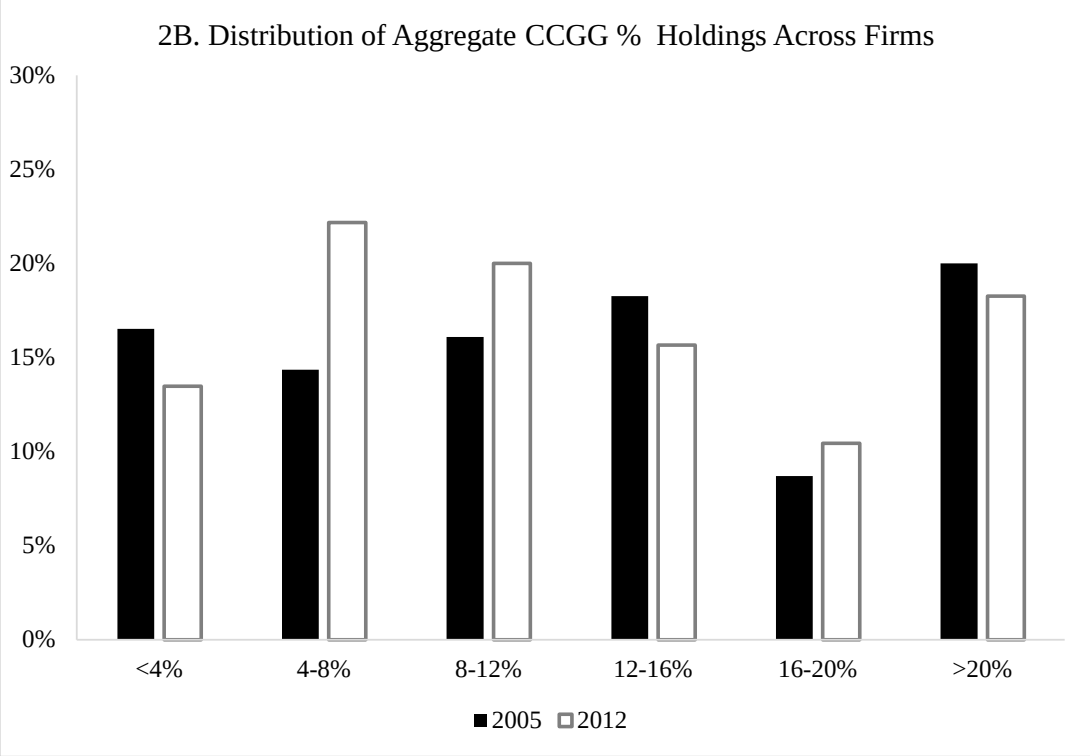
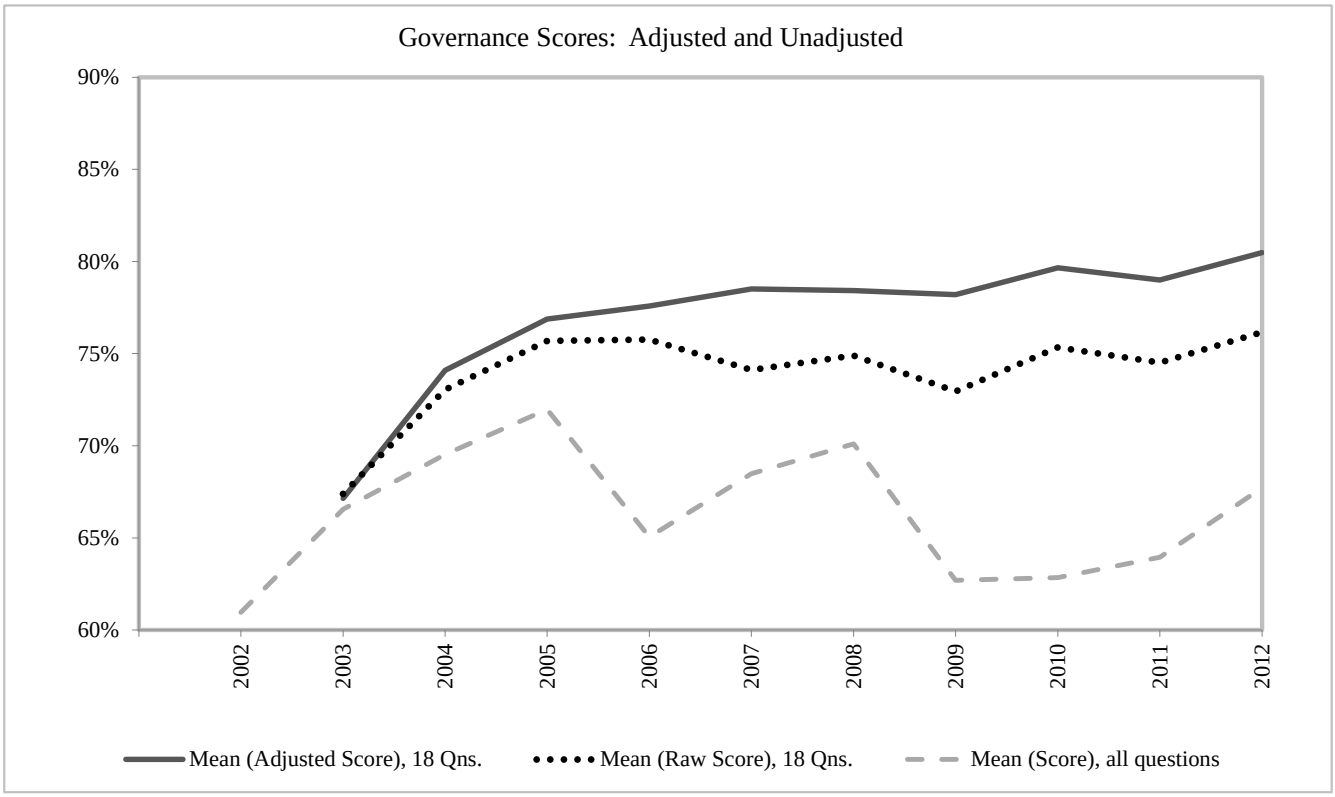


Figure 3. Changes in Governance Scores Over Time.

This figure shows the changes in the governance games scores from 2002 to 2012. The governance scores are described under "Good Governance Dummy" in Table A.I. Scoring criteria are added and dropped from the scores each year. 18 criteria are part of the scores since their inception.



APPENDIX

Table A.I – Variable Definitions

This table contains the definitions and descriptions of the variables used in the paper.

Variable	Description
1-year Stock Return	Buy-and-hold stock return in the 1-year period ending June 30 of the current year. (Source: Datastream).
Abnormal stock returns	
Adopted Compensation Policies	Equals 1 if within the subsequent two years of a potential engagement, the firm adopted at least one of the following "compensation policies"; a clawback policy, a provision that allows a firm to recoup performance-based executive compensation in cases where financial information upon which the performance payments are made need to be restated; a capped pension, a policy that limits the pension/retirement benefits awarded to a firm's CEO; performance peer groups, the practice of evaluating firm performance relative to a disclosed group of peer firms when determining performance-based executive compensation. For firms that adopted all three policies, this variable is set to missing in subsequent years. (Source: Firms' proxy circulars).
Adopted Majority Voting	Equals 1 if within two years of the majority voting campaign in 2005, the firm adopted a majority voting policy. Firms should lists individual directors on the Registered Form of Proxy or the Voting Instruction form, adopt an internal policy which states that for any director receiving 50% + 1 withheld votes, those votes would be considered votes "against" the director, and such directors immediately resign, which the board is expected to accept absent extraordinary circumstances. (Source: Firms' proxy circulars).
Adopted Say-on-pay	Equals 1 if, within the subsequent two years of a potential engagement, the firm adopted a policy to hold a non-binding shareholder advisory vote on the firm's approach a executive compensation (say-on-pay). Equals 0 if the firm did not adopt such a policy. For firms that adopted such a policy, this variable is set to missing in subsequent years. (Source: Firms' proxy circulars).
Good Governance	Equals 1 if a firm is ranked above the 66th percentile in a given year in the annual Board Games Governance scores. The Board Games scores are part of a report published annually by *The Globe and Mail*. The scores rate the governance practices of firms that constitute the S&P/TSX Composite Index using criteria that go beyond rules imposed by regulators. The individual components of the scores are grouped into four categories; board composition, shareholding and compensation, shareholder rights, and disclosure. Firms are scored based on information from their most recent annual shareholder proxy circulars. (Source: *The Globe and Mail)*.
Canadian Institutional Ownership % ex CCGG	The percentage of a firm's outstanding shares owned by institutions domiciled in Canada excluding CCGG members in a given year. These shareholders were aggregated to the total percentage holdings. (Source: FactSet, Capital IQ).
Cash/Assets	The ratio of the cash held by the firm to Total Assets. (Source: Worldscope).
CCGG % Ownership	The percentage of a firm's outstanding shares owned by CCGG member institutions in a given year. These shareholders were aggregated to the total percentage holdings. (Source: FactSet, Capital IQ).
Controlled Corporation	Equals 1 if a firm has multiple classes of shares or if the fraction of the closely held shares exceeds 30%. Closely held shares include shares held by officers, directors, and their immediate families, shares held in trust, shares of the company held by any other corporation (except shares held in a fiduciary capacity by banks or other financial institutions), shares held by pension/benefit plans and shares held by individuals with ownership exceeding 5%. Equals 0 otherwise. (Source: Worldscope).
Cross-Listed Firm	Equals 1 if the firm was cross-listed on an exchange in the United States (AMEX, NYSE or NASDAQ) in a given year. Equals 0 otherwise. (Sources: Bank of New York, Citibank, JP Morgan, the NYSE, NASDAQ, CRSP and SEC).
Dividend Paid	Equals 1 if the firm paid a dividend during the year. Equals 0 otherwis. (Source: Worldscope).
Engaged on Compensation Policies	Equals 1 if, the CCGG engaged a firm's board between 2008 and 2011 and requested that the firm adopt one more of capped pensions, clawbacks, or performance peer groups. (Compensation Policies). Equals 0 otherwise. (Source: Private CCGG records).
Engaged on Majority Voting	Equals 1 if, during 2005, the CCGG sent a letter to a firm's board requesting that the firm adopt a majority voting policy. Equals 0 otherwise. (Source: Private CCGG records).
Engaged on Say-on-Pay	Equals 1 if, the CCGG engaged a firm's board between 2008 and 2011 and requested that the firm adopt say-on-pay. Equals 0 otherwise. (Source: Private CCGG records).
Engaged Firm	Equals 1 for all years for firms that were engaged on any issue in any year between 2008 and 2011. Equals 0 otherwise. (Source: Private CCGG records).
Equity Pay Ratio	The fraction of the total compensation awarded to the firm's CEO during the year consisting of either shares or options. (Source: Firms' proxy circulars and annual reports).
Foreign Inst. Ownership	The percentage of a firm's outstanding shares owned by institutions domiciled outside Canada in a given year. These shareholders were aggregated to the total percentage holdings. (Source: FactSet, Capital IQ).

Table A.I, continued.

Variable	Description
Financing Deficit	Financing deficit defined as the sum of dividends, investment and change in net-working capital less cash flow, all deflated by total assets. See Frank and Goyal (2003). (Source: Worldscope).
Institutional Ownership %	The percentage of a firm's outstanding shares held by institutional investors. Data on institutional investors' shareholdings for firm are obtained from FactSet and Capital IQ annually. (Source: WRDS and Capital IQ).
Institutional Investor HHI	The sum of the squared percentage ownership stakes of the institutional shareholders of each firm. (Source: WRDS and Capital IQ).
Interlock	For firms not engaged by the CCGG, it equals 1 if the firm has a director who also sits on the board of a firm that was engaged by the CCGG to adopt majority voting (say-on-pay) during the prior two years. Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Interlock – Big Bank	For firms included in the majority voting sample that were not engaged by the CCGG, this dummy equals 1 if the firm shares a director with one of the seven major financial institutions that were initially engaged by the CCGG on majority voting (Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Toronto-Dominion Bank, Manulife Financial, Sunlife Financial). Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Interlock Eigenvalue	Equals the combined (summed) eigenvector centrality of directors who sat on a board which was engaged by CCGG to adopt a majority voting policy (say-on-pay) in the prior year. Eigenvector centrality of director i is his power in the network, weighed by the similarly calculated power of all his direct contacts, each weighted by the power of their direct connections, and so on. The recursions in the calculation process result in estimation of an eigenvector of connections matrix. The eigenvector centrality values of the directors in the network are taken as the elements of the eigenvector associated with the connections matrix's principal eigenvalue. The centrality measure is calculated using directors sitting on the same board in the same year as a connection within the directors' network. Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Interlock – Non Big Bank	For firms included in the majority voting sample that were not engaged by the CCGG, this dummy equals 1 if the firm shares a director with a firm engaged by the CCGG on majority voting excluding the seven major financial institutions. Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Leverage	The ratio of Total Debt to Total Assets. (Source: Worldscope).
Log(Assets)	Natural logarithm of Total Assets. (Source: Worldscope).
Log(1+CCGG $ Ownership)	Natural logarithm of 1 + the dollar value of CCGG's members' shareholdings in the firm (see *CCGG % Ownership*).
Log(1+Firm Media Cites)	Natural logarithm of 1 + the number of news articles appearing in *The Globe and Mail* or *Financial Post* during a given year that mention the firm. (Source: LexisNexis).
Engaged on Compensation	Equals 1 for the year a firm was engaged on either say-on-pay or the compensation policies, and for all subsequent years. Equals 0 otherwise. (Source: Private CCGG records).
Shareholder Proposal	Equals 1 if a shareholder proposal requesting adoption of Majority Voting/Say-on-pay/Compensation Policies was filed with the firm during the year. Equals 0 otherwise. (Source: SHARE.ca).
Tobin's Q	The ratio of the sum of a firm's market value of equity and book value of debt to Total Assets. (Source: Worldscope).
TSX Index Member	Equals 1 if the firm was a member was included in the S&P/TSX Composite Index as of June 30 that year. Equals 0 otherwise. (Source: Datastream).
Turnover	Number of shares traded during the year divided by the number of shares outstanding. (Source: Datastream).
Volatility	The volatility of the firm's stock price during the 104-week period ending in June 30 of the current year. (Source: Datastream).

Table A.II. Summary Statistics – Engagements and Adoptions.

This table presents summary statistics for the firm characteristics of the samples used in tables 3/4/5. The sample consists of firms included in the S&P/TSX Composite index in 2005/2008-2012/2008-2012, with complete data on firm characteristics, measured at the end of 2005/2008-2012/2008-2012 for the majority voting/say-on-pay/compensation policy sample. Income trusts are excluded. The sample only includes firms that are yet to adopt majority voting/say-on-pay/compensation policies. Firms that adopt majority voting/say-on-pay/compensation policies are subsequently excluded from the majority voting/say-on-pay/compensation policies adoption samples. All variables are defined in Table A.I.

	N	Mean	Median	S.D	Min	Max
Majority Voting Engagement Sample:						
Engaged	212	0.415	0.000	0.494	0.000	1.000
Controlled Corporation	212	0.434	0.000	0.497	0.000	1.000
Log(Assets)	212	14.701	14.436	1.716	11.482	19.965
Log(1+CCGG $ Ownership)	212	5.457	5.520	1.899	0.000	9.708
CCGG % Ownership	212	13.583	12.233	9.516	0.000	43.484
Cdn Inst. Ownership % ex CCGG	212	14.161	12.828	8.424	0.000	41.147
Foreign Inst. Ownership	212	22.281	12.441	20.492	0.064	79.237
1-year Stock Return	212	20.456	18.171	37.276	-39.017	106.936
Cross-Listed Firm	212	0.486	0.000	0.501	0.000	1.000
Say-on-pay Engagement Sample:						
Engaged	894	0.064	0.000	0.244	0.000	1.000
Controlled Corporation	894	0.331	0.000	0.471	0.000	1.000
Log(Assets)	894	14.992	14.751	1.557	10.167	20.398
Log(1+CCGG $ Ownership)	894	5.561	5.488	1.730	0.159	10.202
CCGG % Ownership	894	13.494	10.907	9.616	0.030	50.835
Cdn Inst. Ownership % ex CCGG	894	11.730	10.057	8.564	0.000	59.203
Foreign Inst. Ownership	894	22.798	16.375	18.962	0.311	85.827
1-year Stock Return	894	7.147	3.035	38.621	-62.797	123.385
Cross-Listed Firm	894	0.352	0.000	0.478	0.000	1.000
Compensation Policy Engagement Sample:						
Engaged	989	0.070	0.000	0.255	0.000	1.000
Controlled Corporation	989	0.308	0.000	0.462	0.000	1.000
Log(Assets)	989	15.147	14.874	1.645	10.167	20.398
Log(1+CCGG $ Ownership)	989	5.709	5.583	1.785	0.159	10.202
CCGG % Ownership	989	13.969	11.381	9.802	0.030	50.835
Cdn Inst. Ownership % ex CCGG	989	11.731	10.165	8.364	0.000	59.203
Foreign Inst. Ownership	989	23.201	16.886	19.252	0.311	85.827
1-year Stock Return	989	6.841	3.052	37.868	-62.797	123.385
Cross-Listed Firm	989	0.377	0.000	0.485	0.000	1.000

Table A.II. continued.

	N	Mean	Median	S.D.	Min	Max
Majority Voting Adoption Sample:						
Adoptions	196	0.291	0.000	0.455	0.000	1.000
Engaged	196	0.434	0.000	0.497	0.000	1.000
Controlled Corporation	196	0.449	0.000	0.499	0.000	1.000
Log(Assets)	196	14.770	14.484	1.734	11.482	19.965
CCGG % Ownership	196	13.756	12.284	9.684	0.000	43.484
Cdn Inst. Ownership % ex CCGG	196	14.184	12.918	8.281	0.000	41.147
Foreign Inst. Ownership	196	20.977	11.843	19.750	0.064	79.237
1-year Stock Return	196	21.954	19.431	37.950	-39.017	106.936
Turnover	196	0.839	0.754	0.583	0.006	4.020
Financing Deficit	196	3.114	0.197	12.705	-19.841	71.275
Log(1+Firm Media Cites)	196	3.232	3.367	1.285	0.000	6.105
Majority Voting Proposal	196	0.036	0.000	0.186	0.000	1.000
Cross-Listed Firm	196	0.474	0.000	0.501	0.000	1.000
Say-on-pay Adoption Sample:						
Adoptions	751	0.123	0.000	0.328	0.000	1.000
Engaged	751	0.065	0.000	0.247	0.000	1.000
Controlled Corporation	751	0.361	0.000	0.481	0.000	1.000
Log(Assets)	751	14.931	14.706	1.476	10.167	20.398
CCGG % Ownership	751	13.222	10.855	9.404	0.030	50.835
Cdn Inst. Ownership % ex CCGG	751	11.749	9.854	8.644	0.003	56.867
Foreign Inst. Ownership	751	22.096	15.828	18.580	0.311	84.061
1-year Stock Return	751	5.764	0.779	39.200	-64.647	124.865
Turnover	751	0.922	0.774	0.591	0.006	4.431
Financing Deficit	751	0.038	0.010	0.106	-0.252	0.649
Log(1+Firm Media Cites)	751	2.292	2.197	1.319	0.000	6.402
Shareholder Proposal	751	0.025	0.000	0.157	0.000	1.000
Cross-Listed Firm	751	0.328	0.000	0.470	0.000	1.000
Compensation Policy Adoption Sample:						
Adoptions	920	0.178	0.000	0.383	0.000	1.000
Engaged	920	0.072	0.000	0.258	0.000	1.000
Controlled Corporation	920	0.320	0.000	0.467	0.000	1.000
Log(Assets)	920	15.174	14.906	1.597	10.202	20.398
CCGG % Ownership	920	14.103	11.545	9.743	0.030	50.835
Cdn Inst. Ownership % ex CCGG	920	11.861	10.251	8.456	0.000	59.203
Foreign Inst. Ownership	920	23.205	16.976	19.258	0.311	85.827
1-year Stock Return	920	6.151	1.958	37.756	-64.647	124.865
Turnover	920	0.893	0.764	0.556	0.006	4.431
Financing Deficit	920	0.035	0.008	0.100	-0.252	0.649
Log(1+Firm Media Cites)	920	2.443	2.303	1.376	0.000	6.402
Shareholder Proposal	920	0.008	0.000	0.087	0.000	1.000
Cross-Listed Firm	920	0.376	0.000	0.485	0.000	1.000

Table A.III. Summary Statistics – Executive Compensation

This table presents summary statistics for the firm characteristics of the sample used in table 6. The sample consists of firms that were included in the S&P/TSX Composite index at any time during 2005-2013 that have complete data on firm characteristics, measured at the end of each year. Income trusts are excluded. All variables are defined in Table A.I.

	N	Mean	Median	S.D.	Min	Max
Equity Pay Ratio Sample:						
Total Pay	1307	4,360,177	2,800,000	5,007,635	22,000	88,000,000
Equity Pay Ratio	1307	43.498	48.718	26.870	0.000	100.000
Engaged on Compensation	1307	0.139	0.000	0.346	0.000	1.000
Engaged Firm	1307	0.311	0.000	0.463	0.000	1.000
TSX Index Member	1307	0.835	1.000	0.372	0.000	1.000
Controlled Corporation	1307	0.306	0.000	0.461	0.000	1.000
Log(Assets)	1307	14.894	14.637	1.806	10.138	20.529
1-year Stock Return	1307	9.648	6.117	45.421	-82.330	163.772
Institutional Ownership HHI	1307	167.217	127.844	197.922	0.028	2504.323
Volatility	1307	6.223	5.622	3.230	1.708	19.960
Tobin's Q	1307	1.643	1.329	0.989	0.306	8.669
Leverage	1307	19.838	18.019	15.861	0.000	70.648
Cash/Assets	1307	11.355	6.808	13.140	0.000	90.952
Dividend Paid	1307	0.643	1.000	0.479	0.000	1.000
Cross-listed Firm	1307	0.363	0.000	0.481	0.000	1.000

Table A.IV. Summary Statistics – Non-Engaged Firm Samples

This table presents summary statistics for the firm characteristics of the sample used in table 8. For majority voting, the sample includes firms not engaged by the CCGG in 2005 that are in the S&P/TSX Composite index in 2005 and have complete data on firm characteristics, measured at the end of the year. For say-on-pay, the sample includes firms not engaged by the CCGG between 2008 and 2012 that are in the S&P/TSX Composite index during those years. Income trusts are excluded. Firms adopting say-on-pay are subsequently excluded from the say-on-pay sample. All variables are defined in Table A.I.

	N	Mean	Median	S.D.	Min	Max
Majority Voting Non-Engaged Firm Sample						
Adoptions	111	0.153	0.000	0.362	0.000	1.000
Interlock	111	0.676	1.000	0.470	0.000	1.000
Big Bank Interlock	111	0.189	0.000	0.393	0.000	1.000
Non Big Bank Interlock	111	0.640	1.000	0.482	0.000	1.000
Interlock Eigen Value	111	0.068	0.029	0.103	0.000	0.546
Controlled Corporation	111	0.333	0.000	0.474	0.000	1.000
Log(Assets)	111	13.948	13.732	1.311	11.482	18.520
CCGG % Ownership	111	9.174	7.852	7.001	0.000	40.291
Cdn Inst. Ownership % ex CCGG	111	13.187	11.573	8.395	0.000	41.147
Foreign Inst. Ownership	111	20.106	12.437	18.446	0.064	79.237
1-year Stock Return	111	22.246	21.519	40.972	-39.017	106.936
Turnover	111	0.865	0.786	0.636	0.006	4.020
Financing Deficit	111	5.655	0.549	14.928	-19.841	71.275
Log(1+Firm Media Cites)	111	2.956	3.045	1.045	0.000	5.673
Cross-Listed Firm	111	0.414	0.000	0.495	0.000	1.000
Say-on-pay Non-Engaged Firm Sample						
Adoptions	615	0.102	0.000	0.303	0.000	1.000
Interlock	615	0.276	0.000	0.448	0.000	1.000
Interlock Eigen Value	615	0.017	0.000	0.042	0.000	0.302
Controlled Corporation	615	0.324	0.000	0.468	0.000	1.000
Log(Assets)	615	14.748	14.571	1.431	10.167	19.746
CCGG % Ownership	615	12.395	10.008	8.999	0.030	50.835
Cdn Inst. Ownership % ex CCGG	615	11.849	9.879	8.983	0.003	56.867
Foreign Inst. Ownership	615	21.195	14.046	18.566	0.311	84.061
1-year Stock Return	615	5.943	0.509	40.082	-64.647	124.865
Turnover	615	0.904	0.743	0.601	0.006	4.431
Financing Deficit	615	0.040	0.011	0.103	-0.252	0.646
Log(1+Firm Media Cites)	615	2.116	2.079	1.239	0.000	5.916
Shareholder Proposal	615	0.020	0.000	0.138	0.000	1.000
Cross-Listed Firm	615	0.302	0.000	0.460	0.000	1.000