

# BOARD DECLASSIFICATION ACTIVISM: THE FINANCIAL VALUE OF THE SHAREHOLDER RIGHTS PROJECT

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# THE STAGGERED BOARD CONTROVERSY

- Staggered Boards (SBs):
  - boards with 3 classes of directors.
  - one class standing for re-election each year, each serving 3-year terms.

Quintessential corporate governance failure

*or*

Strengthening board commitment to long-term value creation?

# THEORETICAL BACKGROUND

## I. BOARD-CENTRIC MODEL (TRADITIONAL VIEW)

- Strong boards necessary to address collective action problems.
- Board (and managerial) MH mitigated through fiduciary duties and shareholders' franchise as well as compensation contracts.
- **Normative Conclusion:** Board as efficient centralized decision-maker.

## II. SHAREHOLDER EMPOWERMENT VIEW

- **Board is captured:** incentive schemes are inadequate to control MH and enforcement of fiduciary duties is a myth.
- Strengthening shareholders' right to remove managers necessary to control board capture and hence MH.
- Shareholders' **action guided by price system** → lower price is proxy for managerial opportunism.
- **Normative Conclusion:** Empowering shareholders and limiting board power is socially efficient.

# CONTROVERSY IN EMPIRICAL LITERATURE

- Empirical literature until recently documents that firms with SBs have lower financial value (e.g., Bebchuk & Cohen, 2005; Faleye, 2007; ISS, 2013; Cohen and Wang, 2013).
  - Purely cross-sectional result.
  - Literature interprets this as SBs reducing firm value.
- New results:
  - Cremers & Sepe, 2016.
  - Cremers, Litov & Sepe, 2017.

# BEBCHUK & COHEN (2005)

Variable	(1)	(2)	(3)	(4)
Staggered board	-0.21 <sup>***</sup> (0.034)	-0.166 <sup>***</sup> (0.036)	-0.169 <sup>***</sup> (0.035)	-0.174 <sup>***</sup> (0.044)
Index of other provisions		-0.024 <sup>***</sup> (0.006)		-0.013 (0.01)
Log (index of other provisions)			-0.179 <sup>***</sup> (0.058)	
Log (assets)	0.00 (0.009)	0.003 (0.009)	0.003 (0.009)	-0.04 <sup>***</sup> (0.013)
Log (company age)	-0.168 <sup>***</sup> (0.023)	-0.147 <sup>***</sup> (0.023)	-0.148 <sup>***</sup> (0.023)	-0.232 <sup>***</sup> (0.032)
Delaware incorporation	0.02 (0.031)	0.016 (0.031)	0.016 (0.031)	-0.017 (0.04)
Insider ownership				0.016 <sup>**</sup> (0.007)
Insider ownership squared				-0.0003 <sup>***</sup> (0.0001)
Return on assets				0.028 (0.029)
CAPEX/assets				1.00 <sup>***</sup> (0.325)
R&D/sales				0.01 (0.008)

# CREMERS AND SEPE (2016)

Dependent Variable: Q				
Independent Variables:	Period:			
	1995-2002		1978-2011	
	(1)	(2)	(3)	(4)
Staggered Board	-0.042	0.119*	-0.041**	0.059**
(firm cluster)	(-1.17)	(-1.82)	(-2.38)	(-2.11)
[no cluster]	[-1.83]	[-2.15]	[-4.98]	[-4.65]
G-Index	-0.005	-0.005		
	(-0.57)	(-0.33)		
Assets	0.052***	-0.396***	-0.027***	-0.215***
	(3.24)	(-8.10)	(-3.74)	(-12.01)
Firm Age	-0.050	0.327		
	(-1.34)	(1.59)		
Delaware Incorporation <sub>[t-1]</sub>	-0.010		0.014	
	(-0.28)		(0.76)	
Insider Ownership	0.318	0.562		
	(0.95)	(1.27)		
Insider Ownership <sup>2</sup>	-0.179	-0.742		
	(-0.37)	(-1.06)		
ROA	5.939***	2.071***	5.073***	2.939***
	(19.11)	(7.74)	(32.74)	(20.27)
CAPX	-1.048**	-0.907**	-0.263	0.102
	(-2.17)	(-2.19)	(-1.14)	(0.60)
R&D	5.499***	0.423	4.231***	1.445***
	(7.17)	(0.35)	(12.01)	(2.72)
Industry M&A Volume <sub>[t-1]</sub>	0.129	0.129	-0.235***	-0.248***
	(0.85)	(0.93)	(-3.04)	(-3.59)
<b>Fixed Effects:</b>	<b>Industry</b>	<b>Firm</b>	<b>Industry</b>	<b>Firm</b>
N	5253	5253	30,797	30,797
R-Squared	0.63	0.84	0.51	0.74

## ROBUSTNESS (CLS, 2017)

- Proved reverse causality of BC.
- Confirmed positive effect of Staggered Boards on firm value through:
  - First Difference.
  - Matching.
  - MA Quasi-Natural Experiment.
  - GMM.
  - Interaction Analysis.

# HARVARD SHAREHOLDER RIGHTS PROJECT

[An Unprecedented Clinical Course](#)





# HARVARD SHAREHOLDER RIGHTS PROJECT

## Shareholder Rights Project

**About**      **Releases**      **Media**      **2014 Proposals**      **2013 Proposals**      **2012 Proposals**  
**Negotiated Agreements**      **Successful Proposals**      **Declassifications**      **Represented Institutions**

The Shareholder Rights Project (SRP) was established by the [Harvard Law School Program on Institutional Investors](#) to contribute to education, discourse, and research related to efforts by institutional investors to improve corporate governance arrangements at publicly traded firms. During the previous three academic years (2011-2012 through 2013-2014), the SRP operated a clinic that assisted institutional investors (several public pension funds and a foundation) in moving S&P 500 and Fortune 500 companies towards annual elections. This work contributed to board declassification at about 100 S&P 500 and Fortune 500 companies. With work on the declassification project completed last summer, the clinic has not been operating during the current academic year. This website provides information about the work done by the SRP clinic during its three years of operation; a detailed final report on this work will be issued in 2015. Any communications with respect to the SRP clinic should be attributed solely to the SRP and not to Harvard Law School or Harvard University.

During the previous three academic years (2011-2012 through 2013-2014), the SRP operated a clinic that assisted institutional investors (several public pension funds and a foundation) in moving S&P 500 and Fortune 500 companies towards annual elections. The investors that worked with the SRP clinic during all or part of this period serve more than 3 million people, and the aggregate value of assets that they manage exceeds \$400 billion. Additional information about each of these investors is provided [here](#).

The work on the board declassification project was completed in the summer of 2014, having contributed to board declassification at about 100 S&P 500 and Fortune 500 companies. A detailed report on the completed board declassification project will be issued in 2015. In the meantime, significant information on the results of the project can be found on this website.

# HARVARD SHAREHOLDER RIGHTS PROJECT

## **121 Companies Agreed to Move towards Annual Elections**

This page provides information about 121 successful engagements during the SRP clinic's three years of operation. These engagements resulted in companies agreeing to move toward annual elections following the submission of board declassification proposals for meetings during the 2012, 2013 and 2014 proxy seasons. As explained in further detail below, the work of the SRP clinic and investors that worked with the SRP clinic produced:

- 50 S&P 500 companies that agreed to move toward annual elections (by bringing management declassification proposals to a shareholder vote or, where declassification was established in bylaws that the board may amend, by declassifying) following the submission of proposals for annual meetings during the 2012 proxy season and/or the passage of declassification proposals during the 2012 proxy season by investors that worked with the SRP clinic;
- 52 S&P 500 and Fortune 500 companies that entered into such agreements to move toward annual elections following the submission of proposals for annual meetings during the 2013 proxy season; and
- 24 S&P 500 and Fortune 500 companies that entered into such agreements to move toward annual elections following the submission of proposals for annual meetings during the 2014 proxy season.

In general, the practice of the SRP clinic and investors that worked with the SRP clinic was to engage actively with companies receiving declassification proposals. These investors and the SRP clinic were pleased by the responsiveness to shareholder concerns displayed by so many corporate boards.

# HARVARD SHAREHOLDER RIGHTS PROJECT

## **Aggregate Impact**

The outcomes produced by proposals submitted for the 2012, 2013 and 2014 proxy seasons can be expected to have a major impact on the governance of large publicly traded companies.

For the 2012, 2013 and 2014 proxy seasons, 196 shareholder proposals were submitted to 129 different S&P 500 and Fortune 500 companies (in a number of cases, where proposals for the 2012 proxy season or the 2013 proxy season did not result in companies agreeing to move towards annual elections, proposals were also submitted to companies for their subsequent annual meetings in the 2013 or 2014 proxy seasons). Of the 129 companies receiving proposals for the 2012, 2013 and/or 2014 proxy season, 121 companies – over **85%** of the companies receiving proposals for the 2012, 2013 and/or 2014 proxy seasons – agreed to move towards annual elections. These 121 companies represent about **two-thirds** of the S&P 500 companies that had classified boards as of the beginning of 2012, and had a market capitalization exceeding one trillion dollars as of June 30, 2014.

# HARVARD SRP – REPORT

*Expected Impact by End of 2014:* The work of the SRP and SRP-represented investors is expected to produce a significant number of additional board declassifications during 2014 as a result of (i) management declassification proposals that will go to a vote pursuant to 2012 and 2013 agreements, (ii) companies agreeing to follow the preferences of shareholders expressed in 58 successful precatory declassification proposals, and (iii) ongoing engagement by the SRP and SRP-represented investors. We estimate that, by the end of 2014, this work will have contributed to movements towards board declassification by about 100 S&P 500 and Fortune 500 companies; this large-scale change can be expected to increase board accountability and thereby to enhance shareholder value and company performance in the affected companies.

# HARVARD SRP – PROXY STATEMENT

## SUPPORTING STATEMENT

The resolution urges the board of directors to facilitate a declassification of the board. Such a change would enable shareholders to register their views on the performance of all directors at each annual meeting. Having directors stand for elections annually makes directors more accountable to shareholders, and could thereby contribute to improving performance and increasing firm value.

Over the past decade, many S&P 500 companies have declassified their board of directors. According to data from FactSet Research Systems, the number of S&P 500 companies with classified boards declined by more than 50%; and the average percentage of votes cast in favor of shareholder proposals to declassify the boards of S&P 500 companies during the period January 1, 2010 – June 30, 2011 exceeded 75%.

The significant shareholder support for proposals to declassify boards is consistent with empirical studies reporting that classified boards could be associated with lower firm valuation and/or worse corporate decision-making. Studies report that:

- Classified boards are associated with lower firm valuation (Bebchuk and Cohen, 2005; confirmed by Faleye (2007) and Frakes (2007));
- Takeover targets with classified boards are associated with lower gains to shareholders (Bebchuk, Coates, and Subramanian, 2002);
- Firms with classified boards are more likely to be associated with value-decreasing acquisition decisions (Masulis, Wang, and Xie, 2007); and
- Classified boards are associated with lower sensitivity of compensation to performance and lower sensitivity of CEO turnover to firm performance (Faleye, 2007).

Please vote for this proposal to make directors more accountable to shareholders.

# BEBCHUK V. LIPTON

- Lipton, Wachtell, Rosen & Katz, February 2013 Memo, “**The Shareholder Rights Project Is Wrong**” (The New York Times):
  - *“It is surprising that a major academic institution would countenance the formation of a clinical program to advance a narrow agenda that would exacerbate the short-term pressures under which American companies are forced to operate.”*
- **Bebchuk, CLR 2013:**
  - *“None of the organizations that press for board insulation in the name of long-term value ..., such as ... Wachtell, Lipton, Rosen & Katz, have thus far attempted to conduct or commission research that would use the substantial data available on the financial performance of firms and shareholders to validate their myopic activists hypothesis.”*

# CREMERS – LITOV – SEPE, 2013

## STAGGERED BOARDS AND FIRM VALUE, REVISITED

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*November, 2013*

### ABSTRACT

This paper revisits the association between firm value (as proxied by Tobin's Q) and whether the firm has a staggered board. As is well known, in the cross-section firms with a staggered board tend to have a lower value. Using a comprehensive sample for 1978 – 2011, we show an opposite result in the time series: firms that adopt a staggered board increase in firm value, while de-staggering is associated with a decrease in firm value. We further show that the decision to adopt a staggered board seems endogenous, and related to an *ex ante* lower firm value, which helps reconciling the existing cross-sectional results to our novel time series results. To explain our new results, we explore potential incentive problems in the shareholder-manager relationship. Short-term oriented shareholders may generate myopic incentives for the firm to underinvest in risky long-term projects. In this case, a staggered board may helpfully insulate the board from opportunistic shareholder pressure. Consistent with this, we find that the adoption of a staggered board has a stronger positive association with firm value for firms where such incentive problems are likely more severe: firms with more R&D, more intangible assets, more innovative and larger and thus likely more complex firms.

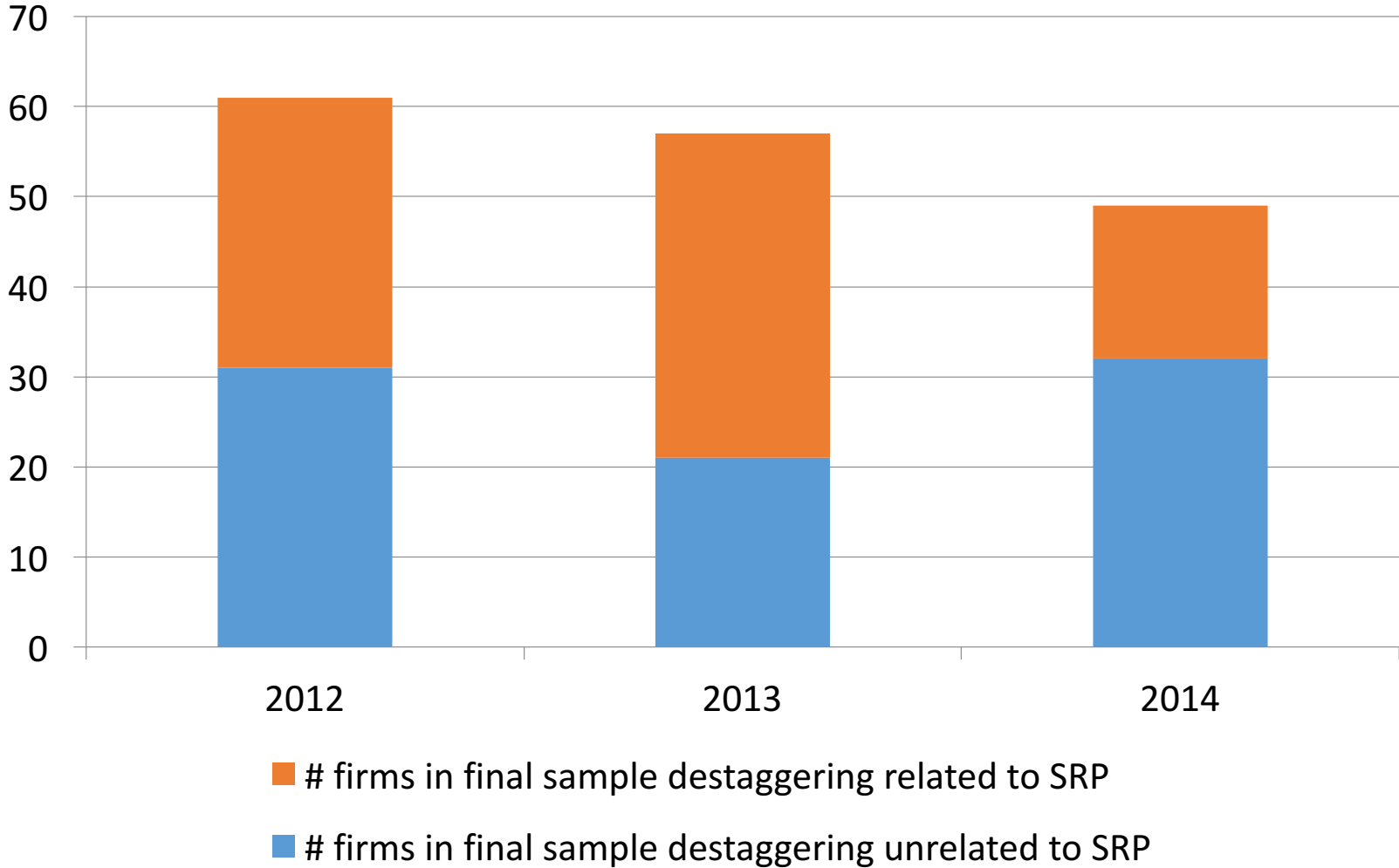
# GALLAGHER – GRUNDEFEST, 2014

A conclusion that the Harvard Proposal is materially false and misleading should be sufficient basis for the staff of the Securities and Exchange Commission to issue no-action letters allowing companies to exclude the Proposal from a company's proxy statement, assuming the Proposal is not modified. It should also be sufficient to support the grant of declaratory relief in a federal action challenging the inclusion of the Harvard Proposal in the company's proxy.

The Commission should also be able to demonstrate that the omission of the contradictory research was at least negligent, that the Harvard SRP is the "maker" of the statement for purposes of *Janus*, and that the doctrine of *respondeat superior* applies so as to make Harvard, the university, liable for the action of the Harvard SRP. The Commission should therefore be able to prevail in proceeding against Harvard University seeking an injunction or cease and desist order against future violations of Rule 14a-9.



# FINAL SRP AND ON SRP DESTAGGERING SAMPLE



## DESCRIPTIVE STATISTICS FOR S&P 1500 FIRMS IN 2011 WITH STAGGERED BOARD

	Mean	St. Dev.	Min	Max	Obs.
Declassification in 2012-2014	0.310	0.463	0.000	1.000	526
SRP-Targeted	0.200	0.400	0.000	1.000	526
Declassification in 2012-2014 * SRP-Targeted	0.150	0.358	0.000	1.000	526
Declassification in 2012-2014 * Non-SRP-Targeted	0.160	0.367	0.000	1.000	526
Q	1.822	0.938	0.763	4.682	526
Industry-Adjusted Q	0.301	0.824	-3.177	3.277	526
ROA	0.060	0.063	-0.316	0.174	526
Industry-Adjusted ROA	0.027	0.076	-0.281	0.546	526
Delaware Incorporated	0.660	0.474	0.000	1.000	526
Log(Assets)	7.484	1.414	4.326	11.563	526
Equity Market Cap	4,152	6,903	89	60,617	526
Book Leverage	0.170	0.159	0.000	0.781	526
CAPX/Assets	0.047	0.053	0.000	0.342	526
R&D/Assets	0.030	0.053	0.000	0.400	526
R&D Missing	0.369	0.483	0.000	1.000	526
PPE/Assets	0.228	0.213	0.000	0.896	526

# DESCRIPTIVE STATISTICS FOR DECLASSIFYING FIRMS TARGETED AND NOT-TARGETED BY THE SRP

Variables	Declassifying Firms Not Targeted by the SRP			Declassifying Firms Targeted by the SRP			Difference in Means Across Samples	
	Mean	St. Dev.	Obs.	Mean	St. Dev.	Obs.	Difference	T-stat.
Q	1.587	0.765	84	1.870	1.057	79	-0.292**	2.03
Industry-Adjusted Q	0.128	0.618	84	0.377	0.895	79	-0.249**	2.08
ROA	0.059	0.060	84	0.070	0.053	79	-0.010	1.18
Industry-Adjusted ROA	0.019	0.079	84	0.029	0.048	79	-0.010	0.97
Delaware Incorporated	0.655	0.478	84	0.696	0.463	79	-0.041	0.56
Log(Assets)	8.00	1.529	84	8.954	1.032	79	-0.953***	4.63
Equity Market Cap	6,272	8,637	84	9,984	9,754	79	-3,712***	2.58
Book Leverage	0.209	0.164	84	0.188	0.142	79	0.021	0.87
CAPX/Assets	0.049	0.065	84	0.044	0.048	79	0.005	0.51
R&D/Assets	0.019	0.043	84	0.018	0.031	79	0.001	0.09
R&D Missing	0.476	0.502	84	0.418	0.496	79	0.058	0.755
PPE/Assets	0.259	0.238	84	0.209	0.224	79	0.050	1.38

# LOGITS PREDICTING AN SRP TARGET

Dependent variable: SRP-Targeted						
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Q</b>	0.061***				0.064***	
	(4.33)				(4.55)	
<b>Industry-Adjusted Q</b>		0.063***				
		(4.15)				
<b>ROA</b>			0.703**			0.750**
			(2.41)			(2.47)
<b>Industry-Adjusted ROA</b>				0.121		
				(0.54)		
<b>Delaware Incorporated</b>	-0.007	-0.005	-0.006	-0.001	-0.009	-0.009
	(0.28)	(0.20)	(0.20)	(0.05)	(0.32)	(0.30)
<b>Log(Assets)</b>	0.116***	0.116***	0.113***	0.116***	0.122***	0.119***
	(8.32)	(8.42)	(8.01)	(8.03)	(8.32)	(8.04)
<b>Book Leverage</b>	-0.018	-0.017	-0.006	-0.075	-0.012	-0.001
	(0.20)	(0.19)	(0.06)	(0.73)	(0.13)	(0.10)
<b>CAPX/Assets</b>	0.092	0.099	0.223	0.262	0.056	0.200
	(0.19)	(0.21)	(0.43)	(0.48)	(0.12)	(0.37)
<b>R&amp;D/Assets</b>	-0.135	-0.019	0.257	0.150	-0.075	0.322
	(0.43)	(0.07)	(0.73)	(0.51)	(0.23)	(0.89)
<b>R&amp;D Missing</b>	-0.048*	-0.057**	-0.048*	-0.069***	-0.044*	-0.044
	(1.87)	(2.21)	(1.74)	(2.53)	(1.64)	(1.53)
<b>PPE/Assets</b>	0.035	0.036	-0.006	0.020	0.051	0.023
	(0.29)	(0.29)	(0.05)	(0.16)	(0.41)	(0.17)
<b>N</b>	526	526	526	526	507	507
<b>Adjusted R-Squared</b>	0.313	0.310	0.295	0.283	0.317	0.299

# LOGITS PREDICTING DECLASSIFICATION WITH/WITHOUT SRP PROPOSALS

Dependent variable: Declassification in 2012-2014					
	Sample: S&P 1500 firms with a classified board in 2011				
	(1)	(2)	(3)	(4)	(5)
SRP-Proposal	0.269***	0.260***	0.091*	0.165***	0.580***
	(5.10)	(4.92)	(1.69)	(3.05)	(6.97)
SRP-Proposal * Q			0.026**		
			(2.26)		
SRP-Proposal * ROA				0.382*	
				(1.86)	
SRP-Proposal * Large					-0.045***
					(5.49)
Large					0.097***
					(2.84)
Q	0.005		-0.009		-0.001
	(0.99)		(0.92)		(0.19)
ROA		0.188*		0.051	
		(1.95)		(0.42)	
Delaware Incorporated	0.016	0.015	0.014	0.015	0.012
	(1.45)	(1.43)	(1.44)	(1.44)	(1.27)
Log(Assets)	0.029***	0.028***	0.027***	0.028***	0.012**
	(5.83)	(5.97)	(5.20)	(5.83)	(2.15)
Other controls included	Yes	Yes	Yes	Yes	Yes
N	1,440	1,443	1,440	1,443	1,441
Adjusted R-Squared	0.317	0.321	0.324	0.325	0.346

# SRP DECLASSIFIED AND FIRM VALUE

Dependent variable: Q										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
SRP Declassified	-0.110*	-0.136**	-0.242***	-0.179**	-0.185**	-0.159**	-0.201***	-0.203***	-0.183*	-0.265*
	(1.85)	(2.13)	(3.56)	(2.36)	(2.09)	(2.57)	(2.86)	(2.92)	(1.79)	(1.94)
Delaware Incorporated	-0.231	-0.211	-0.203	-0.463	-0.973	-0.470*	-0.325	-0.412	-0.415	-1.218
	(1.31)	(1.56)	(0.70)	(0.93)	(1.58)	(1.89)	(1.18)	(0.71)	(0.38)	(1.52)
Log(Assets)	-0.432***	-0.364***	-0.300***	-0.278***	-0.296**	-0.389***	-0.294**	-0.317**	-0.252**	-0.417***
	(6.37)	(4.71)	(2.65)	(2.63)	(2.26)	(4.33)	(2.36)	(2.48)	(2.14)	(2.89)
Book Leverage	-0.323	-0.550**	-0.271	-0.536*	-0.612	-0.456*	-0.488	-0.237	-0.877**	-1.027**
	(1.36)	(2.18)	(1.05)	(1.70)	(1.57)	(1.70)	(1.36)	(0.80)	(2.44)	(2.31)
CAPX/Assets	1.530***	1.499***	2.191***	2.070***	1.660**	2.107***	2.177***	1.960**	1.796*	1.216
	(4.12)	(3.49)	(3.43)	(2.88)	(2.20)	(3.87)	(3.19)	(2.27)	(1.76)	(1.27)
R&D/Assets	1.897***	1.119*	-0.391	0.284	1.918	1.596**	1.200	-0.942	2.233	2.812
	(3.53)	(1.93)	(0.56)	(0.22)	(1.11)	(1.99)	(1.33)	(0.95)	(1.48)	(1.46)
R&D Missing	0.0344	-0.0372	-0.114	-0.430**	-0.474*	-0.0337	-0.0605	-0.224	-0.587**	-0.553
	(0.40)	(0.37)	(0.59)	(2.49)	(1.72)	(0.25)	(0.38)	(0.71)	(2.02)	(1.16)
PPE/Assets	-1.228***	-1.100***	-1.676***	-0.533	-0.0527	-1.345***	-1.201**	-1.674***	-1.257**	-0.716
	(3.87)	(3.05)	(3.23)	(0.97)	(0.10)	(2.77)	(2.18)	(3.02)	(2.11)	(1.21)
Firm + Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matching criterion	Full sample	10%-Q	10%-Q, 2-SIC	10%-Q, 3-SIC	10%-Q, 4-SIC	CB	CB, 10%-Q	CB, 10%-Q, 2-SIC	CB, 10%-Q, 3-SIC	CB, 10%-Q, 4-SIC
# SRP-declassifications	93	80	72	64	58	93	80	66	52	40
N	14,106	10,052	4,051	1,864	1,097	6,856	4,620	2,043	985	569
Adjusted R-Squared	0.831	0.804	0.751	0.837	0.874	0.825	0.803	0.783	0.846	0.883

# DECLASSIFICATION AND FIRM VALUE: WITH/WITHOUT SRP TARGETING

Dependent variable: Q								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Declassified	-0.0122	0.0701	-0.0384	0.0522	-0.113*	0.0888	-0.107	0.168
	(0.24)	(1.01)	(0.77)	(0.74)	(1.70)	(0.74)	(1.53)	(1.22)
Declassified * SRP-Proposal		<b>-0.176**</b>		<b>-0.182**</b>		<b>-0.240*</b>		<b>-0.278*</b>
		(2.05)		(2.12)		(1.87)		(1.91)
Log(Assets)	-0.432***	-0.432***	-0.365***	-0.365***	-0.294***	-0.282***	-0.259***	-0.263***
	(6.37)	(6.37)	(5.33)	(5.33)	(2.87)	(3.66)	(2.65)	(2.87)
R&D/Assets	1.897***	1.897***	1.151**	1.151**	-0.298	-0.552	0.266	-0.550
	(3.53)	(3.53)	(2.05)	(2.05)	(0.44)	(1.07)	(0.22)	(0.51)
Other controls included	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm + Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matching criterion	Full sample	Full sample	10%-Q	10%-Q	10%-Q, 2-SIC	10%-Q, 2-SIC	10%-Q, 3-SIC	10%-Q, 3-SIC
P-value[Decl+Decl*SRP] = 0	N/A	7.9%	N/A	2.7%	N/A	0.8%	N/A	7.4%
# SRP-declassifications	93	93	93	93	81	81	69	69
N	14,106	14,106	11,420	11,420	4,613	4,613	2,063	2,063
Adjusted R-Squared	0.831	0.856	0.806	0.806	0.754	0.795	0.841	0.859

# DECLASSIFICATION AND FIRM VALUE: WITH/WITHOUT SRP TARGETING

## ONLY USING FIRMS WITH A CLASSIFIED BOARD IN 2011

Dependent variable: Q								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Declassified	-0.0559	0.0322	-0.0821	0.0146	-0.162**	0.00693	-0.109	0.112
	(1.06)	(0.46)	(1.54)	(0.20)	(2.11)	(0.06)	(1.25)	(0.75)
Declassified * SRP-Proposal		<b>-0.189**</b>		<b>-0.195**</b>		<b>-0.278**</b>		<b>-0.293*</b>
		(2.24)		(2.28)		(2.13)		(1.94)
Log(Assets)	-0.389***	-0.388***	-0.315***	-0.315***	-0.273*	-0.270*	-0.225**	-0.217**
	(4.32)	(4.32)	(3.28)	(3.28)	(1.91)	(1.89)	(2.16)	(2.07)
R&D/Assets	1.596**	1.597**	1.227	1.228	-0.157	-0.150	2.059	2.062
	(1.99)	(1.99)	(1.45)	(1.45)	(0.12)	(0.11)	(1.43)	(1.43)
Other controls included	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm + Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Matching criterion	CB	CB	CB, 10%-Q	CB, 10%-Q	CB, 10%-Q, 2-SIC	CB, 10%-Q, 2-SIC	CB, 10%-Q, 3-SIC	CB, 10%-Q, 3-SIC
P-value[Decl+Decl*SRP] = 0	N/A	1.3%	N/A	0.4%	N/A	0.4%	N/A	4.6%
# SRP-declassifications	93	93	93	93	76	76	61	61
N	6,856	6,856	5,988	5,988	2,610	2,610	1,202	1,202
Adjusted R-Squared	0.825	0.825	0.807	0.807	0.746	0.790	0.852	0.869



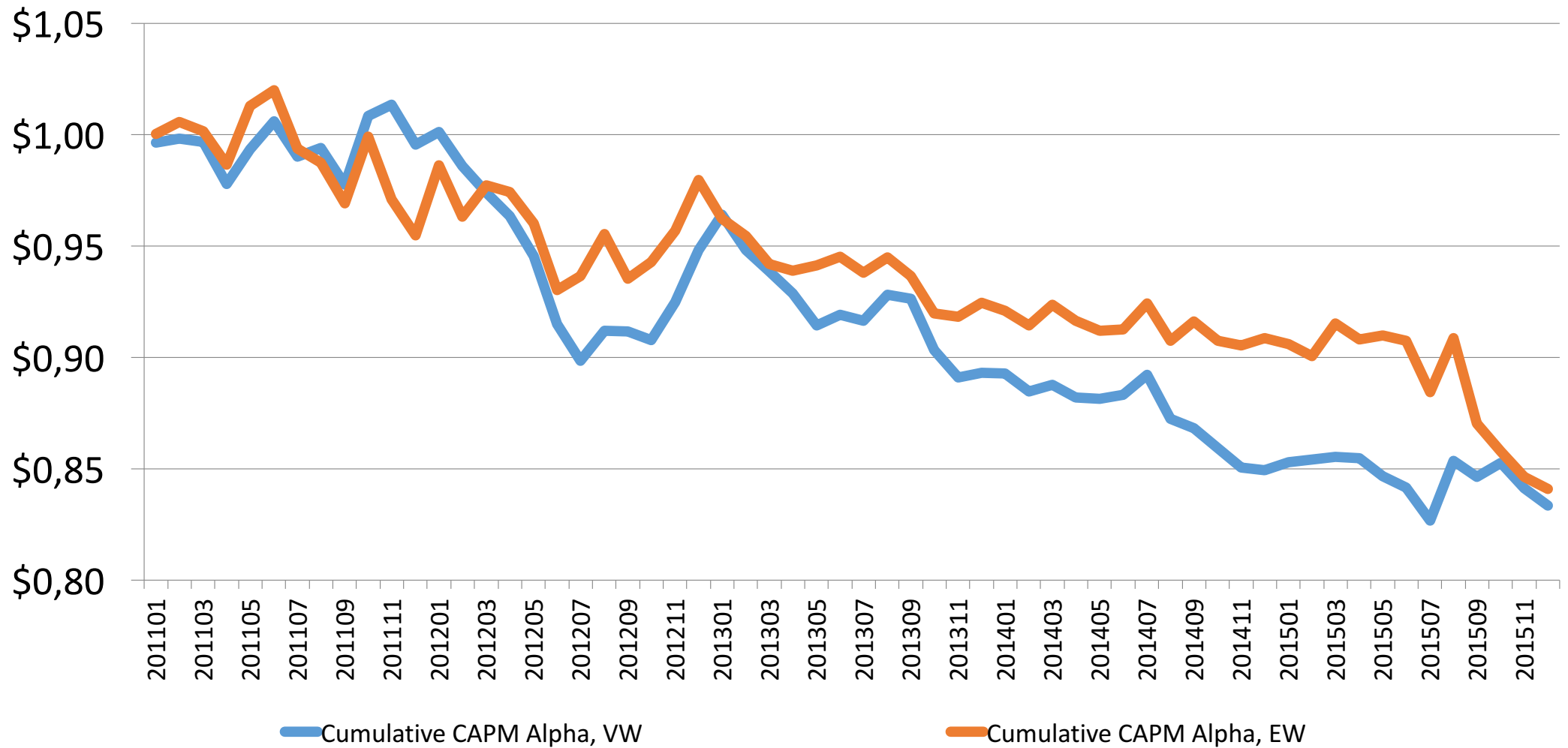
# SRP-DECLASSIFICATION & R&D IN FIRM VALUE REGRESSIONS

Dependent variable: Q						
	(1)	(2)	(3)	(4)	(7)	(8)
Declassified	-0.0337	0.0242	-0.0484	0.0170	-0.0719	-0.00428
	(0.66)	(0.35)	(0.95)	(0.24)	(1.35)	(0.06)
Declassified	0.859	1.154	1.296	1.662	1.536	1.940
* R&D/Assets	(0.69)	(0.87)	(1.01)	(1.18)	(1.18)	(1.33)
Declassified * SRP-Proposal		-0.0630		-0.0644		-0.0653
		(0.72)		(0.73)		(0.74)
Declassified * SRP-Proposal		<b>-3.621*</b>		<b>-4.033**</b>		<b>-4.296**</b>
* R&D/Assets		(1.84)		(2.00)		(2.11)
Log(Assets)	-0.202	-0.204	-0.177	-0.179	-0.273	-0.279
	(1.57)	(1.58)	(1.49)	(1.51)	(1.30)	(1.33)
R&D/Assets	0.695**	0.691**	0.267	0.259	-0.0172	-0.0346
	(2.06)	(2.04)	(0.70)	(0.68)	(0.03)	(0.06)
Other controls included	Yes	Yes	Yes	Yes	Yes	Yes
Firm + Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Matching criterion	Full sample	Full sample	10%-Q	10%-Q	CB, 10%-Q	CB, 10%-Q
# SRP-declassifications	93	93	93	93	93	93
N	14,106	14,106	11,420	11,420	5,988	5,988
Adjusted R-Squared	0.856	0.856	0.832	0.832	0.833	0.834

# AGGRESSIVENESS AND FAILURE OF SRP-DECLASSIFICATION & FIRM VALUE

Dependent variable: Q			
	(1)	(1)	(2)
Declassified	0.0213	0.0218	0.0512
	(0.31)	(0.32)	(0.77)
Declassified * SRP-Proposal	-0.110	-0.0972	-0.138*
	(1.13)	(1.02)	(1.70)
Declassified * R&D/Assets	1.167	1.166	
	(0.88)	(0.88)	
Declassified * SRP-Proposal * R&D/Assets	-1.436	-1.556	
	(0.57)	(0.62)	
Declassified * SRP Precatory Proposal	0.136		
	(1.07)		
Declassified * SRP Precatory Proposal * R&D/Assets	<b>-4.903*</b>		
	(1.69)		
Declassified * Multiple SRP Proposals		0.119	
		(0.89)	
Declassified * Multiple SRP Proposals * R&D/Assets		<b>-4.767*</b>	
		(1.62)	
No Declassification SM			<b>-0.00796</b>
			(0.05)
Firm + Year Fixed Effects	Yes	Yes	Yes
Other Controls Included	Yes	Yes	Yes
N	14,106	14,106	14,106
Adjusted R-Squared	0.856	0.856	0.856

# ABNORMAL STOCK RETURNS FOR SRP-TARGETS THAT DECLASSIFIED



## POLICY

- Reconsidering Allocation of Powers.
- Importance of Supermajority Requirements.
- Clinical Courses?

Now ...

- Around 20 companies forced to declassification are reaching President of Harvard University to open formal investigation on SRP.
- Other companies are seeking damages for violation of securities law.

Thank You

# SRP TARGETING VERSUS DECLASSIFICATION IN FIRM VALUE REGRESSIONS

Dependent variable: Q									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>SRP-Proposal</b>	-0.107**	-0.123**	-0.0740	-0.133***	-0.139**	-0.0925	-0.158**	-0.136*	-0.0634
	(2.10)	(2.17)	(1.24)	(2.64)	(2.46)	(1.55)	(2.31)	(1.84)	(0.95)
<b>Declassified</b>		0.0283	0.0725		0.00968	0.0550		-0.0329	0.132
		(0.52)	(1.05)		(0.18)	(0.78)		(0.42)	(0.93)
<b>Declassified * SRP-Proposal</b>			-0.129			-0.124			-0.263*
			(1.39)			(1.33)			(1.75)
<b>Log(Assets)</b>	-0.230	-0.230	-0.232	-0.222*	-0.222*	-0.224*	-0.396	-0.395	-0.406
	(1.30)	(1.30)	(1.31)	(1.79)	(1.79)	(1.81)	(0.97)	(0.97)	(1.01)
<b>R&amp;D/Assets</b>	-0.43***	-0.43***	-0.43***	-0.365***	-0.365***	-0.365***	-0.29***	-0.29***	-0.25***
	(6.37)	(6.37)	(6.37)	(5.33)	(5.33)	(5.33)	(2.63)	(2.64)	(2.60)
<b>Other controls included</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Firm + Year Fixed Effects</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Matching criterion</b>	Full sample	Full sample	Full sample	10%-Q	10%-Q	10%-Q	10%-Q, 3-SIC	10%-Q, 3-SIC	10%-Q, 3-SIC
<b># SRP-declassifications</b>	93	93	93	93	93	93	69	69	69
<b>N</b>	14,106	14,106	14,106	11,420	11,420	11,420	2,063	2,063	2,063
<b>Adjusted R-Squared</b>	0.831	0.856	0.856	0.806	0.806	0.806	0.841	0.841	0.841

# ABNORMAL RETURNS OF PORTFOLIOS BUYING DECLASSIFYING FIRMS

Sample construction:	Hold for full 60-month period			Add firms after declassification announced			Invest until declassification announced		
Declassifying firms:	SRP	Non-SRP	Long-short	SRP	Non-SRP	Long-short	SRP	Non-SRP	Long-short
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Alpha per year</b>	-1.60%	3.948%*	-5.53%**	-1.44%	5.304%**	-6.744%*	-0.33%	0.29%	-0.62%
	(0.74)	(1.86)	(2.04)	(0.58)	(2.40)	(1.99)	(0.11)	(0.07)	(0.12)
<b>Market</b>	1.160***	1.009***	0.151**	1.009***	0.907***	0.102	1.235***	1.100***	0.136
	(22.20)	(19.60)	(2.30)	(15.56)	(15.72)	(1.15)	(15.45)	(9.87)	(1.01)
<b>HML</b>	0.0870	0.254**	-0.167	0.0678	0.192*	-0.124	0.175	0.354*	-0.179
	(0.85)	(2.51)	(1.29)	(0.56)	(1.77)	(0.75)	(1.17)	(1.69)	(0.71)
<b>SMB</b>	0.262***	0.575***	-0.313***	0.170*	0.558***	-0.388***	0.336**	0.356*	-0.0200
	(3.21)	(7.17)	(3.05)	(2.00)	(7.40)	(3.35)	(2.23)	(1.69)	(0.08)
<b>UMD</b>	-0.151**	-0.152**	0.001	-0.147*	-0.231***	0.0836	-0.230**	-0.0368	-0.193
	(2.49)	(2.53)	(0.01)	(1.91)	(3.37)	(0.79)	(2.42)	(0.28)	(1.21)
<b>N</b>	60	60	60	45	45	45	42	42	42
<b>R-sq</b>	0.929	0.927	0.193	0.895	0.922	0.256	0.926	0.836	0.092