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Governance Mechanisms and Effective Activism: Evidence from Shareholder Proposals on Poison Pills

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ABSTRACT

This paper studies the interaction between governance mechanisms and the effectiveness of shareholder activism by examining shareholder-initiated proposals on poison pills. After contrasting companies along their governance regime, we observe that dictatorship firms, characterized with higher number of governance provisions, are associated with more activist voting by institutional groups: ownership by mutual funds, independent investment advisors and pension funds are significantly related to greater support of shareholder proposals against poison pills. In democratic firms, characterized with lower levels of restrictions on shareholder rights ownership by various shareholder groups is not as highly correlated with support for these proposals, suggesting perhaps that shareholders use other internal channels to voice concerns. In dictatorships, we find that certain shareholders rely on annual meetings to pressure management, and that management is less likely to take action following shareholder votes. Finally, among all institutional shareholders, management seems more likely to respond favorably in the presence of ownership by public pension funds.

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