

## **Shareholders of U.S. Corporations Voting to End CEO Duality: Why and are there any consequences?**

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### **ABSTRACT**

This study examines the conditions under which shareholders are more likely to demand an end to CEO duality as well as the potential consequences of such demands. CEO duality is when the same person serves as both the CEO and the Chairman of the board of directors. To end this duality, activist shareholders can submit a shareholder proposal/resolution for a shareholder vote at the annual shareholders' meeting. We find the main drivers of these proposals to end CEO duality are CEO entrenchment, poor board governance (i.e., co-opted and less independent directors), and poor financial performance. Shareholders are more likely to vote "For" the proposal when the CEO has longer tenure, higher compensation, and higher entrenchment; "busy" directors; and poor financial reporting quality. We find a significant association between a proposal and ending duality (as well as CEO turnover) only when the CEO is not entrenched or after poor financial performance. Finally, ending CEO duality/CEO turnover is associated with a decline/improvement in financial performance. Based on our results, shareholders would be better off demanding a change in CEO rather than an end to CEO duality.

**Key words:** CEO duality, Chairman of the Board, shareholder resolution, shareholder proposal, activist shareholders, CEO entrenchment, CEO tenure, CEO turnover, Board governance, co-opted Board

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## 1. INTRODUCTION

This study examines the conditions under which shareholders demand an end to CEO duality as well as the potential consequences of such demands. CEO duality is when the same person serves as both the Chief Executive Officer (CEO) and the Chairman of the board of directors. In most countries, these roles are separate, but in the U.S. these two roles have been traditionally combined (Garcia-Castro, Arino, Rodriguez, and Ayuson, 2008). For example, in the 1980s, 82 percent of a random sample of large U.S. firms had CEO duality (Dalton and Kesner, 1987). More recently, the proportion of S&P 500 companies with CEO duality has decreased from 65 percent in 2007 to less than 50 percent in 2017 (Spencer Stuart Board Index, 2017). Thus, the U.S. appears to be shifting towards a leadership structure more in-line with other countries around the world (Garcia-Castro et al., 2008).

One reason for this shift is shareholder/investor activism. Activist investors can be an individual shareholder, a group of shareholders, an institutional investor, and/or a hedge fund that wants to drive change because they “think management isn’t maximizing a company’s potential” (Loop, Bromilow, and Malone, 2018). Shareholder activism includes meeting with management, initiating proxy contests to replace the board, and submitting shareholder proposals asking for changes or disclosures (Loop et al., 2018). Shareholders with \$2,000 worth of stock can file a proposal, which is voted on at the annual shareholder’s meeting (SEC Rule 14a-8). Activist shareholders have been increasingly using this right to submit proposals to end CEO duality (i.e., separate the CEO from that of the board chairman),<sup>1</sup> because they believe “that CEOs cannot credibly oversee themselves” (Dayen, 2013). For example, the shareholders of Bank American unsuccessfully attempted to end CEO Brian Moynihan’s role as chairman in 2015 and then *again* in 2017 (Cokery, 2015; Roberts and Rothacker, 2017).

Despite activist shareholders’ actions to end CEO duality, which mirror the calls of governance experts, analysts, and legislators (Krause and Semadeni, 2013),<sup>2</sup> very little empirical evidence finds that CEO duality is actually detrimental. For example, a meta-analysis of 48 academic studies reports that CEO duality has little impact on performance, managerial entrenchment, organizational risk taking, or executive compensation (Krause, Semadeni, and Cannella, 2014). Ghosh, Karuna, and Tian (2015, 197) state there is “no evidence to suggest that CEO-Chairs use their power from holding dual positions to the detriment of shareholders.” Moreover, the operating environment appears to determine whether the firm has CEO duality or not (e.g., Dey, Engel, and Liu, 2011; Ghosh et al., 2015), indicating that firms select the best leadership structure for achieving objectives.

Other than knowing that these proposals (1) target large firms and (2) usually do not pass (like most shareholder proposals) (Larker and Tayan, 2016), little is known about what characteristics drive shareholders to target a specific firm to split the CEO and chairperson role. Understanding the drivers and consequences is increasingly important as CEO-duality shareholder activism is rising and “more likely than ever to succeed” (Gine, Moussawi, and Sedunov, 2017; Loop et al., 2018). Hence, we extend the literature by examining: (1) the drivers (i.e., firm

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<sup>1</sup> Using shareholder proposal data from Institutional Shareholder Service between 2006 and 2017, proposals to separate the board chair and CEO roles were the second most frequent proposals among the S&P 1500 firms (see Appendix A).

<sup>2</sup> Governance experts, analysts, and legislators demand an end to CEO duality, arguing that an independent chair is necessary for a board to truly provide oversight and protect shareholder interests (Krause and Semadeni, 2013). These demands culminated in the Securities and Exchange Commission (SEC) requiring its registrants to disclose whether the firm has CEO duality as well as the rationale for the selected leadership structure (SEC, 2009).

characteristics) that increase or decrease the likelihood of a shareholder proposal (to end CEO duality) at the annual meeting; (2) how these drivers influence the outcome of the vote tally; and (3) the consequences - whether the proposal passed or not.

Understanding the drivers and consequences of an attempt to end CEO duality by shareholders is also important because whether the CEO should simultaneously serve as chairman of the board of directors remains one of the “most controversial issues in corporate governance” (Lacker and Tayan, 2016). In addition, our study fulfills calls for research investigating why corporate governance is switching from duality to non-duality over time (Krause et al., 2014). To our knowledge, our study is the first to focus on the determinants and consequences of shareholder proposals to end CEO duality.<sup>3</sup> Thus, our research helps firms, regulators, activists, and governance experts better understand the movement to end CEO duality.

We also contribute to research that examines the consequences of shareholder proposals (e.g., Gordon and Pound, 1993; Bizjak and Marquette, 1998; Thomas and Cotter, 2007; Ertimur, Ferri, and Stubben, 2010). Prior literature demonstrates that shareholder proposals can have a significant impact on governance and future performance. However, it remains unclear whether shareholder proposals successfully achieve their intended objectives. In this study, we investigate a different type of shareholder proposal, ending CEO duality, and its subsequent impact(s) on the firm-whether the proposal passed or not. Our research will provide insights on whether shareholder activism has an impact even if the proposal fails.

Our analysis focuses on firms with CEO duality from 2007 to 2016. We use the Institutional Shareholder Services’ Voting Analytics database to identify firms that had shareholder resolutions to end CEO duality. The final sample consists of 4,460 firm year observations of which 333 observations (approximately 7 percent) had a shareholder resolution.

We find that firms with proposals to end CEO duality are more likely to have the following characteristics: (1) CEOs with longer tenure, higher total compensation, and higher levels of entrenchment; (2) directors who are longer tenured, female, and less independent; and (3) a larger size and (prior) poor financial performance. Marginal analysis suggests that the main drivers of proposals to end CEO duality are CEO entrenchment, poor board governance (i.e., co-opted and less independent directors), and poor financial performance.

With respect to the vote, a higher proportion of shareholders is more likely to vote “For” the proposal to end CEO duality in firms with longer CEO tenure, higher CEO compensation, an entrenched CEO, directors that are “busy” with multiple board memberships, and poor financial reporting quality. Conversely, a lower proportion of shareholders is less likely to vote “For” the proposal in firms with larger board size, more independent directors, larger size, and better financial performance.

We find a significant association between a proposal to end CEO duality (regardless of the vote outcome) and the (future) likelihood of splitting the roles only when the CEO is not entrenched or when prior year financial performance is poor. Our findings are consistent with (1) a weak CEO being more likely to succumb to shareholder pressure and (2) shareholders blaming poor financial performance on a firm’s leadership structure, ultimately putting pressure on the board to change the leadership structure (Koppes, Ganske, and Hagg, 1999). We also show that a proposal to end CEO duality is (similarly) associated with future CEO turnover when the CEO is not entrenched or when prior year financial performance is poor.

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<sup>3</sup> The closest study to ours is Dey et al. (2011). As described in the Results section, our study differs in terms of sample selection (criteria and size), focus, and outcome measures.

Finally, our analysis reveals that a vote on a proposal to end CEO duality is generally associated with improved future financial performance, but the outcome depends on how the firm responds to the vote. If the firm ends CEO duality, financial performance generally declines. If the CEO departs, financial performance generally improves. In general, the results support the idea that shareholder proposals to end CEO duality serve as a wake-up call to the board to improve performance. Our results show, however, that shareholders would be better off demanding the dismissal of the CEO rather than ending CEO duality, which appears to have negative, disrupting operating implications (Larcker and Tayan, 2016).

The remainder of the paper is organized as follows. Section 2 provides a discussion on prior research on CEO duality and develops our hypotheses. Section 3 describes our data and develops our models. Section 4 presents the results. Section 5 concludes.

## **2. BACKGROUND AND HYPOTHESES**

### **2.1. Background on Shareholder Proposals**

According to Rule 14a-8 of the Securities Exchange Act of 1934, any shareholder of an SEC registrant who continues to hold shares worth at least \$2,000 or one percent of the market value of equity (of that registrant) for at least one year is allowed to include one proposal in the proxy for the annual shareholder meeting. Shareholder proposals target a variety of items including: (1) management, (2) the board of directors, (3) voting rules, and (4) auditors. CEO duality proposals are unique because unlike other shareholder proposals, if successfully implemented, they will materially reduce the CEO's power and influence.

Traditionally, governance-related shareholder proposals have been viewed as a weak mechanism to drive governance reform because they are non-binding (Black, 1990; Bebchuk, 2005; Ertimur et al., 2010), only a very small proportion of shareholder proposals pass, and they are usually ignored (even if they passed). But, after board failures in the early 2000s and the recession in the late 2000s, the number of shareholder proposals and the proportion of shareholder proposals receiving majority votes have significantly increased (Gine et al., 2017) to 15 percent in 2018 (Anonymous, 2018). Due to reputational penalties, shareholder proposals that pass are also more likely to be implemented now (Thomas and Cotter, 2007; Gine et al., 2017). Moreover, shareholder activism is becoming so unrelenting that firms must now have an "effective activism risk mitigation plan" in place (Weinstein, de Wied, and Richter, 2018).

### **2.2. Background on CEO Duality**

Boards are charged with ensuring that CEOs act in a manner serving the shareholders' interests (Vance, 1983). Thus, boards are governance devices to help align CEO and shareholder interests (Fama and Jensen, 1983). For many firms, the traditional leadership structure had the CEO also serving as the board chairman (i.e., CEO duality) (Spencer Stuart Board Index, 2017). Despite this tradition, over the last decade, CEO duality has become a very controversial issue to shareholder activists, governance experts, and regulators (Larcker and Tayan, 2016). Regulators' response was to require SEC registrants to disclose not only whether the CEO is also chairman of the board, but also the rationale for the selected leadership structure (SEC, 2010).

Shareholders activists' response (especially since the passage of the 2010 Dodd-Frank Act) was to submit proposals to end CEO duality at various U.S. firms (e.g., Bank of America, Hewlett-Packard, Freddie Mac, ExxonMobil, J. P. Morgan Chase, and Goldman Sachs) because the activists believe "that CEOs cannot credibly oversee themselves" (Dayen, 2013). Proposals to end duality have become the second most frequent type of shareholder proposal (see Appendix A).

Moreover, between 2005 and 2015, the annual number of shareholder proposals to end CEO duality doubled (Larker and Tayan, 2016), but generally did not pass (Sullivan & Cromwell LLP, 2017). Still, the impact of this movement can be seen as the proportion of S&P 500 firms with a separate CEO and board chairman leadership structure <sup>1</sup>has increased from 35 percent in 2007 to more than 50 percent in 2017 (Spencer Stuart U.S. Board Index, 2017).

### 2.3. Hypotheses: Proposal and Voting Determinants

Historically, the debate around CEO duality was framed as a debate between agency theory (Jensen and Meckling, 1976; Jensen, 1993), which supports separate roles for the CEO and chairman to limit managerial entrenchment and opportunism, and classical organization (e.g., Fayol, 1949; Pfeffer, 1981) and stewardship theory (Barney, 1990; Donaldson and Davis, 1991),<sup>4</sup> which support CEO duality for enhanced unity of command (Finkelstein and D'Aveni, 1994; Duru et al., 2016). Empirical research generally does not find a negative impact for a CEO duality leadership structure. For example, a meta-analysis of 48 academic studies reports that CEO duality has little impact on performance, managerial entrenchment, organizational risk taking, or executive compensation (Krause et al., 2014). Similarly, Ghosh, Karuna, and Tian (2015, 197) state there is “no evidence to suggest that CEO-Chairs use their power from holding dual positions to the detriment of shareholders.”

More recently, extant research has taken a different approach. For example, Ghosh, Karuna, and Tian (2015) determine that CEO duality is more likely in firms with high advisory and innovation initiatives. Similarly, Dey et al. (2011, 1596) conclude that the best leadership structure for a firm varies based on the “underlying economics of its business and leadership environments.” Thus, the operating environment appears to determine whether CEO duality is the best leadership structure for a firm.

Despite a lack of evidence that ending CEO duality improves board monitoring and company performance, shareholders activists increasingly continue to submit proposals to end it. To better understand what is driving this phenomenon, we examine firm factors that may influence the submission of a proposal to end CEO duality at the annual shareholder meeting (the “proposal”) as well as the outcome of the vote (the “vote”). Specifically, we examine drivers related to CEO entrenchment, board monitoring, firm characteristics, and institutional ownership.

#### 2.3.1. CEO Entrenchment Characteristics

"Managerial entrenchment occurs when managers gain so much power that they are able to use the firm to further their own interests rather than the interests of shareholders" (Weisbach 1988, 435). Entrenched managers are more likely to make investments that leverage their skills, knowledge, and/or personal contacts, creating a *dynamic* capital structure that relies on the manager's continuing employment (Moffatt, 2017). “By making such investments, managers can reduce the probability of being replaced, extract higher wages and larger perquisites from shareholders, and obtain greater latitude in determining corporate strategy” (Shleifer and Vishney 1989, 123). Therefore, when CEO characteristics suggest too much entrenchment or influence, shareholders may be incentivized to end CEO duality. This reasoning leads to our hypotheses about management entrenchment (in alternative form):

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<sup>4</sup> An extended discussion of the differences between these theories is beyond the scope of this study. See Larcker and Tayan (2016) as well as Krause et al. (2014) for an overview of the two literature streams.

*Hypothesis 1A: Management entrenchment is positively associated with the likelihood of a shareholder proposal to end CEO duality.*

*Hypothesis 1B: Management entrenchment is positively associated with a vote “For” a shareholder proposal to end CEO duality.<sup>5</sup>*

### 2.3.2. Board Monitoring Characteristics

While management is responsible for the day-to-day operating decisions, the board has an oversight role. The board hires/fires the CEO and sets the CEO’s compensation. The CEO, in turn, reports directly to the board. Both the CEO and the directors have a fiduciary duty to the firm, which means that they have a legal duty to act primarily for the firm’s benefit.<sup>6</sup> If shareholders perceive that that board is not effectively performing its monitoring duties, then they should be more likely to introduce and vote “For” a proposal to end CEO duality. This reasoning leads to our second hypotheses about board monitoring (in alternative form):

*Hypothesis 2A/2B: Effective board monitoring is negatively associated with the likelihood of a shareholder proposal/vote to end CEO duality.*

### 2.3.3. Firm Characteristics

Several firm characteristics may also impact the likelihood of a proposal and vote to end CEO duality. Larger firms are more visible in the capital market, more complex, more structurally opaque (Damanpour, 1996), and more likely to have a diverse shareholder base, making them likely targets of shareholder activism (Finkelstein and D’Aveni, 1994). Weak financial performance and poor financial information quality also increase the pressure to reform operational and governance practices. Therefore, firm size, poor financial performance, and poor financial information quality should be positively associated with the likelihood of a shareholder proposal/vote to end CEO duality, leading to the following hypotheses (in alternative form):

*Hypothesis 3A/3B: Firm characteristics (i.e., size, poor financial performance, and poor financial information quality) are positively associated with the likelihood of a shareholder proposal/vote to end CEO duality.*

### 2.3.4. Institutional Ownership

The last determinant is institutional ownership. Institutional investors (e.g., banks, insurance companies, unions, and pension funds) have strong fiduciary responsibilities to their stakeholders. Institutional investors have a strong incentive to monitor firms in their portfolios because of their larger stakes in those firms-especially if exit is costly (Del Guercio, 1996; Bushee and Noe, 2000; Hawley and Williams, 2000). A majority institutional ownership may tilt the balance of power to outsiders, who may propose to end CEO duality if they believe the firm is not being run appropriately, leading to the following hypothesis:

*Hypothesis 4A/4B: Institutional ownership is positively associated with the likelihood of a shareholder proposal/vote to end CEO duality.*

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<sup>5</sup> For the purposes of brevity, parts A and B of Hypotheses 2 through 4 will be merged into one combined hypothesis.

<sup>6</sup> The information about the board is based on Gleim (2016).

### 2.3.5. Consequences

Finally, we examine hypotheses about the consequences of the vote, whether it passed or not. We examine whether firms considering CEO duality proposals are more likely to (1) split the roles, (2) experience CEO turnover, and (3) have improved financial performance. Historical evidence reveals that it is difficult to force the CEO-Chairman to give up one of his/her roles (Olson, 2013). Splitting the roles may also lead to a strained relationship between management and the board. For example, Geoffrey Mulcahy, the CEO – chairman of Kingfisher PLC, a British retailer, relinquished his CEO role in 1993 to Alan Smith. Two years later, it became obvious that the men had a poor working relationship, which contributed to the firm’s poor performance (Felton and Wong, 2004). In some cases, shareholders would be better off if the CEO leaves than if the CEO gives up one of his/her roles (Larcker and Tayan, 2016).

On the one hand, the proposal may be viewed as a vote of no confidence by the shareholders and the CEO may worry about losing power and leave (or be forced to leave by the board). Or, the CEO may attempt to pacify shareholders (reducing the future threat of ending CEO duality) by making strategic changes to firm operations to (hopefully) improve financial performance. On the other hand, there may not be any consequences to the proposal, which is in-line with the impact of most proposals.<sup>7</sup> Therefore, we do not predict a direction for the following hypothesis about consequences (stated in null form):

*Hypothesis 5: Voting on a shareholder proposal to end CEO duality is not associated with future consequences (i.e., ending CEO duality, CEO turnover, and financial performance).*

## 3. RESEARCH DESIGN

### 3.1. Data and Sample Selection

We use the Institutional Shareholder Services’ (ISS) Voting Analytics database to identify firms that voted on a proposal to end CEO duality. ISS identifies the annual meeting proposals/resolutions that were voted on, the annual meeting date, and the percentage of “For” votes for each proposal.<sup>8</sup> We also use data on board characteristics and institutional ownership from ISS, stock returns data from Center in Research for Security Prices (CRSP), financial statement data from Compustat, and CEO characteristic data from ExecuComp. Our final sample consists of 4,460 firm-year observations from 2007 to 2016 that had CEO duality. Of these observations, 333 had a resolution to end CEO duality (the Resolution Company sample). Panel A, Table 1 presents the sample selection process, while Panel B, Table 1 presents the distribution of the Resolution Company sample by year.

<sup>7</sup> Only 13.5 percent of all proposals passed between 2015 and 2017 (Sullivan and Cromwell LLP, 2017).

<sup>8</sup> Most of the companies in the ISS’s Voting Analytics database belong to the Russell 1000 index.

**TABLE 1 Sample Description****Panel A: Sample Selection**

Firms in Institutional Shareholder Service (ISS) Database with shareholder resolutions to end CEO duality (2007 - 2016)	606
Less observations with no board of directors data in ISS	(15)
Less observations with no financial statement data in Compustat	(196)
Less observations with no returns data in CRSP	(37)
Less observations with CEO data in Execucomp	(25)
Observations with shareholder resolutions to end CEO duality	333
Observations with CEO duality that did not have a shareholder resolution to end CEO duality	4,127
<b>Total</b>	<b>4,460</b>

**Panel B: Frequency of CEO Duality Proposals by Year**

Year	Frequency	Percent
2007	27	8.11
2008	13	3.90
2009	24	7.21
2010	32	9.61
2011	26	7.81
2012	39	11.71
2013	49	14.71
2014	44	13.21
2015	47	14.11
2016	32	9.61
Total	333	100.00

**3.2. Proposal to End CEO Duality and Vote Outcome Model**

To examine the determinants of whether the annual shareholder includes a proposal to end CEO duality (Hypotheses 1A-4A) and the final vote outcome (Hypotheses 1B-4B), we use the model specified in Equation 1. The model is estimated for the pooled sample with clustered standard errors to correct for heteroscedasticity and serial dependence (Roger, 1993).<sup>9</sup> We also include industry and year fixed effects to control for unobservable industry and time variant factors that may be correlated with our dependent variables.

<sup>9</sup> For the sake of robustness, we also estimate a random effect model and the results are consistent with the model in Equation 1.



$$\begin{aligned}
DV_t = & \beta_0 + \beta_1 Eindex_{t-1} + \beta_2 (CEO\ Compensation_{t-1}) + \beta_3 \ln(CEO\ Tenure_{t-1}) + \beta_4 \ln\ Female \\
& CEO_{t-1} + \beta_5 Coopted\ Directors_{t-1} + \beta_6 Independent\ Directors_{t-1} + \beta_7 Proportion\ of \\
& Female\ Directors_{t-1} + \beta_8 Average\ Multiple\ Directorships_{t-1} + \beta_9 \ln(Average\ Director \\
& Tenure_{t-1}) + \beta_{10} Number\ of\ Directors_{t-1} + \beta_{11} \ln(Market\ Value_{t-1}) + \beta_{12} Restatement_{t-1} \\
& + \beta_{13} TobinsQ_{t-1} + \beta_{14} TobinsQ_{t-2} + \beta_{15} Returns_{t-1} + \beta_{16} Returns_{t-2} + \beta_{17} Roa_{t-1} + \beta_{18} Roa_{t-2} \\
& + \beta_{19} Institutional\ Ownership_{t-1} + \beta_{20} Leverage_{t-1} + \beta_{21} Market\ to\ Book_{t-1} + \\
& \beta_{22} Delaware_{t-1} + \beta_{23} Capital\ Expenditures_{t-1} + \beta_{24} Research\ and\ Development_{t-1} + \\
& \beta_{25} Intangible\ Assets_{t-1} + Industry\ Fixed\ Effects + Year\ Fixed\ Effects + \varepsilon \quad (1)
\end{aligned}$$

The dependent variable,  $DV_t$ , is either (1) *Ceo Duality Proposal<sub>t</sub>*, coded 1 if the firm has a shareholder proposal to end CEO duality at the annual meeting, and 0 otherwise; or (2) *Vote Outcome<sub>t</sub>*, the proportion of the shareholders voting “For” the resolution to end CEO duality. The model will be estimated using probit with all 4,460 observations when *Ceo Duality Proposal<sub>t</sub>* is the dependent variable; and OLS with only 333 observations (i.e., firms that voted on a proposal to end CEO duality) when *Vote Outcome<sub>t</sub>* is the dependent variable. The independent variables capture the CEO’s influence and entrenchment; the quality of the board in terms of its monitoring and advisory roles; firm characteristic including size, financial performance, financial reporting quality; and institutional ownership as described below.

We expect CEO characteristics that increase entrenchment to be positively associated with a proposal and the “For” votes (Hypotheses 1A and 1B). First, we include a CEO entrenchment index (*Eindex<sub>t-1</sub>*),<sup>10</sup> where a higher *Eindex* corresponds to higher levels of CEO entrenchment. Second, we include CEO’s total compensation (*CEO Compensation<sub>t-1</sub>*), which has been positively linked to CEO influence (e.g., Bebchuk, Fried, and Walker, 2002; Bebchuk and Fried, 2003) and, if excessive, evidence of a weak or ineffective board (Core, Holthausen, and Larcker, 1999; Cyert, Kang and Kumar, 2002) or a powerful CEO extracting more “rent.” We also include CEO tenure (*CEO Tenure<sub>t-1</sub>*). Longer tenured CEO may have more influence over the board (even co-opting the loyalty of the board members from the shareholders to the CEO) as well as some key shareholders, allowing the CEO to pursue his/her own interests rather than those of the firm (Hill and Phan, 1991; Hermalin and Weisbach, 1998; Shivdasani and Yermack, 1999; Simsek, 2007; Carcello, Neal, Palmrose, and Scholz, 2011).

Our last entrenchment variable captures CEO gender (*Female CEO<sub>t-1</sub>*). Female CEOs are more likely to lead firms with lower debt levels, lower earnings volatility, and a greater chance of survival than firms run by male CEOs (e.g., Martin, Nishikawa, and Williams, 2009; Khan and Vieito, 2013; Faccio, Marchica, and Mura, 2016). Female CEOs are also more likely to be externally recruited and have fewer connections within and outside the organization compared to their male counterparts (Strategy&, 2013). Based on these facts, shareholders *should* perceive the entrenchment effect of CEO duality is lower for female CEOs compared to male CEOs. But activist shareholders have increasingly targeted female CEOs and female CEOs are more often forced out of their job than male CEOs (Strategy&, 2013). Thus, we do not predict the direction of the impact of CEO gender on entrenchment.

<sup>10</sup> CEO entrenchment index (*Eindex<sub>t-1</sub>*), is a composite measure based on six governance provisions that are associated with reductions in firm valuation as well as negative abnormal returns (Bebchuk, Cohen, and Ferrell, 2009). Four of the provisions limit shareholder rights (staggered boards, limits to shareholder bylaw amendments, supermajority requirements for mergers, supermajority requirements for charter amendments) and two provisions (poison pills, golden parachutes) that make potential hostile takeovers more difficult.

Turning to effective board monitoring (Hypotheses 2A and 2B), less effective boards should be positively associated with a proposal/vote to end CEO duality. The first independent variable that captures board monitoring effectiveness is Coopted Directors (*Coopted Directors<sub>t-1</sub>*), a dummy variable equal to one for 50 percent or more of the board is co-opted/captured as they were appointed during the CEO's tenure (Wagner, 2011; Coles, Daniel, and Naveen, 2014; Withisuphakorn and Jiraporn, 2017). A co-opted board may transfer board members' loyalty from shareholders to the CEO (Shivdasani and Yermack, 1999; Carcello, Neal, Palmrose, and Scholz, 2011). Co-opted boards typically provide less stringent oversight (e.g., board meeting frequency) than non-co-opted boards (Coles, Daniel, and Naveen, 2014; Wilson, 2016).

On the other hand, more effective boards should be negatively associated with a proposal/vote to end CEO duality. Effective boards are typically characterized by a higher proportion of independent directors (*Independent Directors<sub>t-1</sub>*) and female directors on the board (*Proportion of Female Directors<sub>t-1</sub>*). A higher proportion of independent directors on the board is associated with (more) effective board monitoring (e.g., Byrd and Hickman, 1992; Cotter, Shivdasani, and Zenner, 1997; Nguyen and Nielsen, 2010), high quality earnings (Klein, 2002; Jaggi, Leung and Gul, 2009), increased shareholder wealth (Rosenstein and Wyatt, 1990), and improved firm performance (Klein, 1998). Likewise, female directors provide greater board oversight because they demand greater accountability for managers' performance (Adams and Ferreira, 2009) and are more likely to think independently (Adams, Gray, and Nowland, 2010). Furthermore, firms with female directors on the audit committee are more likely to report high quality financial statements (Srinidhi, Gul, and Tsui, 2011), indicating more effective monitoring.

We also examine three board characteristics that may have a positive or negative effect on board monitoring (i.e., literature is mixed). The first variable is the average number of board memberships for directors (*Average Multiple Directorships<sub>t-1</sub>*). Multiple outside board memberships may signal director reputation (Fama and Jensen, 1983) for experience, advice, and monitoring (Ahn, Jiraporn, and Kim, 2010); or, conversely, signal directors are too busy to be effective monitors (Jensen, 1986). The second variable is the average director tenure on the board (*Average Director Tenure<sub>t-1</sub>*). Long-term board service may provide greater experience, commitment, and competence (Vance, 1983; Vafeas, 2003); or, conversely, allow directors to become friends with top management (e.g., Lipton and Lorsch, 1992; Vafeas, 2003), leading to co-option. The third variable is the number of directors on the board (*Number of Directors<sub>t-1</sub>*). A large board may signal a diversity of skills, knowledge, and experience (Bhagat and Black, 2001); or, conversely, more communication/coordination problems (Yermack, 1997).

Following extant CEO duality and governance literature, we also include several variables that capture firm specific characteristics (Hypotheses 3A and 3B). Specifically, we incorporate measures of company size (*Market Value<sub>t-1</sub>*) because larger companies are more visible, more complex, more opaque, and have more diverse shareholders, making them likely targets of shareholder activism (Damanpour, 1996; Finkelstein and D'Aveni, 1994); restatements (*Restatement<sub>t-1</sub>*), which indicate a lack of control over financial reporting by managers as well as poor financial reporting quality; and three measures of prior firm performance-Tobin's Q (*TobinsQ*), annual market adjusted returns (*Returns*), and ROA.<sup>11</sup> We expect size, restatements, and poor financial performance to be positively related to proposals/votes to end CEO duality.

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<sup>11</sup> We estimate each of these measures for the two years prior to the vote date in order to capture the trend in the firm's performance. Typically, a proposal to end CEO duality takes at least a year to get on the ballot, giving the CEO time to make changes to the firm's operations in hopes of improving financial performance and potentially thwarting the vote. Thus, it is important to examine a long window of prior firm performance.

To examine Hypotheses 4a and 4b, we include a variable capturing institutional ownership (*Institutional Ownership<sub>t</sub>*). Institutional have strong fiduciary responsibilities to their stakeholders, so they closely monitor firms in their portfolios-especially if exit is costly (Del Guercio, 1996; Bushee and Noe, 2000; Hawley and Williams, 2000). Institutional investors also have lower coordination costs and higher (investment) stakes (Coffee, 1991) than individual investors, allowing them to proactively monitor CEOs (Hill and Snell, 1989) by proposing/voting to end CEO duality. Therefore, we expect institutional ownership to be positively related to proposals/votes.

We also incorporate several variables following the governance literature. We include: financial leverage (*Leverage<sub>t-1</sub>*) because debt levels affect agency costs/problems (Jensen and Meckling, 1976; Harris and Raviv, 1988; Stulz, 1988; Berger, Ofek and Yermack, 1997); a measure of growth opportunities (*Market to Book<sub>t-1</sub>*); a dummy variable for Delaware (*Delaware<sub>t</sub>*) because Delaware uniquely has few statutes protecting shareholder rights (Cary, 1974; Dooley and Veasey, 1989), which may impact shareholder activism; and three measures of transaction complexity requiring more monitoring-capital expenditures (*Capital Expenditures<sub>t-1</sub>*), research and development expenditures (*Research and Development<sub>t-1</sub>*), and (*Intangible Assets<sub>t-1</sub>*). Appendix B provides definitions of all variables.

### 3.3. CEO Duality and CEO Turnover Consequences Model

To examine the consequences of voting on proposals to end CEO duality (Hypothesis 5), we slightly modify Equation 1. Specifically, we use the following different dependent variables (*DV<sub>t+1</sub>*): (1) the likelihood of the split of both roles (*Duality Ends<sub>t+1</sub>*) in year  $t+1$ ; (2) the likelihood of a CEO turnover (*CEO Turnover<sub>t+1</sub>*) in year  $t+1$ ; and (3) three measures of future financial performance - Tobin's Q (*TobinsQ<sub>t+1</sub>*), return on assets (*Roat<sub>t+1</sub>*), and value-weighted market-adjusted annual stock returns (*Returns<sub>t+1</sub>*).<sup>12</sup> We also add an additional independent variable, *Ceo Duality Proposal<sub>t</sub>*, equal to one if there is a proposal to end CEO duality. We estimate all measures of performance in the year after the proposal. We use a probit model to estimate the equations for *Duality Ends<sub>t+1</sub>* and *CEO Turnover<sub>t+1</sub>* and an OLS regression model to estimate the equation for the three financial performance variables.

## 4. RESULTS

### 4.1. Descriptive Statistics

Table 2, Panel A reports the descriptive statistics for the two samples (1) non-Resolution Companies that did not have a proposal (*Ceo Duality Proposal<sub>t</sub>* = 0) and (2) Resolution Companies with shareholder proposals to end CEO duality (*Ceo Duality Proposal<sub>t</sub>* = 1). We use univariate t-tests to compare the sample means. With respect to CEOs, Resolution Companies have the following characteristics: higher levels of entrenchment, higher compensation levels, less female CEOs, and longer tenured CEOs. Resolution Companies have the following board characteristics: more coopted directors, less independent directors, more female directors, longer tenured directors, more directors with multiple directorships, and a larger board size. With respect to company characteristics, Resolution Companies have: higher market value of equity, lower financial reporting quality (as measured by restatements), and poorer financial performance in prior years

<sup>12</sup>Tobin's Q (*TobinsQ*) is calculated as the ratio of the firm's market value of assets to book value of total assets. Market value of assets is obtained as total assets – common equity – deferred taxes + market value of equity), return on assets (*Roat*), which we calculate as the ratio of income before extraordinary items scaled by lagged total assets), and value-weighted market-adjusted annual stock returns (*Returns*).

(Tobin's Q, Returns, and ROA). Resolution Companies also have higher institutional stock ownership and higher financial leverage. Overall, the univariate analysis suggests that shareholder concerns about CEO entrenchment, board monitoring, and poor performance potentially motivate the decision to end CEO duality. Finally, approximately 31 percent of shareholders at Resolution Companies, on average, voted to end CEO duality.

Table 2, Panel B focuses on the vote consequences. Firms with a proposal to end CEO duality are more likely to subsequently end CEO duality (*Duality Ends<sub>t+1</sub>*, 5.66% vs 3.70%,  $p < 0.10$ ) and have higher CEO turnover (*CEO Turnover<sub>t+1</sub>*, 22.42% vs 14%,  $p < 0.01$ ). A comparison of Panels A and B reveals that the relation between the variables for non-Resolution and Resolution companies only changes for female CEO and market to book value. Prior to the vote, non-Resolution companies were more likely to have a female CEO (Panel A, *Female CEO<sub>t-1</sub>*), but after the vote Resolution companies were more likely to have a female CEO (Panel B, *Female CEO<sub>t</sub>*), indicating that Resolution Companies were more likely to hire a female CEO after a vote. Similarly, market to book value (Panel B, *Market to Book<sub>t</sub>*) becomes significantly larger for Resolution companies indicating the market had a favorable response to the subsequent changes.

#### 4.2. Determinants of Proposals to End CEO Duality

Table 3 reports results of Equation 1 that examines the determinants of shareholder resolutions to end CEO duality.<sup>13</sup> The likelihood of a shareholder proposal to end CEO duality is positively associated with CEO entrenchment index, CEO compensation, director and CEO tenure, board cooption, market value of equity, restatements, and institutional ownership; and negatively associated with a female CEO, the proportion of independent directors, and (prior) financial performance. The last column reports the marginal effects indicating that lagged firm performance (*ROA*), CEO entrenchment (*Eindex*), Coopted Board (*Coopted Directors*), and the proportion of independent directors (*Independent Directors*) have the highest marginal effect on the probability of the consideration of a shareholder proposal to end CEO duality. Thus, our results are consistent with extant research that shareholder activism is associated with CEO entrenchment, the quality of board monitoring, and financial performance (Gillan and Starks, 2000; Ertimur, Ferri, and Muslu, 2010).

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<sup>13</sup>All explanatory variables are based on data for the fiscal year before the annual meeting on which year the proposals were voted upon.

TABLE 2 Summary Statistics

## Panel A: Determinants

	<i>Ceo Duality Proposal<sub>t</sub> = 0</i>			<i>Ceo Duality Proposal<sub>t</sub> = 1</i>			<b>t Value</b>	
	Obs.	Mean	Median	Obs.	Mean	Median		
<b><i>CEO Characteristics</i></b>								
<i>Eindex<sub>t-1</sub></i>	4,127	2.1039	3.0000	333	3.4174	2.0000	9.23	***
<i>CEO Compensation<sub>t-1</sub> (\$ M)</i>	4,127	8,673.39	4,929.98	333	15,920.44	10,019.79	6.85	***
<i>CEO Tenure<sub>t-1</sub> (years)</i>	4,127	7.6768	7.0000	333	9.1351	5.0000	6.41	***
<i>Female CEO<sub>t-1</sub></i>	4,127	0.0751	0.0000	333	0.0300	0.0000	(3.06)	***
<b><i>Board Characteristics</i></b>								
<i>Coopted Directors<sub>t-1</sub></i>	4,127	0.2160	0.0000	333	0.3673	0.0000	4.67	***
<i>Independent Directors<sub>t-1</sub></i>	4,127	0.8348	0.8333	333	0.7344	0.7750	(6.89)	**
<i>Proportion of Female Directors<sub>t-1</sub></i>	4,127	0.1248	0.1250	333	0.1663	0.1667	7.14	***
<i>Average Multiple Directorships<sub>t-1</sub></i>	4,127	0.8328	0.8000	333	1.1264	1.1667	10.71	***
<i>Average Director Tenure<sub>t-1</sub> (years)</i>	4,127	7.2826	8.7000	333	8.8020	8.1111	2.54	**
<i>Number of Directors<sub>t-1</sub></i>	4,127	9.2704	9.0000	333	11.1592	11.0000	16.62	***
<b><i>Size</i></b>								
<i>Market Value<sub>t-1</sub> (\$ M)</i>	4,127	12,280.03	2,775.57	333	54,423.27	23,541.94	10.23	***
<b><i>Financial Reporting Quality</i></b>								
<i>Restatement<sub>t-1</sub></i>	4,127	0.0303	0.0000	333	0.0420	0.0000	3.19	***
<b><i>Financial Performance</i></b>								
<i>TobinsQ<sub>t-1</sub></i>	4,127	1.8487	1.5406	333	1.3714	1.1948	(2.13)	**
<i>TobinsQ<sub>t-2</sub></i>	4,127	1.8853	1.5662	333	1.1597	1.2526	(2.42)	**

<i>Returns<sub>t-1</sub></i>	4,127	0.0829	0.0581	333	0.0068	0.0482	(2.40)	**
<i>Returns<sub>t-2</sub></i>	4,127	0.1133	0.0827	333	0.0060	0.0070	(3.06)	***
<i>Roa<sub>t-1</sub></i>	4,127	0.0587	0.0582	333	0.0373	0.0335	(2.37)	**
<i>Roa<sub>t-2</sub></i>	4,127	0.0632	0.0603	333	0.0162	0.0158	(2.26)	***
<b><i>Other Variables</i></b>								
<i>Institutional Ownership<sub>t-1</sub></i>	4,127	0.5813	0.5600	333	0.7101	0.6640	3.65	***
<i>Leverage<sub>t-1</sub></i>	4,127	0.1928	0.1883	333	0.2336	0.2295	5.66	***
<i>Market to Book<sub>t-1</sub></i>	4,127	3.0292	2.2732	333	3.4060	2.5399	1.53	
<i>Delaware<sub>t-1</sub></i>	4,127	0.5939	1.0000	333	0.5736	1.0000	(0.72)	
<i>Capital Expenditures<sub>t-1</sub></i>	4,127	0.0536	0.0370	333	0.0526	0.0403	(0.41)	
<i>Research and Development<sub>t-1</sub></i>	4,127	0.0201	0.0000	333	0.0173	0.0000	(1.36)	
<i>Intangible Assets<sub>t-1</sub></i>	4,127	0.2071	0.1528	333	0.2203	0.1589	1.16	
<i>Vote Outcome<sub>t</sub></i>				333	0.3105	0.3045		

TABLE 2 (continued) Summary Statistics

## Panel B: Consequences of Proposal (variables after the vote)

	<i>Ceo Duality Proposal<sub>t</sub> = 0</i>			<i>Ceo Duality Proposal<sub>t</sub> = 1</i>			<i>t-value</i>	
	<i>Obs.</i>	<i>Mean</i>	<i>Median</i>	<i>Obs.</i>	<i>Mean</i>	<i>Median</i>		
<b><i>Consequences</i></b>								
<i>Duality Ends<sub>t+1</sub></i>	4,127	0.0370	0.0000	333	0.0566	0.0000	(1.83)	*
<i>CEO Turnover<sub>t+1</sub></i>	4,127	0.1400	0.0000	333	0.2242	0.0000	(4.47)	***
<b><i>CEO Characteristics</i></b>								
<i>Eindex<sub>t</sub></i>	4,127	2.1446	3.0000	333	3.4071	2.0000	(10.74)	***
<i>CEO Compensation<sub>t</sub> (\$ M)</i>	4,127	8571.41	5038.19	333	17329.25	10635.29	(7.70)	***
<i>CEO Tenure<sub>t</sub></i>	4,127	7.3156	5.0000	333	10.1329	8.0000	(6.81)	***
<i>Female CEO<sub>t</sub></i>	4,127	0.0311	0.0000	333	0.0737	0.0000	(2.95)	***
<b><i>Board Characteristics</i></b>								
<i>Coopted Directors<sub>t</sub></i>	4,127	0.3174	0.0000	333	0.4773	0.0000	(5.50)	***
<i>Independent Directors<sub>t</sub></i>	4,127	0.8776	0.8889	333	0.8034	0.7933	6.05	***
<i>Proportion of Female Directors<sub>t</sub></i>	4,127	0.1384	0.1250	333	0.1883	0.1818	(9.73)	***
<i>Average Multiple Directorships<sub>t</sub></i>	4,127	0.8232	0.8000	333	1.1208	1.1667	(10.65)	***
<i>Average Director Tenure<sub>t</sub></i>	4,127	8.7877	8.3077	333	9.3731	8.8000	(3.18)	***
<i>Number of Directors<sub>t</sub></i>	4,127	9.2106	9.0000	333	11.2537	11.0000	(18.02)	***
<b><i>Size</i></b>								
<i>Market Value<sub>t</sub> (\$ M)</i>	4,127	12340.64	2754.80	333	17329.25	24939.02	(10.69)	***
<b><i>Financial Reporting Quality</i></b>								
<i>Restatement<sub>t</sub></i>	4,127	0.0546	0.0000	333	0.0737	0.0000	(1.31)	
<b><i>Financial Performance</i></b>								

<i>TobinsQ<sub>t</sub></i>	4,127	1.8505	1.5392	333	1.8323	1.5489	0.33	
<i>TobinsQ<sub>t-1</sub></i>	4,127	1.8487	1.5406	333	1.3714	1.1948	2.13	**
<i>Returns<sub>t</sub></i>	4,127	0.0845	0.0641	333	0.0886	0.0814	(0.24)	
<i>Returns<sub>t-1</sub></i>	4,127	0.0829	0.0581	333	0.0068	0.0482	2.40	**
<i>Roa<sub>t</sub></i>	4,127	0.0526	0.0557	333	0.0619	0.0538	(2.71)	***
<i>Roa<sub>t-1</sub></i>	4,127	0.0587	0.0582	333	0.0373	0.0335	2.37	**
<b><i>Other Variables</i></b>								
<i>Institutional Ownership<sub>t</sub></i>	4,127	0.5809	0.5593	333	0.6335	0.6625	(3.11)	***
<i>Leverage<sub>t</sub></i>	4,127	0.2019	0.1970	333	0.2445	0.2452	(5.75)	***
<i>Market to Book<sub>t</sub></i>	4,127	2.9856	2.2643	333	3.6771	2.6719	(2.14)	**
<i>Delaware<sub>t</sub></i>	4,127	0.5939	1.0000	333	0.5736	1.0000	0.72	
<i>Capital Expenditures<sub>t</sub></i>	4,127	0.0523	0.0361	333	0.0508	0.0396	0.66	
<i>Research and Development<sub>t</sub></i>	4,127	0.0205	0.0000	333	0.0174	0.0000	1.46	
<i>Intangible Assets<sub>t</sub></i>	4,127	0.2126	0.1605	333	0.2233	0.1684	(0.93)	

*Notes.* \*\*\*, \*\*, \* indicates that the observations with shareholder resolutions to end CEO duality (*Ceo Duality Proposal<sub>t</sub>* = 1) are significantly different from the observations with no shareholder resolutions to end CEO duality (*Ceo Duality Proposal<sub>t</sub>* = 0) at the 1, 5, and 10 level of significance respectively, based on a two-tailed t-test for the mean. All the variables in this table are defined in Appendix B. Each of the continuous variables is winsorized at 1 percent and 99 percent to reduce the effect of outliers. Panel A focuses on determinants of the shareholder proposal, while Panel B focuses on the consequences of the proposal vote (and the time period of the variables have been adjusted to reflect the different focus).



**TABLE 3 Probit Regression of the Determinants of Shareholder Resolutions to End CEO Duality**

DEP. VAR.	=	<i>Ceo Duality Proposal<sub>it</sub></i>			
		Estimate	Chi-Sq.		Marginal Effect
<i>Intercept</i>	+/-	-1.0127	16.20	***	
<i>Eindex<sub>t-1</sub></i>	+	0.1180	4.00	**	8.26%
<i>ln (CEO Compensation<sub>t-1</sub>)</i>	+	0.0962	3.28	*	0.43%
<i>ln (CEO Tenure<sub>t-1</sub>)</i>	+	0.0178	5.03	**	0.01%
<i>Female CEO<sub>t-1</sub></i>	+/-	-0.6259	4.49	**	3.63%
<i>Coopted Directors<sub>t-1</sub></i>	+	0.2178	5.19	**	6.17%
<i>Independent Directors<sub>t-1</sub></i>	-	-1.2241	6.36	***	5.78%
<i>Proportion of Female Directors<sub>t-1</sub></i>	-	0.4809	0.32		0.77%
<i>Average Multiple Directorships<sub>t-1</sub></i>	+/-	0.1647	0.82		0.38%
<i>ln (Average Director Tenure<sub>t-1</sub>)</i>	+/-	0.3464	2.72	*	3.11%
<i>Number of Directors<sub>t-1</sub></i>	+/-	0.0316	0.60		0.32%
<i>ln (Market Value<sub>t-1</sub>)</i>	+	0.7378	83.13	***	4.30%
<i>Restatement<sub>t-1</sub></i>	+	0.6475	3.71	*	3.87%
<i>TobinsQ<sub>t-1</sub></i>	-	-0.2088	9.92	***	0.31%
<i>TobinsQ<sub>t-2</sub></i>	-	-0.0080	4.00	**	0.39%
<i>Returns<sub>t-1</sub></i>	-	-0.3213	7.40	***	1.61%
<i>Returns<sub>t-2</sub></i>	-	-0.6507	6.91	***	3.15%
<i>Roat-1</i>	-	-2.2204	11.55	***	12.60%
<i>Roat-2</i>	-	-0.9094	9.35	***	10.55%
<i>Institutional Ownership<sub>t-1</sub></i>	+	0.0336	3.79	*	0.34%
<i>Leverage<sub>t-1</sub></i>	+/-	0.2465	0.16		3.78%
<i>Market to Book<sub>t-1</sub></i>	+/-	-0.0006	0.03		0.33%
<i>Delaware<sub>t-1</sub></i>	+/-	-0.0295	0.04		0.14%
<i>Capital Expenditures<sub>t-1</sub></i>	+/-	0.0693	0.60		0.66%
<i>Research and Development<sub>t-1</sub></i>	+/-	0.0462	0.24		0.95%
<i>Intangible Assets<sub>t-1</sub></i>	+/-	-0.0657	0.02		0.49%
<i>Likelihood Ratio</i>			599.81	***	

Notes. n = 4,460. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Industry and year fixed effects are included. All variables are defined in Appendix B.

Table 4 presents the regression results with the dependent variable set to the proportion of shareholders that vote “For” the proposal to end CEO duality (*Vote Outcome<sub>t</sub>*).<sup>14</sup> We find that CEO entrenchment, CEO compensation, CEO tenure, coopted boards, board members with multiple directorships, and restatements are positively associated with the proportion of shareholders voting for the proposal. On the other hand, the proportion of independent directors, board size, the market value of equity, and all financial performance measures are negatively associated with a “For” vote. Comparing Table 4 to Table 3, the determinants of the proposal and votes are similar with the exception of multiple directorships and number of directors become significant for the vote outcome; Female CEO, average director tenure and institutional ownership become insignificant for the vote; and market value changes from (highly) significantly positive to significantly negative. Overall, our results show that the shareholder “For” vote is (positively) associated with CEO entrenchment, negatively associated with the quality of board monitoring, and negatively associated with poor financial performance.

#### 4.3. The Consequences of the Proposal to End CEO Duality

##### 4.3.1. A Split of Both Roles and CEO Turnover

Our analysis suggests that Resolution Companies are systematically different from non-Resolution Companies. Therefore, the results could be driven by endogeneity or potentially omitted correlated variables. Using the panel data probit regression model in Equation 1 (with a dependent variable of *Ceo Duality Proposal<sub>t</sub>*), we estimate a propensity score for each firm-year observation in our full sample.<sup>15</sup> Using these propensity scores, we were able to match 229 Resolution Companies to 229 non-Resolution Companies. We use both the full sample as well as this propensity score matched sample (PSM) for all subsequent tests. Non-tabulated results indicate that match worked as there are no significant difference between the propensity matched of Resolution and non-Resolution Companies before the vote.<sup>16</sup> Even using this PSM sample, univariate analysis in Table 5 shows that Resolution Companies are more likely to end CEO duality (*Duality Ends<sub>t+1</sub>*,  $p < 0.10$ ) and have CEO turnover (*CEO Turnover<sub>t+1</sub>*,  $p < 0.01$ ) after a vote.

Turning to the consequences, Table 6 shows that a proposal (*Ceo Duality Proposal<sub>t</sub>*) is not significantly associated with ending CEO duality in the next year for both the full and PSM samples. On the other hand, Table 7 shows a significant positive association between shareholder proposals to end CEO duality (*Ceo Duality Proposal<sub>t</sub>*) and subsequent CEO turnover for the full ( $p < 0.05$ ) and PSM samples ( $p < 0.10$ ). Overall, our results suggest that while shareholder proposals to end CEO duality are not associated with splitting the CEO and board chair roles, they are associated with CEO turnover.

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<sup>14</sup>The sample is restricted to Resolution Companies (n = 333).

<sup>15</sup> To obtain the propensity score for each company, we use a probit model with the dependent variable, *Ceo Duality Proposal<sub>t</sub>*. This model for propensity score matching is widely used. These propensity scores are used using matching one-for-one approach, to match resolution and non-resolution sample without replacement. (Lawrence, Minutti-Meza, and Zhang, 2011). To gauge the quality of our matching, we test for differences in the means of the selection variables for treatment and matched control companies.

<sup>16</sup> All variables from Table 2 Panel A are not significantly different.

TABLE 4 OLS Regression of the Determinants of the Vote Outcome

DEP. VAR.	=	<i>Vote Outcome<sub>t</sub></i>		
			Estimate	t-value
<i>Intercept</i>	+/-	0.4308	2.71	***
<i>Eindex<sub>t-1</sub></i>	+	0.0792	2.01	**
<i>ln (CEO Compensation<sub>t-1</sub>)</i>	+	0.0134	2.51	**
<i>ln (CEO Tenure<sub>t-1</sub>)</i>	+	0.0120	2.09	**
<i>Female CEO<sub>t-1</sub></i>	+/-	-0.0018	0.07	
<i>Coopted Directors<sub>t-1</sub></i>	+	0.2271	3.08	***
<i>Independent Directors<sub>t-1</sub></i>	-	-0.1880	3.20	***
<i>Proportion of Female Directors<sub>t-1</sub></i>	-	0.0620	0.62	
<i>Average Multiple Directorships<sub>t-1</sub></i>	+/-	0.0602	3.26	***
<i>ln (Average Director Tenure<sub>t-1</sub>)</i>	+/-	0.0183	0.70	
<i>Number of Directors<sub>t-1</sub></i>	+/-	-0.0087	1.70	*
<i>ln (Market Value<sub>t-1</sub>)</i>	+	-0.0180	1.68	*
<i>Restatement<sub>t-1</sub></i>	+	0.1139	3.31	***
<i>TobinsQ<sub>t-1</sub></i>	-	-0.0213	2.08	**
<i>TobinsQ<sub>t-2</sub></i>	-	-0.0524	2.20	**
<i>Returns<sub>t-1</sub></i>	-	-0.1129	3.03	***
<i>Returns<sub>t-2</sub></i>	-	-0.0481	1.78	*
<i>Roa<sub>t-1</sub></i>	-	-0.2762	3.50	***
<i>Roa<sub>t-2</sub></i>	-	-0.0076	1.84	*
<i>Institutional Ownership<sub>t-1</sub></i>	+	0.0007	0.07	
<i>Leverage<sub>t-1</sub></i>	+/-	0.0350	0.49	
<i>Market to Book<sub>t-1</sub></i>	+/-	-0.0004	0.20	
<i>Delaware<sub>t-1</sub></i>	+/-	-0.0162	0.95	
<i>Capital Expenditures<sub>t-1</sub></i>	+/-	-0.4545	1.21	
<i>Research and Development<sub>t-1</sub></i>	+/-	-0.0165	0.73	
<i>Intangible Assets<sub>t-1</sub></i>	+/-	-0.0797	1.23	
<i>Adj. R-Square</i>			0.581	
<i>F-Value</i>			2.47	***

Notes. n = 333. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Industry and year fixed effects are included. All variables are defined in Appendix B.

**TABLE 5 Descriptive Statistics and Univariate Analysis: Propensity Score Matched (PSM) Sample Consequences (after the vote)**

	<i>Ceo Duality Proposal = 0</i>			<i>Ceo Duality Proposal = 1</i>			<i>t-value</i>
	<i>Obs.</i>	<i>Mean</i>	<i>Median</i>	<i>Obs.</i>	<i>Mean</i>	<i>Median</i>	
<b><i>Consequences</i></b>							
<i>Duality Ends<sub>t+1</sub></i>	229	0.0317	0.0000	229	0.0654	0.0000	(1.95) *
<i>CEO Turnover<sub>t+1</sub></i>	229	0.1520	0.0000	229	0.2237	0.0000	(2.83) ***
<b><i>CEO Characteristics</i></b>							
<i>Eindex<sub>t</sub></i>	229	2.9152	3.0000	229	3.1526	3.0000	1.56
<i>CEO Compensation<sub>t</sub> (\$ M)</i>	229	10693.46	7616.60	229	13397.46	16154.85	(1.61)
<i>CEO Tenure<sub>t</sub></i>	229	6.7588	6.0000	229	7.9107	7.0000	(1.79) *
<i>Female CEO<sub>t</sub></i>	229	0.0491	0.0000	229	0.0658	0.0000	(0.76)
<b><i>Board Characteristics</i></b>							
<i>Coopted Directors<sub>t</sub></i>	229	0.2170	0.0000	229	0.2368	0.0000	(0.91)
<i>Independent Directors<sub>t</sub></i>	229	0.8384	0.8889	229	0.8354	0.8750	0.31
<i>Proportion of Female Directors<sub>t</sub></i>	229	0.1808	0.1818	229	0.1838	0.1818	(0.31)
<i>Average Multiple Directorships<sub>t</sub></i>	229	0.9612	1.0000	229	1.0681	1.0909	(1.69) *
<i>Average Director Tenure<sub>t</sub></i>	229	8.7456	8.2000	229	9.3058	8.6307	1.71 *
<i>Number of Directors<sub>t</sub></i>	229	10.4152	10.5000	229	10.8816	11.0000	(2.44)
<b><i>Size</i></b>							
<i>Market Value<sub>t</sub> (\$ M)</i>	229	36483.90	11094.14	229	34810.00	16154.85	0.27
<b><i>Financial Reporting Quality</i></b>							
<i>Restatement<sub>t</sub></i>	229	0.0670	0.0000	229	0.0789	0.0000	(0.49)
<b><i>Financial Performance</i></b>							

<i>TobinsQ<sub>t</sub></i>	229	1.7572	1.4955	229	1.7402	1.4551	0.19
<i>TobinsQ<sub>t-1</sub></i>	229	1.7240	1.4828	229	1.6955	1.4513	0.35
<i>Returns<sub>t</sub></i>	229	0.1401	0.1074	229	0.0943	0.0834	1.49
<i>Returns<sub>t-1</sub></i>	229	0.1221	0.1127	229	0.0881	0.0792	1.14
<i>Roa<sub>t</sub></i>	229	0.0510	0.0539	229	0.0589	0.0496	(1.23)
<i>Roa<sub>t-1</sub></i>	229	0.0537	0.0549	229	0.0570	0.0511	(0.49)
<b><i>Other Variables</i></b>							
<i>Institutional Ownership<sub>t</sub></i>	229	0.5809	0.5593	229	0.5803	0.5671	0.08
<i>Leverage<sub>t</sub></i>	229	0.2381	0.2471	229	0.2450	0.2468	(0.56)
<i>Market to Book<sub>t</sub></i>	229	3.4963	2.4869	229	2.8420	2.3432	0.72
<i>Delaware<sub>t</sub></i>	229	0.6071	1.0000	229	0.5721	1.0000	0.76
<i>Capital Expenditures<sub>t</sub></i>	229	0.0526	0.0414	229	0.0536	0.0415	(0.24)
<i>Research and Development<sub>t</sub></i>	229	0.0148	0.0000	229	0.0172	0.0000	(0.75)
<i>Intangible Assets<sub>t</sub></i>	229	0.2102	0.1627	229	0.2297	0.1787	(1.01)

*Notes.* \*\*\*, \*\*, \* indicates that the observations with shareholder resolutions to end CEO duality (*Ceo Duality Proposal<sub>t</sub>* = 1) are significantly different from the observations with no shareholder resolutions to end CEO duality (*Ceo Duality Proposal<sub>t</sub>* = 0) at the 1, 5, and 10 level of significance respectively, based on a two-tailed t-test for the mean. All the variables in this table are defined in Appendix B. Each of the continuous variables is winsorized at 1 percent and 99 percent to reduce the effect of outliers.

**TABLE 6 Probit Regressions of CEO Duality Proposals and the Subsequent End of Duality**

DEP. VAR.	=	All Observations			PSM Sample		
		<i>Duality Ends<sub>t+1</sub></i>					
		Estimate	Chi-Sq.		Estimate	Chi-Sq.	
<i>Intercept</i>	+/-	-0.2805	8.16	***	1.4987	4.41	**
<i>Ceo Duality Proposal<sub>t</sub></i>	+	0.0630	0.14		0.0061	1.00	
<i>Eindex<sub>t</sub></i>	+/-	-0.0431	1.67		-0.0704	0.29	
<i>ln (CEO Compensation<sub>t</sub>)</i>	+/-	0.0703	1.68		0.0063	0.23	
<i>ln (CEO Tenure<sub>t</sub>)</i>	+/-	-0.8032	161.43	***	-0.8035	15.92	***
<i>Female CEO<sub>t</sub></i>	-	-0.2206	0.79		-0.0943	0.02	
<i>Coopted Directors<sub>t</sub></i>	+/-	-0.3742	9.21	***	-0.2297	8.23	***
<i>Independent Directors<sub>t</sub></i>	+	-0.9047	3.47	*	0.0161	3.10	*
<i>Proportion of Female Directors<sub>t</sub></i>	+	-1.2369	6.39	**	-2.2642	5.45	**
<i>Average Multiple Directorships<sub>t</sub></i>	+/-	0.1753	2.46		0.2254	0.30	
<i>ln (Average Director Tenure<sub>t</sub>)</i>	+/-	0.0961	0.62		-0.5769	1.70	
<i>Number of Directors<sub>t</sub></i>	+/-	0.0512	4.09	**	0.1398	2.49	
<i>ln (Market Value<sub>t</sub>)</i>	+/-	-0.0554	1.37		-0.1474	0.66	
<i>Restatement<sub>t</sub></i>	+/-	0.0462	0.07		1.0291	4.09	**
<i>TobinsQ<sub>t</sub></i>	+/-	0.0296	0.07		0.0606	0.01	
<i>TobinsQ<sub>t-1</sub></i>	+/-	-0.0987	0.76		-0.4317	0.47	
<i>Returns<sub>t</sub></i>	+/-	-0.1460	0.84		-0.0566	0.01	
<i>Returns<sub>t-1</sub></i>	+/-	-0.1783	1.89		0.2206	0.15	
<i>Roat</i>	+/-	-0.8021	1.44		-3.2187	0.73	
<i>Roat-1</i>	+/-	-0.2519	0.11		2.6830	0.63	
<i>Institutional Ownership<sub>t</sub></i>	+/-	0.1624	5.69	**	-0.7532	0.31	
<i>Leverage<sub>t</sub></i>	+/-	0.6319	3.45	*	0.0651	0.00	
<i>Capital Expenditures<sub>t</sub></i>	+/-	-2.6193	4.52	**	-1.3097	1.11	
<i>Likelihood Ratio</i>			1240.87	***		185.03	***

Notes. n = 4,460. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Industry and year fixed effects are included. Control variables without significant results are not included. All variables are defined in Appendix B.

**TABLE 7 Probit Regressions of CEO Duality Proposals and the Subsequent CEO Turnover**

DEP. VAR.	=	All Observations			PSM Sample		
		<i>Ceo Turnover<sub>t+1</sub></i>					
		Estimate	Chi-Sq.		Estimate	Chi-Sq.	
<i>Intercept</i>	+/-	-1.4435	9.73	***	-1.3122	60.14	***
<i>Ceo Duality Proposal<sub>t</sub></i>	+	0.2004	5.59	**	0.2133	3.61	*
<i>Eindex<sub>t</sub></i>	+/-	-0.0327	0.76		-0.4060	8.08	***
<i>ln (CEO Compensation<sub>t</sub>)</i>	+/-	-0.0406	0.49		-0.0818	0.42	
<i>Female CEO<sub>t</sub></i>	+/-	-0.4129	2.45		-0.6856	0.86	
<i>ln (CEO Tenure<sub>t</sub>)</i>	-	-1.0319	224.63	***	-1.3867	33.23	***
<i>Coopted Directors<sub>t</sub></i>	+/-	-0.9663	45.71	***	-1.7080	10.75	***
<i>Independent Directors<sub>t</sub></i>	+	-2.1658	16.61	***	1.0647	0.24	
<i>Proportion of Female Directors<sub>t</sub></i>	+	0.0362	0.46		0.4665	0.06	
<i>Average Multiple Directorships<sub>t</sub></i>	+/-	0.0194	0.02		-0.1736	0.16	
<i>ln (Average Director Tenure<sub>t</sub>)</i>	+/-	0.3406	6.57	**	1.0210	3.96	**
<i>Number of Directors<sub>t</sub></i>	+/-	0.0831	9.20	***	-0.0224	0.05	
<i>ln (Market Value<sub>t</sub>)</i>	+/-	0.0308	0.36		0.5006	5.67	**
<i>Restatement<sub>t</sub></i>	+/-	0.1241	0.45		0.9547	3.28	*
<i>TobinsQ<sub>t</sub></i>	+/-	-0.1484	1.17		-0.5664	0.80	
<i>TobinsQ<sub>t-1</sub></i>	+/-	-0.0366	0.07		-0.0897	0.02	
<i>Returns<sub>t</sub></i>	+/-	-0.2709	2.20		-0.0927	0.02	
<i>Returns<sub>t-1</sub></i>	+/-	-0.4854	10.15	***	-0.7352	1.35	
<i>Roat<sub>t</sub></i>	+/-	-0.6221	0.76		-1.2742	3.78	**
<i>Roat-1</i>	+/-	-0.5399	0.40		0.6721	0.60	
<i>Institutional Ownership<sub>t</sub></i>	+/-	0.0900	1.39		-0.6087	0.40	
<i>Capital Expenditures<sub>t</sub></i>	+/-	1.9148	2.00		-1.4419	3.48	*
<i>Likelihood Ratio</i>			596.60	***		150.88	***

Notes. n = 4,460. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Industry and year fixed effects are included. Control variables without significant results are not included. All variables are defined in Appendix B.

#### 4.3.2. Financial Performance

Lastly, we examine is the impact of a proposal on future financial performance. Table 8 and Table 9 present the results of this analysis for the full sample of observations and for the PSM sample, respectively. Both samples have a significant positive relation between *Ceo Duality*

$Proposal_t$  and subsequent stock returns ( $Returns_{t+1}$ ,  $p < 0.10$ ) as well as future returns on assets ( $ROA_{t+1}$ ,  $p < 0.01$ ). We find a significant positive relation between *Ceo Duality Proposal<sub>t</sub>* and Tobins Q ( $TobinsQ_{t+1}$ ,  $p < 0.05$ ) for the PSM sample, but not the full sample. Overall, the results suggest that a proposal has a positive effect on future financial performance.

#### 4.4. Additional Analysis

The marginal analysis in Table 3 suggests that prior firm performance (*ROA*) and CEO entrenchment (*Eindex*) had the highest marginal effect on the probability of a shareholder proposal to end CEO duality. In Table 6, however, we do not find an association between voting on a proposal (*Ceo Duality Proposal<sub>t</sub>*) and the ending of CEO duality (*Duality Ends<sub>t+1</sub>*). Based on these results, we create four indicator variables; (1) *Low Roa<sub>t-1</sub>* and *High Roa<sub>t-1</sub>*, which are indicator variables for whether a firm's *Roa* in year *t-1* is in the first and fourth quartile of *Roas* in Compustat database, respectively, and (2) *Low Eindex<sub>t-1</sub>* and *High Eindex<sub>t-1</sub>*, which are indicator variables for whether a firm's *Eindex* in year *t-1* are in the first and fourth quartile of *Eindexes* in ISS database, respectively. We interact each indicator variable with *Ceo Duality Proposal<sub>t</sub>* to examine whether poor/good performance and low/high CEO entrenchment can mediate the relation between *Ceo Duality Proposal<sub>t</sub>* and *Duality Ends<sub>t+1</sub>* as well between *Ceo Duality Proposal<sub>t</sub>* and *Ceo Turnover<sub>t+1</sub>*. Table 10 presents the results of this analysis. Only the coefficients of *Ceo Duality Proposal<sub>t</sub> x Low Roa<sub>t-1</sub>* and *Ceo Duality Proposal<sub>t</sub> x Low Eindex<sub>t-1</sub>* are significant for both *Duality Ends<sub>t+1</sub>* (Panel A) and *Ceo Turnover<sub>t+1</sub>* (Panel B). These findings suggest that when prior financial performance (lagged ROA) is poor or the CEO is not entrenched (*Eindex* is low), there is a significant positive association between shareholder proposals to end CEO duality and the subsequent split of the roles as well as CEO turnover.

In addition, Dey et al. (2011) finds that ending CEO duality due to shareholder pressure is associated with not only a negative market reaction at announcement time, but also lower return on assets (ROA) as well as a lower market return on new investments.<sup>17</sup> To extend this research, we examine several variables that capture the (future) financial consequences of (1) ending CEO duality and (2) CEO turnover after a shareholder proposal to end CEO duality. Specifically, we interact *Ceo Duality Proposal<sub>t</sub>* with *Duality Ends<sub>t+1</sub>* and *CEO Turnover<sub>t+1</sub>*. We examine the performance in the year of the split or CEO turnover (one year after the shareholder proposal, *t+1*) and in the following year (two years after the shareholder proposal, *t+2*). The results for key variables are shown in Table 11 for the full sample (untabulated results for the PSM sample are similar). The coefficient of *Ceo Duality Proposal<sub>t</sub> X Duality Ends<sub>t+1</sub>* is significantly negative, while the coefficient of *Ceo Duality Proposal<sub>t</sub> X CEO Turnover<sub>t+1</sub>* is significantly positive for all three measures of financial performance (i.e., ROA, market returns, and Tobin's Q) in the year of the split and in the year after the split. These findings suggest that ending CEO duality is associated with poor future financial performance, but a CEO turnover motivated by a shareholder proposal to end CEO duality is associated with improved financial performance.

<sup>17</sup> Dey et al. (2011) identify the "pressure" switchers using press releases and news articles. Their study does not examine proposals to end CEO duality.



**TABLE 8 Probit Regressions of CEO Duality Resolutions and Subsequent Financial Performance – Full Sample**

DEP. VAR.	=	<i>TobinsQ<sub>t+1</sub></i>		<i>Returns<sub>t+1</sub></i>			<i>Roat+1</i>	
		Estimate	t-value	Estimate	t-value	Estimate	t-value	
<i>Intercept</i>	+/-	-0.1257	2.34 **	0.1484	13.89 ***	-0.0320	2.25 **	
<i>Ceo Duality Proposal<sub>t</sub></i>	+/-	0.0037	0.13	0.0883	1.87 *	0.0587	2.14 **	
<i>Eindex<sub>t</sub></i>	+/-	-0.0043	0.83	-0.0041	0.94	0.0017	2.21 **	
<i>ln (CEO Compensation<sub>t</sub>)</i>	+	0.0219	2.54 **	0.0299	4.15 ***	-0.0016	1.20	
<i>Female CEO<sub>t</sub></i>	+	-0.0209	0.51	-0.0051	0.10	0.0028	0.45	
<i>ln (CEO Tenure<sub>t</sub>)</i>	+/-	-0.0059	0.53	-0.0128	1.38	-0.0004	0.22	
<i>Coopted Directors<sub>t</sub></i>	+/-	-0.0065	0.33	0.0217	1.33	-0.0007	0.25	
<i>Independent Directors<sub>t</sub></i>	+/-	0.0675	0.91	-0.0595	0.96	-0.0062	0.55	
<i>Proportion of Female Directors<sub>t</sub></i>	+/-	0.3340	4.40 ***	0.0933	1.47	0.0273	2.36 **	
<i>Average Multiple Directorships<sub>t</sub></i>	+/-	0.0043	0.24	0.0206	1.38	0.0010	0.37	
<i>ln (Average Director Tenure<sub>t</sub>)</i>	+/-	0.0703	3.45 ***	0.0276	1.62	0.0025	0.80	
<i>Number of Directors<sub>t</sub></i>	+/-	0.0018	0.43	0.0066	1.92 *	0.0003	0.54	
<i>ln (Market Value<sub>t</sub>)</i>	+/-	-0.0175	2.37 **	-0.0373	6.04 ***	0.0050	4.46 ***	
<i>Restatement<sub>t</sub></i>	+/-	-0.0365	1.24	-0.0465	1.87 *	0.0030	0.67	
<i>TobinsQ<sub>t</sub></i>	+	0.8037	43.31 ***	0.0417	2.70 ***	0.0187	6.66 ***	
<i>TobinsQ<sub>t-1</sub></i>	+	0.1061	5.76 ***	0.0314	2.04 **	0.0011	0.41	
<i>Returns<sub>t</sub></i>	+	0.0127	0.51	0.0948	4.61 ***	0.0275	7.37 ***	
<i>Returns<sub>t-1</sub></i>	+	0.1351	7.27 ***	0.1454	9.35 ***	0.0018	0.64	
<i>Roat<sub>t</sub></i>	+	0.4300	3.83 ***	0.5742	6.13 ***	0.2728	16.04 ***	
<i>Roat-1</i>	+	0.5649	4.31 ***	0.4157	3.80 ***	0.1924	9.68 ***	

<i>Institutional Ownership<sub>t</sub></i>	+/-	-0.0012	0.08		-0.0143	1.10	-0.0011	0.35
<i>Delaware<sub>t</sub></i>	+/-	0.0298	2.04	**	0.0181	1.48	-0.0038	1.72 *
<i>Capital Expenditures<sub>t</sub></i>	+/-	-0.3013	1.95	*	-0.5445	4.21 ***	-0.2135	9.09 ***
<i>Research and Development<sub>t</sub></i>	+/-	0.4743	2.25	**	0.3323	1.90 *	-0.1185	3.72 ***
<i>Intangible Assets<sub>t</sub></i>	+/-	-0.0149	0.38		-0.0422	1.30	-0.0221	3.73 ***
<i>Adj. R-Square</i>			0.803			0.077		0.363
<i>F-Value</i>			676.68	***		15.15 ***		97.47 ***

*Notes.* n = 4,460. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Industry and year fixed effects are included. Insignificant control variables have been deleted. All variables are defined in Appendix B.

TABLE 9 CEO Duality Shareholder Resolutions and the Subsequent Financial Performance – PSM Sample

DEP. VAR.	=	<i>TobinsQ<sub>t+1</sub></i>			<i>Returns<sub>t+1</sub></i>			<i>Roa<sub>t+1</sub></i>		
		Estimate	t-value		Estimate	t-value		Estimate	t-value	
<i>Intercept</i>	+/-	0.1428	3.54	***	0.0897	4.37	***	0.0017	5.04	***
<i>Ceo Duality Proposal<sub>t</sub></i>	+/-	0.0687	2.20	**	0.0190	1.79	*	0.0634	2.14	**
<i>Eindex<sub>t</sub></i>	+/-	0.0171	1.19		0.0103	0.79		0.0037	1.66	*
<i>ln (CEO Compensation<sub>t</sub>)</i>	+	0.0351	2.20	**	0.0266	1.82	*	0.0021	0.81	
<i>Female CEO<sub>t</sub></i>	+	-0.0156	0.19		0.0454	0.62		0.0031	0.25	
<i>ln (CEO Tenure<sub>t</sub>)</i>	+/-	-0.0274	1.04		0.0129	0.54		0.0037	0.89	
<i>Coopted Directors<sub>t</sub></i>	+/-	0.0137	0.26		-0.0116	0.24		-0.0075	0.91	
<i>Independent Directors<sub>t</sub></i>	+/-	0.0144	0.07		-0.1447	0.74		-0.0870	2.56	**
<i>Proportion of Female Directors<sub>t</sub></i>	+/-	0.2001	1.03		0.0992	0.56		0.0978	3.17	***
<i>Average Multiple Directorships<sub>t</sub></i>	+/-	0.0180	0.40		-0.0118	0.28		0.0041	0.57	
<i>ln (Average Director Tenure<sub>t</sub>)</i>	+/-	-0.0053	0.10		0.0023	0.05		0.0048	0.57	
<i>Number of Directors<sub>t</sub></i>	+/-	-0.0056	0.51		0.0124	1.23		0.0024	1.35	
<i>ln (Market Value<sub>t</sub>)</i>	+/-	-0.0281	1.50		-0.0236	1.38		0.0006	0.19	
<i>Restatement<sub>t</sub></i>	+/-	0.0497	0.75		-0.0165	0.27		0.0070	0.66	
<i>TobinsQ<sub>t</sub></i>	+	0.6834	11.56	***	-0.0105	0.19		-0.0032	0.34	
<i>TobinsQ<sub>t-1</sub></i>	+	0.0870	1.24		-0.0522	0.81		0.0172	1.54	
<i>Returns<sub>t</sub></i>	+	0.0991	1.42		0.0344	0.54		0.0353	3.16	***
<i>Returns<sub>t-1</sub></i>	+	-0.0463	0.85		0.1137	2.29	**	-0.0095	1.10	
<i>Roa<sub>t</sub></i>	+	0.6299	1.67	*	0.7878	2.28	**	0.1721	2.87	***
<i>Roa<sub>t-1</sub></i>	+	0.7941	1.95	*	0.1215	0.33		0.3662	5.65	***

<i>Capital Expenditures<sub>t</sub></i>	+/-	-0.0942	0.20		-0.8345	1.94 *	-0.2151	2.89 ***
<i>Research and Development<sub>t</sub></i>	+/-	1.0318	1.70 *		0.0068	0.01	-0.0771	0.84
<i>Intangible Assets<sub>t</sub></i>	+/-	0.2042	1.95 *		0.0436	0.46	-0.0385	2.33 **
<i>Adj. R-Square</i>			0.831			0.030		0.367
<i>F-Value</i>			79.22 ***			2.49 ***		10.30 ***

*Notes.* n = 458. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Industry and year fixed effects are included. Insignificant control variables have been deleted. All variables are defined in Appendix B.

**TABLE 10 Conditional Probit Regressions**

**Panel A: Duality Ends Conditional on Firm Performance and CEO Entrenchment**

<b>DEP. VAR.</b>	=	<b>All Observations</b>				<b>PSM Sample</b>	
		<b>Duality Ends<sub>t+1</sub></b>					
		<b>Estimate</b>	<b>Chi-Sq.</b>		<b>Estimate</b>	<b>Chi-Sq.</b>	
<i>Intercept</i>	+/-	-0.1368	5.84	**	0.5428	7.32	***
<i>Ceo Duality Proposal<sub>t,x</sub> Low Roa<sub>t-1</sub></i>	+/-	0.7601	4.11	**	2.1146	4.62	**
<i>Ceo Duality Proposal<sub>t,x</sub> High Roa<sub>t-1</sub></i>	+/-	-0.0079	0.49		0.9810	2.03	
<i>Ceo Duality Proposal<sub>t,x</sub> Low Eindex<sub>t-1</sub></i>	+/-	0.2253	4.93	**	0.2852	6.45	**
<i>Ceo Duality Proposal<sub>t,x</sub> High Eindex<sub>t-1</sub></i>	+/-	0.0620	1.50		0.1857	0.59	
<i>Ceo Duality Proposal<sub>t</sub></i>	+/-	0.0372	2.24		0.0138	0.08	
<i>Low Roa<sub>t-1</sub></i>	+/-	0.8031	9.34	***	1.3463	4.89	**
<i>High Roa<sub>t-1</sub></i>	+/-	-0.0899	0.28		-0.1642	1.71	
<i>Low Eindex<sub>t-1</sub></i>	+/-	1.3364	5.35	**	1.0803	3.48	*
<i>High Eindex<sub>t-1</sub></i>	+/-	-0.0899	1.90		-0.4668	0.41	
<i>Pseudo R-Square</i>			0.234			0.354	
<i>Max - Rescaled R-Square</i>			0.350			0.505	
<i>Likelihood Ratio</i>			1255.34	***		197.58	***
<i>ROC Area Under Curve</i>			0.896			0.881	

TABLE 10 (continued)

<b>Panel B: CEO Turnover Conditional on Firm Performance and CEO Entrenchment</b>						
<b>DEP. VAR.</b>	<b>All Observations</b>			<b>PSM Sample</b>		
	<b><i>Ceo Turnover</i><sub>t+1</sub></b>					
	<b>Estimate</b>	<b>Chi-Sq.</b>		<b>Estimate</b>	<b>Chi-Sq.</b>	
<i>Intercept</i>	-2.0420	11.28 ***		-1.6894	65.10 ***	
<i>Ceo Duality Proposal<sub>t</sub> x Low Roa<sub>t-1</sub></i>	0.2117	9.39 ***		1.0943	5.87 **	
<i>Ceo Duality Proposal<sub>t</sub> x High Roa<sub>t-1</sub></i>	0.0547	0.02		-0.0706	0.54	
<i>Ceo Duality Proposal<sub>t</sub> x Low Eindex<sub>t-1</sub></i>	0.2736	4.82 **		1.1542	5.22 **	
<i>Ceo Duality Proposal<sub>t</sub> x High Eindex<sub>t-1</sub></i>	0.1538	0.08		0.0730	0.50	
<i>Ceo Duality Proposal<sub>t</sub></i>	0.0302	1.61		1.0723	4.82 **	
<i>Low Roa<sub>t-1</sub></i>	0.2030	6.17 ***		2.1345	5.03 **	
<i>High Roa<sub>t-1</sub></i>	-0.3207	4.54 **		-0.8284	1.56	
<i>Low Eindex<sub>t-1</sub></i>	0.1923	1.61		0.5505	0.49	
<i>High Eindex<sub>t-1</sub></i>	-0.3905	5.53 **		-1.5513	3.05 *	
<i>Pseudo R-Square</i>		0.121			0.326	
<i>Max - Rescaled R-Square</i>		0.214			0.493	
<i>Likelihood Ratio</i>		607.55 ***			171.56 ***	
<i>ROC Area Under Curve</i>		0.857			0.887	

*Notes.* n = 4,460. *Low Roa<sub>t-1</sub>* is 1 if the company's *Roa* in year *t-1* is in the first quartile of *Roas* for all observations in Compustat with complete data to estimate *Roa*, 0 otherwise. *High Roa<sub>t-1</sub>* is 1 if the company's *Roa* in year *t-1* is in the fourth quartile of *Roas* for all observations in Compustat with complete data to estimate *Roa*, 0 otherwise. *Low Eindex<sub>t-1</sub>* is 1 if the company's *Eindex* in year *t-1* is in the first quartile of *Eindex*s for all observations in ISS with complete data to estimate *Eindex*, 0 otherwise. *High Low Eindex<sub>t-1</sub>* is 1 if the company's *Eindex* in year *t-1* is in the first quartile of *Eindex*s for all observations in ISS with complete data to estimate *Eindex*, 0 otherwise. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Other control variables as well as industry and fixed effects are included in both Panels. All the variables are defined in Appendix B.

TABLE 11 Probit Regressions of CEO Duality Proposals and the Subsequent Firm Performance – Full Sample

DEP. VAR.	=	<i>TobinsQ<sub>t+1</sub></i>		<i>Returns<sub>t+1</sub></i>		<i>Roat+1</i>		<i>TobinsQ<sub>t+2</sub></i>		<i>Returns<sub>t+2</sub></i>		<i>Roat+2</i>	
		Estimate (t-value)		Estimate (t-value)		Estimate (t-value)		Estimate (t-value)		Estimate (t-value)		Estimate (t-value)	
<i>Intercept</i>		-0.1482 *** (2.56)		0.2283 *** (2.88)		-0.0273 * (1.89)		-0.1245 *** (2.89)		-0.1570 *** (2.69)		-0.0303 ** (2.42)	
<i>Ceo Duality Proposal<sub>t</sub> X Duality Ends<sub>t+1</sub></i>		-0.0340 *** (3.50)		-0.0253 * (1.92)		-0.0142 ** (2.31)		-0.0359 *** (3.04)		-0.0967 ** (2.41)		-0.0794 ** (2.56)	
<i>Ceo Duality Proposal<sub>t</sub> X Ceo Turnover<sub>t+1</sub></i>		0.0534 *** (2.81)		0.0610 ** (2.09)		0.0065 *** (2.64)		0.0245 ** (2.25)		0.0400 ** (2.16)		0.0206 ** (2.13)	
<i>Duality Ends<sub>t+1</sub></i>		-0.0163 (0.93)		-0.0157 (1.19)		-0.0048 (1.16)		-0.0131 (0.90)		-0.0914 (1.35)		-0.0089 (1.18)	
<i>Ceo Turnover<sub>t+1</sub></i>		0.0817 *** (3.63)		0.0816 *** (3.08)		0.0072 ** (2.09)		0.1016 *** (3.05)		0.0430 ** (2.51)		0.0104 ** (2.05)	
<i>Ceo Duality Proposal<sub>t</sub></i>		0.0042 (0.12)		0.0249 (0.09)		0.0020 (0.39)		-0.0092 (0.18)		-0.0776 (0.60)		-0.0053 (0.68)	
<i>Other Controls</i>		Yes		Yes		Yes		Yes		Yes		Yes	
<i>Adj. R-Square</i>		0.804		0.098		0.362		0.680		0.018		0.187	
<i>F-Value</i>		566.12 ***		17.36 ***		80.30 ***		254.58 ***		3.22 ***		28.95 ***	

Notes. n = 4,460. \*, \*\*, and \*\*\* denote two-tailed statistical significance at 10, 5, and 1 percent, respectively. Standard errors are clustered by firm. Industry and year fixed effects are included. All variables are defined in Appendix B. Similar results are found for the PSM sample.

## 5. CONCLUSION

More than twenty years ago, Finkelstein and D'Aveni (1994) published their seminal study on CEO duality and board leadership. Scores of studies later, CEO duality and its consequences remain one of the most controversial areas in the governance literature. The controversy surrounding CEO duality is even more conspicuous today as shareholders of some of the largest U.S. companies are increasingly introducing resolutions to create an independent chairman of the board (Lublin, 2012; Larcker and Tayan, 2016). This shift has garnered support and praise from both governance experts and regulators (Monks and Minow, 2008) despite the lack of consensus in the literature on whether CEO duality is beneficial or harmful to a company.

In this study, we address the following questions: (1) What are the drivers influencing shareholders to introduce a proposal to end CEO duality? (2) Are there any consequences of such a proposal? and (3) whether the proposal passed or not? We show that certain characteristics of the firm's CEO, board, and financial performance are associated with a shareholder proposal (and vote) to end CEO duality. We also show that prior financial performance (ROA) and CEO entrenchment have the highest marginal effect on the probability of a company considering such a proposal. With respect to consequences, we do not find an (overall) association between these proposals and the successful splitting of both roles.

However, a closer inspection reveals that the impact is influenced by CEO entrenchment and firm performance (ROA). Specifically, when financial performance is poor or the CEO is not entrenched, shareholder proposals to end CEO duality are more likely to be successful (i.e., CEO duality ends) or lead to CEO turnovers. Overall it appears that shareholder proposals to end CEO duality are associated with improvements in future financial performance. But further analysis reveals that financial performance only improves if the CEO leaves; if CEO duality ends, there is a negative impact on future financial performance most likely due to the internal confusion created by the change (Lacker and Tayan, 2016). Thus, shareholder proposals to end CEO duality may have an effect on the firm's operations, but not always in the direction that shareholders anticipated. Based on our research, shareholders would be better off to demand a new CEO rather than demand a change in leadership structure.



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