

Shareholder Democracy in Play: Career Consequences of Proxy Contests[☆]

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Abstract

This paper shows that proxy contests have a significant adverse effect on careers of incumbent directors. Following a proxy contest, directors experience a significant decline in number of directorships not only in the targeted company, but also in other non-targeted companies. The results are established using the universe of all proxy contests during 1996-2010. To establish that this effect of proxy contests is causal, we use within-firm variation in directors' exposure to proxy contests and exploit the predetermined schedule of staggered boards that only allows a fraction of directors to be nominated for election every year. We find that nominated directors relative to non-nominated ones lose 45% more seats on other boards. We discuss that this pattern can be expected if proxy contest mechanism imposes a significant career cost on incumbent directors.

Keywords: Proxy contests; Directors; Corporate governance; Agency problems.

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1. Introduction

Shleifer and Vishny (1997) explain that “corporate governance deals with the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment.” The fundamental feature of corporate governance is shareholders’ right to elect directors to represent their interests. This shareholder representation by the board of directors is a central component of corporate governance. For corporate governance to be effective, shareholders who are dissatisfied with a board’s performance must have a mechanism to replace directors. If shareholders’ impact on electing and replacing directors is weak, so is the connection between owners and managers.

The purpose of this paper is to investigate whether proxy contests affect the careers of directors whose companies have been targeted. Specifically, the paper aims to shed light on whether shareholders are able impose a career cost on directors when they are dissatisfied with firm performance. This question is particularly important in today’s environment when activist shareholders often demand reforms in corporate governance. For example, the process of shareholders nominating directors (“proxy access”) was at the heart of the recent (failed) proxy-access reform that was motivated by the Dodd-Frank Act. Proponents of the reform argued its necessity in increasing the power of shareholders to be able to elect or remove directors from the board (Bebchuk, 2007). On the other hand, critics of this view argued that shareholders already have tools to hold directors accountable (Bainbridge, 2006).

Shareholders have two main tools to remove poorly performing directors. First, shareholders can use uncontested election. Prior literature has shown that attempts to remove directors through uncontested elections have not been effective. In regular elections, shareholders cannot technically vote against a director, but instead can only withhold their authority to vote in favor of a nominee. Most US firms have plurality voting rules in uncontested elections, and as result, removing directors in uncontested elections is almost impossible. Specifically, a director can be re-elected even if just a few shareholders votes for him. The prospect of shareholders having an effective voice in removing directors in uncontested elections seems limited, and directors do not appear to suffer reputational effects from low votes (Cai et al., 2009).

The second mechanism shareholders have is to discipline directors through proxy contests. Dissatisfied shareholders can nominate an alternative slate of directors by initiating a proxy contest and therefore provide all shareholders with a clear alternative to incumbent nominees. Nevertheless, no evidence exists supporting the idea that directors who are targeted in proxy contests suffer any career consequences. Moreover, existing evidence has led to the conclusion that proxy contests are rarely successful (e.g., Pound, 1988; DeAngelo and DeAngelo, 1989; Ikenberry and Lakonishok, 1993).

Using hand-collected data on all proxy contests during 1996-2010, this paper fills the gap in the literature and studies whether proxy contests have an impact on the careers of incumbent directors. In contrast to "normal" shareholder meetings when shareholders have no real choice in terms of board nominees, incumbent directors face a direct threat of replacement in 75% of proxy contests because dissident shareholders nominate an alternative slate of candidates. That is, corporate elections in these cases resemble real democracy.

We show that proxy contests are associated with significant adverse effects on the careers of incumbent directors. First, following a proxy contest, incumbents lose seats from targeted boards. Four years after the proxy contest, more than 80% of the directors will not be on the board of the targeted company. Most importantly, following a proxy contest, directors experience a significant decline in other board seats held. The total number of other directorships falls by more than 30% over the five years after the proxy contest.³ Overall, facing a direct threat of removal is associated with losing more than one board seat over following five years, which corresponds to more than \$1.9 million in foregone income for the median incumbent director.⁴

We next move to establish the causal effect of proxy contests on director careers. The challenge in empirically identifying the causal effect of proxy contests is to find a suitable counterfactual to convincingly isolate the proxy contest effect. The targeted companies are not random. A potential alternative, for example, is that activist shareholders might have

³The results are robust when we account for director time-invariant characteristics, firm time-varying characteristics, and also when we hold firm and director matches constant.

⁴Outside directorships also provide prestige that broadens the director's network and visibility (e.g., Mace, 1986).

no effect on career of incumbent directors; instead, the directors of the targeted companies were directors of poorly performing companies and therefore were expected to lose seats on the boards in which they held directorships, even in the absence of the proxy contest. To address this and other alternative explanations, we suggest a new instrument for a director to face contested nomination.

Our instrument starts with the observations that more than 50% of the boards are staggered. In a staggered board structure, directors are divided into separate classes serving staggered terms, with only one class of directors up for reelection at a given annual shareholder meeting. As a result some of the directors in the staggered boards have “protection” from being voted out even if the company is targeted in the proxy contest. This protection depends only on the predetermined schedule of the staggered terms. We use whether the director has protection due to the staggered board structure as an instrument for facing contested nominations. Specifically, within the same targeted company we compare change in other directorships for directors that can be replaced (i.e., nominated) and change in other directorships for directors that cannot be replaced (i.e., non-nominated). Thus our instrument exploits plausibly exogenous within-firm variation in a director’s exposure to being nominated for election, by exploiting the predetermined schedule of staggered boards that only allows a fraction of directors to be replaced every year. The main evidence shows that nominated directors lose more directorships than non-nominated directors. Specifically, nominated directors lose on average 0.65 directorships whereas non-nominated directors are expected to lose 0.44 directorships. The results suggest the career cost imposed on nominated directors is almost 60% higher than the career cost imposed on non-nominated directors. Our analysis using the instrument further validates that proxy contests have significant career effects for directors.

We next investigate two potential mechanisms that drive the incremental effect of contested nomination on careers of incumbent directors. First, we provide evidence that nominated directors receive more media coverage than non-nominated directors. Second, we observe that nominated directors face the possibility of being voted out, and being voted out has a strong negative effect on a director’s career. Whereas incumbent nominees who keep their seats are expected to lose 0.36 seats, incumbent nominees who are fired by shareholders

are expected to lose 0.81 seats.

The final part of the analysis investigates whether the effect of proxy contests varies with observed director or proxy contest event characteristics. We find that independent incumbent directors experience more severe loss of other directorships than insider incumbent directors.

Overall, the results indicate the proxy-contest mechanism imposes a significant career cost on incumbent directors. Following a proxy contest, incumbent directors are likely to lose directorships in both targeted and non-targeted companies. Therefore, the proxy-contest mechanism is effective in imposing significant career costs on incumbent directors.

Our results expand the literature in several dimensions. This paper is the first to establish that activist shareholders who nominate an alternative slate of directors do indeed impose career effects. Prior literature has shown that attempts to remove directors through regular elections were unsuccessful (Cai et al., 2009). Furthermore, our results contribute to the literature that investigates the influence of activist shareholders on the corporate governance structure of firms. Several survey articles have shown that shareholders' main tool, shareholder proposals, is weak and ineffective in eliciting change in the targeted firm (e.g., Black, 1998; Karpoff, 2001; Romano, 2001; Gillan and Starks, 2007). Del Guercio et al. (2008), on the other hand, provide evidence that "just vote no" campaigns have more potential to prod directors to act. In addition, we contribute to the body of research on the labor market for directorships (e.g Fama and Jensen, 1983; Kaplan and Reishus, 1990; Gilson, 1990; Coles and Hoi, 2003; Harford, 2003; Srinivasan, 2005; Fich and Shivdasani, 2007). Finally, the results have implications for the discussion on reforming corporate governance in US public firms. Our results show that through proxy fights, activist shareholders can impose a career cost on directors. The career cost that can be imposed by the proxy-contest mechanism makes this mechanism an effective disciplinary device (Fos, 2013).

The rest of the paper is organized as follows. Section 2 summarizes the institutional background and describes the data. Section 3 documents the effect of proxy contests on directorships in targeted companies. Section 4 presents the results on the effect of proxy contests on the number of directorships in other companies. Section 5 analyzes the heterogeneity in the effect of proxy contests on the careers of incumbent directors. Finally, section 6 concludes.

2. Institutional Background and Sample Description

2.1. Institutional Background

In this section, we summarize the procedure of the contested solicitation of votes. During a proxy contest, dissidents and incumbents forward proxy solicitation materials to shareholders, who sign and return the proxy form of their preferred group. The agents for each group accumulate votes via the returned proxies and cast these votes at the shareholders' meeting. This process is known as the contested solicitation of votes.

In the incident of a contested solicitation of votes, the following forms are submitted to the SEC through EDGAR: a preliminary proxy statement in connection with contested solicitations (PREC14A) and a definitive proxy statement in connection with contested solicitations (DEF14A). We use submissions of these forms to identify the proxy contest events. Alexander, Chen, Seppi, and Spatt (2010), Norli, Ostergaard, and Schindele (2010), and Fos (2013) use a similar approach to identify proxy contests.

There are three main types of proxy contests: control contests, short-slate contests, and issue contests. Control contests are filed by shareholders who want to gain control over the board. Short-slate contests are targeted to getting a few non-controlling seats on the board. Although control contests and short-slate contests both involve contested elections of directors, issue contests do not involve the election of the firm's board of directors. Issue contests either raise issues about the company's corporate governance or are related to proposals management excludes from the proxy statement.⁵

2.2. Data Sources

We compile data from several sources. Director-level data on directorships held come from BoardEx. We collected data on proxy contests from the EDGAR.

⁵Rule 14a-8 of the Securities Exchange Act of 1934 gives the shareholder who meets certain threshold requirements the right to require management to include his proposal in management's proxy materials. Rule 14a-8, commonly referred to as the "shareholder proposal rule", states that to be eligible to submit a proposal, a shareholder must either have continuously held at least \$2,000 in market value or 1% of the company's securities for at least one year, or be a registered holder. Management, however, may exclude an eligible proposal from the proxy materials if the proposal relates to an election for membership on the company's board of directors or if the proposal directly conflicts with one of the company's own proposals.

The sample of companies targeted by proxy contests (hereafter “targets”) is constructed as in Fos (2013). First, we identified all filings of either PREC14C or DEFC14A forms using an automatic searching script, which checks for the existence of either PREC14C or DEFC14A forms in EDGAR for each company in the Compustat universe. This method identifies *all* contested solicitations of votes in the universe of Compustat companies. Next, we manually checked the sample of these filings and identified proxy contest events during 1996-2010. The final sample is the universe of all proxy contests during 1996-2010 and consists of 935 unique proxy contests, implying that more than 10% of public companies experienced a proxy contest during the sample period.

Next, we hand-collected detailed information about targeted boards, incumbent nominees, and dissident nominees from proxy statements. The information about targeted boards includes board structure (unitary or staggered), board size, and number of directors nominated for re-election. In addition, we collect information on proxy contest outcomes. Specifically, we separate proxy contests that did not proceed to the final voting stage (either due to settlement or withdrawal) and proxy contests shareholders resolved through voting. Table 1 shows that of the 935 proxy contests in the years 1996-2010, 706 (75%) involved contested nomination of directors. Of those, 296 proceeded to the final voting stage (i.e., not settled or withdrawn). For the 296 proxy contests that involved shareholder voting, we collected information on winning and losing candidates, as well as information on the number of votes each candidate received.

[Insert Table 1 here]

Finally, we hand-matched information on companies and directors involved in proxy fights with information from Boardex. We matched the company data based on CIK and company name. We matched directors by company affiliation and name. We matched 616 of the companies and 5,175 of the directors involved in proxy contests. Furthermore, we acquired information from Boardex on the directorships held by directors not involved in proxy contests. Boardex provides the director profiles of board members of over 9,000 U.S. public and private companies since 1999. From these profiles, we collected information on a director’s current and past positions as board members. Furthermore, Boardex contains

information on whether an individual is an independent director.

2.3. Main Sample Overview

Figure 1 presents the time distribution of proxy contests during the sample period, during which an average of 62 proxy contests take place each year. Figure 1 indicates that proxy contests have become more frequent over time. The pattern is consistent with recent evidence, which shows that other incidences of shareholder activism have become more frequent over time (e.g., Gillan and Starks, 2000; Del Guercio et al., 2008). The increase in the frequency of proxy contests is partially due to the rise of activist hedge funds that specialize in running short-slate campaigns (Brav et al., 2008; Fos, 2013).

[Insert Figure 1 here]

Next, we compare characteristics of targeted and non-targeted boards during the pre-proxy contest year. Table 2 reports the results. The evidence indicates that targeted boards are characterized by larger board size (statistically insignificant), by longer tenure of board members, by higher average age of board members, and by a higher percentage of female directors. For example, the average tenure of board members on targeted boards is 7.31 years and is 0.95 years longer than the average tenure of board members on non-targeted boards.

[Insert Table 2 here]

Finally, we compare characteristics of incumbent directors and dissident nominees. Table 3 reports the results. The evidence suggests no significant difference between incumbent directors and dissident nominees in terms of tenure, number of board seats held, proportion of female directors, and total compensation. Dissident nominees, however, are older than incumbent nominees.

[Insert Table 3 here]

In the next section, we study whether proxy contests shape the careers of incumbent directors. We begin with section 3, where we study whether proxy contests are effective in

removing incumbent board members during a proxy contest. Then, in section 4, we assess the career consequences of proxy contests by studying the effects on the directorships in non-targeted companies.

3. Results: Directorships in Targeted Company

In this section, we study whether proxy contests are effective in removing incumbent board members from boards of targeted companies. Panel A of Table 4 reports the proportion of directors who remain on the board of the firm facing a proxy contest. We analyze changes during the five years following the proxy contest. Because many firms appoint directors for three-year terms (i.e., staggered board structure), the five-year window ensures that a reappointment decision has occurred for each director following the proxy contest. We find that three years after the proxy contest, only 43% of the original directors retain their board seats. The fraction drops to 18.7% four years after the event.

[Insert Table 4 here]

We next adopt the linear regression methodology that allows us to control for director and firm time-invariant heterogeneity as well as for the endogenous matching between firms and directors. To perform the analysis, we estimate the following regression:

$$y_{dit} = \alpha + \sum_{\tau=1}^5 \beta_{\tau} Post_{it+\tau} + \eta_e + \eta_{ed} + \varepsilon_{dit}, \quad (1)$$

where y_{dit} is the number of seats director d of company i holds in the targeted company during year t (either 0 or 1), $Post_{it+\tau}$ indicates τ years after company i is targeted in a proxy contest, η_e are firm-event year fixed effects, and η_{ed} are firm-event year-director fixed effects. The sample covers all BoardEx directors-year observations.

Panel B of Table 4 presents the results. In columns (1), (2), and (3), we impose $\beta_{\tau} = \beta$ for all τ . The coefficient of $Post$ indicates that after a proxy contest, 42%-44% of directors are expected to not hold their seats in targeted companies. Column (4) shows how directors lose seats over time. For example, three years after the proxy contest, 52% of directors lose their

seats; that is only 48% of directors remain on boards of targeted companies. These results are consistent with Panel A, which indicates that three years after the proxy contest, 43.5% of director lose their seats in targeted companies. The results are stable among specifications and are highly statistically significant. Thus directors are losing seats in targeted companies after experiencing a proxy contests.

4. Career Effects - Directorships in Other Companies

In this section, we assess the career consequences of proxy contests by studying directorships in non-targeted companies.

4.1. Graphical Analysis

We begin our analysis by illustrating the outside directorships in a five-year window around a proxy contest. Figure 2 presents the evolution of the average number of seats in other boards for directors of companies that are targeted in proxy contests. The time is measured in event time, where zero is the year of the proxy contest. Figure 2 shows that the number of seats in other companies is stable the years before the proxy contest. After the company is targeted in proxy contests, the average number of seats that directors hold in other companies drops from 2.2 seats the years before the event to 1.8 seats two years after the proxy contest (a 18% reduction) and 1.5 seats five years after the proxy contest (32% reduction). The graphical analysis shows that after the proxy contest, directors experience a decline in the number of other seats they are holding, consistent with proxy contests having negative career consequences. The analysis below investigates these effects more closely.

[Insert Figure 2 here]

4.2. Regression Analysis

We seek to estimate the effect of proxy contests on a director's career. We begin the analysis from studying the effect of experiencing a proxy contests on the number of directorships using director-firm-level data. To perform the analysis, we estimate the following regression:

$$y_{dit} = \alpha + \beta_1 Post_{it} + \eta_{di} + \eta_t + \eta_{it} + \varepsilon_{dit}, \quad (2)$$

where y_{dit} is the number of seats held by director d of company i on boards of other companies during year t , $Post_{it}$ indicates five years after company i is targeted in a proxy contest, η_{di} are director by firm fixed effects, η_t are year fixed effects, and η_{it} are firm by year fixed effects. The sample covers all BoardEx director-year observations. We record changes in directorships held by directors for five years following the event. Because many firms appoint directors with staggered three-year terms, the five-year window ensures a reappointment decision has occurred for each director following the event.

[Insert Table 5 here]

Table 5 reports the results. The evidence reported in column (1) suggests that after experiencing a proxy contest, directors are likely to lose directorships. For example, the total number of directorships in other companies is expected to decrease by 0.8 from five years before the proxy contest to five years after the proxy contest. Importantly, the effect is significant not only statistically but also economically. It corresponds to a 30% reduction in the number of directorships. Overall, the evidence suggests that experiencing a proxy contest is associated with significant adverse effect on the number of directorships.

To highlight the economic significance of the effect, we calculate wealth equivalent to directorships lost in proxy contests. The evidence suggests that a director that experiences a proxy contest is expected to lose on average 1.2 directorships (0.4 seats on the targeted company's board and 0.8 seats on other boards). An average incumbent director has 12 years until retirement (the average age of incumbent directors is 60) and is paid \$0.144 million per year. Therefore, ignoring the time value of money, being targeted in proxy contest is equivalent to losing \$1.9 million over 12 years. And this monetary calculation does not capture the additional value directorships have in terms of providing prestige and broadening the director's network and visibility.

A natural question concerns whether these changes would have happened even without the director's companies being targeted in the proxy contest. We next address possibly endogenous sources of variation in the number of directorships. First, dissident shareholders might target companies before periods when incumbent directors are likely to lose seats even in the absence of a proxy contest. To address this concern, we augment regression (2) with

year fixed effects. The results are reported in column (2) and indicate time-series variation in the number of directorships is not likely to explain the results.

Second, one might argue that the results might be driven by firms that have high turnover, or some unobserved director characteristic, or the match of firms and directors. To address this concern, we augment regression (2) with firm-director fixed effects. The results are reported in column (3) and indicate that firm-director-level variation in number of directorships is not likely to explain the results. Although the economic effect is lower in this specification, it remains highly statistically and economically significant. When we augment regression (2) with both year and firm-director fixed effects, the results are almost unchanged, further supporting robustness of the results.

Next, we estimate the effect of a proxy contest on number of directorships within a company. That is, we augment regression (2) with firm-year fixed effects. Evidence in column (5) suggests the adverse effect of proxy contests remains significant when we control for any firm level time-varying unobservable sources of variation. It implies that the results cannot be driven by any observable or unobservable time-varying firm characteristic. For example, poor stock performance cannot explain the evidence.

4.3. The Causal Effect of Contested Nomination

Although the fixed effects account for several potential sources of variation that might correlate with the number of seats a director holds, one remaining concern is that some time-varying unobserved characteristics might lead a director to lose seats in other companies and might be correlated with the directors being targeted in a proxy contest. To address this concern and empirically identify the causal effect of proxy fights on directors' careers, we suggest a new instrument for a director to face a contested election.

Our instrument starts with the observation that more than 50% of the US public companies boards are staggered (Bebchuk et al., 2002).⁶ In a staggered board structure, directors are divided into separate classes serving staggered terms, with only one class of directors

⁶A company may have a unitary or a staggered board. In a unitary board structure, all directors stand for election at each annual meeting. By contrast, in a staggered board structure, directors are divided into (typically three) separate classes serving staggered terms.

up for re-election at a given annual shareholder meeting. Thus in staggered boards, some directors have “protection” from being voted out even if the company is targeted in the proxy contest. Being protected depends only on the schedule of the staggered terms, which is predetermined. Table 6 exemplifies this point. It shows an example of a company with a staggered board. The board consists of nine directors divided in three classes, A, B, and C. Each year only one class is up for re-election. For example, if the company is targeted in the proxy contest in 2004, only class B directors are up for re-election and can be voted out, while the rest are protected and are not nominated for re-election.

[Insert Table 6 here]

We use whether the director has protection due to the staggered board structure as an instrument for facing contested nomination or not. Specifically, within the same targeted company we compare change in other directorships for directors that can be replaced (i.e., nominated) and change in other directorships for directors that cannot be replaced (i.e., non-nominated). Thus our instrument exploits plausibly exogenous within-firm variation in the director’s exposure to being nominated for election by exploiting the predetermined schedule of staggered boards that only allows a fraction of directors to be replaced every year. The identifying assumption is that being in the election cycle during the year a company is targeted in a proxy contest affects the number of seats on unrelated boards only because it exposes the director to the contested nomination. Our identification assumptions allows directors to have heterogeneous responses to the treatment (i.e., contested nomination) and for dissidents to select the timing for targeting the company, as long as in the absence of the proxy contest the number of seats in other companies held by nominated (i.e., treated) and non-nominated (i.e., non-treated) directors would follow a similar path.

To further support our claim that the staggered board structure is exogenous and does not correlate with director characteristics, we examine the characteristics of directors who are in an election cycle during the proxy-fight year and thus are not protected versus the directors who are not in an election cycle and are protected. We restrict the sample to companies that have staggered boards and experience a contested nomination. Table 7 reports the results.

[Insert Table 7 here]

We find no differences in observable characteristics between nominated and non-nominated directors during one, two, and three years prior to the proxy contest. The directors do not differ in age, independence, gender, CEO positions, compensation, tenure in the company, and years to retirement. Importantly, the difference between nominated and non-nominated directors is insignificant not only statistically but also economically. Thus the evidence reveals no differences between nominated and non-nominated directors prior to the proxy contest.

To further support the validity of our identification strategy, we check how often dissidents' proxy statements mention specific incumbent nominees. Because proxy statements are the main communication channel between dissidents and other shareholders, one would expect the names of personally targeted directors to appear in these statements if dissidents go after these directors. To perform the analysis, we hand-collected and analyzed proxy statements submitted by dissident shareholders in all contested nominations. We find that only 5% of directors are mentioned in the dissident proxy statements. In most cases, the dissident proxy statements have a general statement that expresses the dissatisfaction with the way the board of directors runs the company.⁷ Furthermore, we do not find evidence that dissidents target specific directors. This evidence, along with results reported in Table 7, further confirms our assertion that the predetermined staggered board cycles provide exogenous variation in which board members are nominated for election.

To evaluate the causal effect of proxy contests on the careers of incumbent directors, we estimate the following regression:

$$y_{dit} = \alpha + \beta_1 Post_{it} + \beta_2 Nominated_{di} + \beta_3 Post_{it} * Nominated_{di} + \eta_e + \varepsilon_{dit}, \quad (3)$$

where y_{dit} is the number of other directorships director d of company i holds during year t , $Post_{it}$ indicates five years after company i is targeted in a proxy contest, $Nominated_{di}$

⁷For example, Kensington Investment Group (the dissident shareholder) describes performance of Malan Realty Investors's board (the target) as follows: ‘‘*We are particularly dissatisfied with the Board's actions to entrench itself and management. We believe that the Board is only interested in retaining control of the Company. As a result, we are seeking your support to elect a new Board of Directors.*’’ The proxy statement can be found at <http://www.sec.gov/Archives/edgar/data/914735/000095012300003424/0000950123-00-003424.txt>.

indicates incumbent directors nominated for election when company i is targeted in a proxy contest, and η_e are firm by event year fixed effects. The sample covers BoardEx directors-year observations for companies with a staggered board structure. Standard errors are clustered by firm to account for the fact that we observe multiple directors from the same firm.

Table 8 reports the results. Column (1) suggests that in the sample of companies with a staggered board structure, directors are likely to lose directorships in other companies after a proxy contest. Further supporting the validity of the instrument, estimates in column (2) indicate no difference in the number of other directorships between nominated and non-nominated directors: the coefficient of *Nominated* is statistically and economically close to zero.

[Insert Table 8 here]

The main evidence is reported in columns (3) and (4). The estimated coefficient of the interaction between *Post* and *Nominated* is reported in column (3) and suggests nominated directors are expected to lose more directorships than non-nominated directors. Specifically, nominated directors are expected to lose 0.65 directorships, whereas non-nominated directors are expected to lose 0.44 directorships. The results suggest the career cost imposed on nominated directors is almost 60% higher than the career cost imposed on non-nominated directors.

Next, in column 4, we augment specification 3 with firm by event year fixed effects. Therefore, we analyze the difference in career consequences for nominated and non-nominated directors within firms. Estimated coefficients remain almost unchanged, indicating that firm-specific observable characteristics do not drive the incremental effect of being nominated in a proxy contest on the number of other directorships.

In Table 9, we report results of several robustness tests. First, we repeat the analysis excluding directors whom the dissident proxy statements mentioned explicitly (as we mentioned earlier, only 5% of directors were mentioned in the dissident proxy statements). The results are reported in Panel A and are similar to the main results reported in Table 8, indicating that 5% of directors who are mentioned in the dissident proxy statements do not drive the results.

[Insert Table 9 here]

Next, we consider a sub-sample of firms that have been targeted only once. The idea is to sharpen the analysis by verifying that directors who are not nominated for re-election in the proxy contest year do not receive the treatment in the following years (i.e., nominated during a follow-up proxy contest). In this sub-sample, we expect to find a stronger difference between the effects on careers of nominated and non-nominated directors. The results, reported in Panel B of Table 9, indicate the main results hold in this sub-sample. For example, column (3) shows that non-nominated directors are expected to lose 0.44 directorships, whereas nominated directors are losing on average 0.77 directorships. Thus the career cost imposed on nominated directors is almost 75% higher than the career cost imposed on non-nominated directors. Confirming our conjecture, the difference between effects on careers of nominated and non-nominated directors is stronger in this sub-sample.

Overall, the results indicate the proxy-contest mechanism imposes a significant career cost on incumbent directors. Incumbent directors are likely to lose directorships in both targeted and non-targeted companies. Importantly, the effect is not limited to targeted companies: being nominated for re-election during the proxy-contest year increases the likelihood of losing directorships in other companies as well. It implies that by studying targeted companies only, one significantly underestimates the career consequences of proxy contests. In the next section, we provide additional results that help us understand why exposure to contested nominations is associated with an incremental effect on careers of incumbent directors.

4.4. Potential Mechanisms

In this section, we investigate two potential mechanisms that drive the incremental effect of contested nominations on the careers of incumbent directors. First, we provide evidence that nominated directors receive more media coverage than non-nominated directors. Second, we observe that nominated directors face the possibility of being voted out, and being voted out has a strong negative effect on a director's career.⁸

⁸Although our analysis provides evidence consistent with these two mechanisms, we do not exclude other channels that might also stand behind the incremental effect of contested nominations on the careers of incumbent directors.

4.4.1. Media Coverage

To analyze the media coverage, we manually collect information on directors covered by the media in news related to the proxy-contest event. Our primary source of data is Factiva. We search the comprehensive database of news reports over the range beginning one year before announcement of the proxy contest until one year after the meeting date. Overall we find more than 11,700 articles covering news related to the proxy contests, and 784 of our proxy contests have at least one coverage. On average, we find 14 news articles per proxy contest. Next, we identify which directors were covered in the news related to the proxy contest event and we find 4,045 such directors. To estimate the relation between media coverage and the proxy-contest process, we estimate the following regression:

$$Coverage_{dip} = \alpha + \beta_1 Nominated_{di} + \beta_2 After_{ip} + \beta_3 Nominated_{di} After_{ip} + \eta_e + \varepsilon_{dit}, \quad (4)$$

where $Coverage_{dip}$ indicates whether during period p director d of company i was mentioned in news related to the proxy contest, $Nominated_{di}$ indicates whether director d was nominated for re-election during the proxy contest year, $After_{ip}$ indicates the one year period after the proxy contest meeting date, and η_e are firm by event year fixed effects. Table 10 presents the results on the media coverage of nominated and non-nominated directors during proxy contests.

[Insert Table 10 here]

Column (1) of Table 10 shows that nominated directors receive more media coverage than non-nominated directors. The probability that a non-nominated director is covered by media is 31%, and the probability that a nominated director is covered by media is 40%, that is, almost 30% higher. Column (2) indicates that all directors are more likely to receive media coverage after a proxy contest meeting. The probability of being covered by the media increases from 31% before the meeting date to 38% after the meeting date, corresponding to a 22.5% increase in intensity of media coverage.⁹

⁹In unreported tests, we examine the tone of the media coverage at the company level. We use the Loughran and McDonald (2011) negative word list to gain a measure of document tone. We find that the

The main results are reported in columns (3) and (4). Column (3) shows that the difference in media coverage between nominated and non-nominated directors is larger after the proxy-contest meeting. Although the change in media coverage is weak for non-nominated directors, it is strong for nominated directors: the differences-in-differences estimate is 11% and is highly statistically significant. As column (4) indicates, the result is robust when we compare nominated and non-nominated directors within the same company.¹⁰ Overall, the evidence suggest that relative to non-nominated directors, nominated directors receive more media coverage after the proxy-contest meeting date.

4.4.2. Voting Outcomes of Contested Elections

A second channel that might drive the incremental effect of contested nominations is the possibility of being voted out by shareholders. If being voted out, which is equivalent to being fired, has a strong impact on a director’s career, then the staggered board structure creates heterogenous exposure to this career risk. To better understand the effect of losing contested elections on careers of directors, we estimate the following regression:

$$y_{dit} = \alpha + \beta_1 Post_{it} + \beta_2 Lostseat_{di} + \beta_3 Post_{it}Lostseat_{di} + \sum_{q=1}^3 \gamma_q closeness_{di}^q + \sum_{p=1}^3 \gamma_p closeness_{di}^p Lostseat_{di} + \varepsilon_{dit}, \quad (5)$$

where y_{dit} is the number of seats director d of company i holds on boards of other companies during year t , $Post_{it}$ indicates five years after contested election in company i , $Lostseat_{di}$ indicates incumbent director d that lost his seat in the contested election when company i was targeted, and $closeness_{di}$ measures the closeness of the voting outcome. The closeness of the voting outcome is defined as $(vote_{di} - medvote_i) / medvote_i$, where $vote_{di}$ is the number of votes director d receives in a contested election in company i and $medvote_i$ is the median of the number of votes received by the ”worst winner” and ”best loser”. The ”worst winner” is the elected nominee who receives the lowest number of votes. The ”best loser”

tone of the documents becomes more negative in the period after the meeting. Although we cannot conclude that a specific director receives more negative coverage, the evidence supports this conjecture.

¹⁰The results are also robust for controlling for the intensity of the coverage.

is the non-elected nominee who receives the highest number of votes. The sample covers all BoardEx directors-year observations during the five-year period around proxy contests and is restricted to directors that experienced contested elections. Table 11 reports the results.

[Insert Table 11 here]

We begin from the basic specification, in which we do not control for the closeness of the voting outcome (i.e., $\gamma_q = \gamma_p = 0$). Results are reported in column (1). The coefficient of *Lostseat* indicates that prior to the contested election, no significant differences exist between directors who lose and keep their positions. The coefficient of *Post* indicates that directors who keep their positions are expected to lose directorships in other companies. The main evidence comes from the coefficient of the interaction term, which is negative and statistically significant. The estimate indicates that an incumbent nominee who loses his position in a contested election is expected to experience more severe career consequences than an incumbent nominee who keeps his position. The economic magnitude is large: Whereas incumbent nominees who keep their seats are expected to lose 0.36 seats, incumbent nominees who are fired by shareholders are expected to lose 0.81 seats. That is, the career effect on fired directors is more than 100% larger than on directors who keep their seats.

One concern with this result is that voting outcome is not random and is related to the quality of the nominated director. For example, a better director might receive more votes and also lose fewer seats on other boards. Although it is evident from uncontested election that the effect of director quality on voting outcome is small (Cai et al., 2009), we next investigate this relation in the contested-election environment. To address this concern, we include polynomials in the measure of closeness of voting outcome, interacted with the *Lostseat* indicator (Cunat et al., 2012). Estimates, reported in columns (2), (3), and (4) of Table 11, indicate the results are robust to controlling for linear, quadratic, and cubic polynomial in the closeness measure. Thus the negative career effect resulting from losing a contested election cannot be explained by weak directors receiving fewer votes. Instead, directors who merely win and merely lose the contested election are likely exposed to a differential treatment.

Overall, results reported in this section indicate that being fired by shareholders is associated with severe negative career consequences for incumbent nominees, even after controlling for the number of votes the nominee receives. Being nominated for re-election during the proxy contest exposes incumbent directors to this negative effect. Therefore, the evidence shows nominated directors experience more severe career consequences than non-nominated directors.

5. Career Effects: Director and Event Characteristics

In this section, we study the heterogeneity in the effect of the proxy contest on careers of incumbent directors. To perform the analysis, we estimate the following regression:

$$y_{dit} = \alpha + \beta_1 Post_{it} + \beta_2 Interaction_{di} + \beta_3 Post_{it} * Interaction_{di} + \eta_e + \varepsilon_{dit}, \quad (6)$$

where y_{dit} is the number of seats director d of company i holds on boards of other companies during year t , $Post_{it}$ indicates five years after company i is targeted in a proxy contest, $Interaction_{di}$ is the interaction variable we use to study the heterogeneity in the career effect, and η_e is firm-event year fixed effect. The sample covers all BoardEx directors-year observations during the five-year period around the proxy contests. Table 12 reports the results.

[Insert Table 12 here]

We begin from heterogeneity in director-level characteristics. First, in columns (1) and (2), we explore the effect of proxy contests on the career of independent incumbent directors. Prior research has studied the role of independent directors in monitoring and advising the CEO and emphasized the role of independent directors in board composition (Weisbach, 1988; Bhagat and Black, 2002; Hermalin and Weisbach, 2003; Knyazeva and Masulis, Forthcoming). The estimated coefficient of the interaction term indicates that independent directors experience significantly stronger career effects. An independent director is expected to lose 0.20 directorships more (45% more seats) than non-independent directors (column

(2)).¹¹ In summary, we find that proxy contests impose a stronger adverse effect of careers of independent directors relative to non-independent directors.

Next, we examine the effects on directors who have ever served as CEOs of other companies. Directors who have served as CEOs of other companies constitute an interesting sub-sample because they have a significant stock of reputation at stake. The results reported in columns (3) and (4) indicate no significant difference between directors who have ever been CEO and all other directors.

Finally, we examine whether the career effects vary with event characteristics. Column (5) shows no difference in the career effects of proxy contests when the incumbent and dissident slates are of equal size. Finally, column (6) shows that the career effects of proxy contests are not significantly stronger when all board seats are up for re-election.

6. Conclusion

Using hand-collected data on all proxy contests during 1996-2010, this paper studies whether such contests affect the careers of incumbent directors. We show that proxy contests are associated with significant adverse effects on the careers of incumbent directors: following a proxy contest, incumbents lose seats not only on targeted boards, but also on other unrelated boards. For example, facing a direct threat of removal is associated with losing more than one board seat over the following five years, which corresponds to more than \$1.9 million in foregone income for the average incumbent director. The results are robust when we account for director time-invariant characteristics, firm time-varying characteristics, and also when we hold firm and director matches constant.

We suggest a new instrument for a director to face contested election. Our instrument starts with the observation that more than 50% of the boards are staggered. In a staggered board structure, directors are divided into separate classes serving staggered terms, with only one class of directors up for re-election at a given annual shareholder meeting. Thus

¹¹The effect is stronger than the effect on non-independent directors both in absolute terms (independent directors lose more directorships) and in relative terms (independent directors lose higher share of directorships they hold).

in companies with staggered board structures, some of the directors have “protection” from being voted out even if the company is targeted in the proxy contest. This protection depends only on the schedule of the staggered terms, which is predetermined. We use whether the director has protection due to the staggered board structure as an instrument for facing a contested nomination. Specifically, within the same targeted company we compare change in other directorships for directors that can be replaced (i.e., nominated) and change in other directorships for directors that cannot be replaced (i.e., non-nominated). Our analysis using the instrument further validates that proxy contests have significant career effects for directors.

In the final part of the paper, we show that losing a seat in contested elections (i.e., being fired by shareholders) is associated with significant negative effects on the number of board seats in other companies. Moreover, we show that nominated directors receive more intensive media coverage, especially after the outcome of the proxy contest becomes public. These two results help reconcile why contested nominations are associated with an incremental negative effect on the careers of incumbent nominees.

Overall, the results indicate the proxy-contest mechanism imposes a significant career cost on incumbent directors. Following a proxy contest, incumbent directors are likely to lose directorships in both targeted and non-targeted companies. Therefore, the proxy-contest mechanism is effective in imposing significant career costs on incumbent directors. Importantly, the effect is not limit to targeted companies: it increases the likelihood of losing directorships in other companies as well. Therefore, by studying only targeted companies, one significantly underestimates the career consequences of proxy contests.

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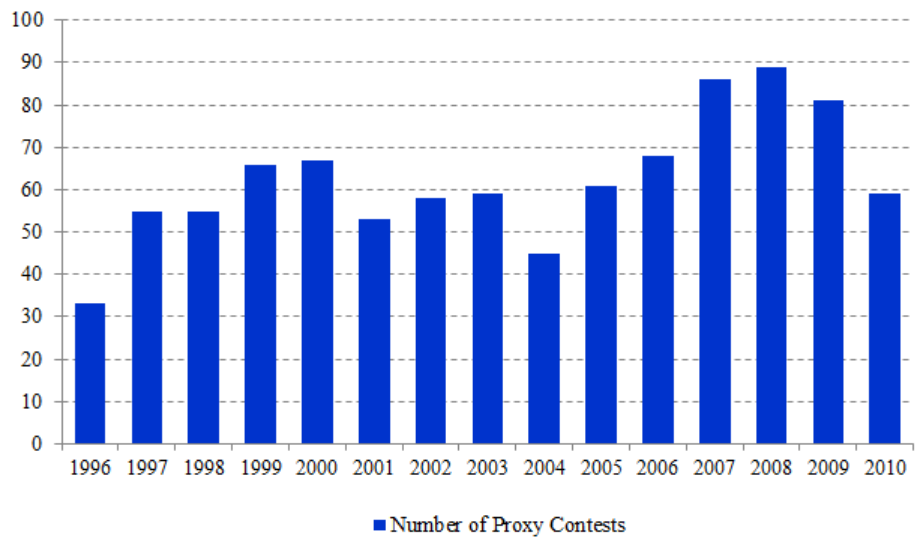


Figure 1: **Time Distribution of Proxy Contests.** The dark bars (left axis) plot the number of proxy contests initiated each year.

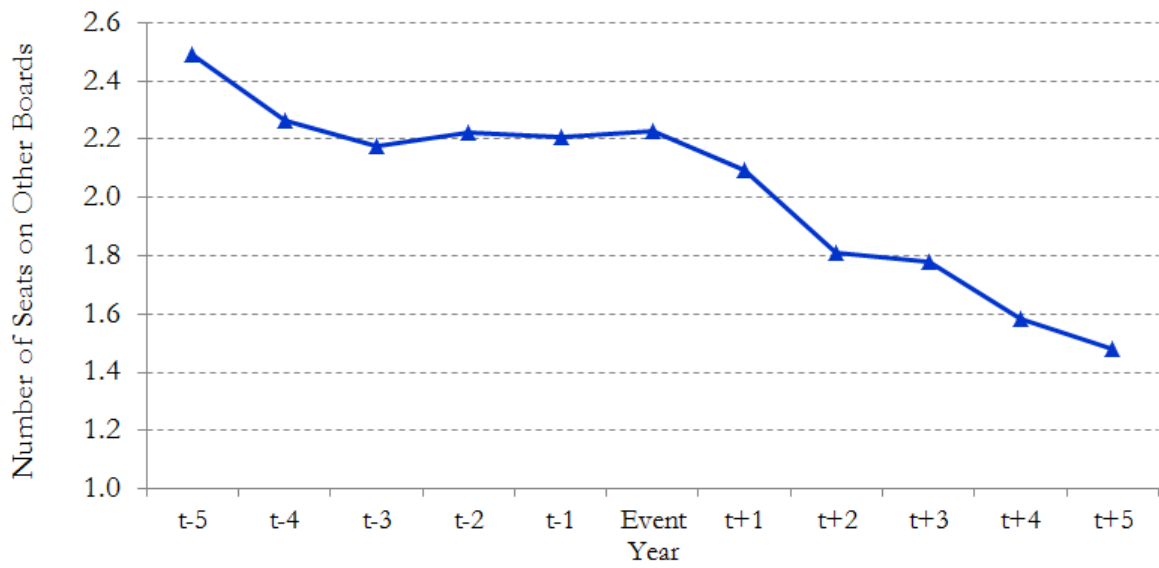


Figure 2: **Number of Seats on Other Boards.** The solid line plots the average number of seats on other boards held by directors that experience a contested nomination during a proxy contest, from three years prior to the announcement of a proxy contest to five years afterward.

Table 1: **Time Distribution of Proxy Contests.** This table reports the time distribution of proxy contests. Column (1) reports the total number of proxy contests (see section 2 for the definition of a proxy contest). Column (2) reports the number of proxy contests that involve contested nominations of directors. Column (3) reports the number of proxy contests that involve contested elections of directors.

| Year | Number of Proxy Contests (1) | Proxy Contests that Involve Contested Nominations of Directors (2) | Proxy Contests that Involve Contested Elections of Directors (3) |
|-------|------------------------------------|---|---|
| 1996 | 33 | 19 | 7 |
| 1997 | 55 | 40 | 13 |
| 1998 | 55 | 45 | 13 |
| 1999 | 66 | 51 | 22 |
| 2000 | 67 | 48 | 20 |
| 2001 | 53 | 42 | 17 |
| 2002 | 58 | 49 | 22 |
| 2003 | 59 | 50 | 24 |
| 2004 | 45 | 28 | 10 |
| 2005 | 61 | 36 | 9 |
| 2006 | 68 | 52 | 20 |
| 2007 | 86 | 58 | 18 |
| 2008 | 89 | 71 | 24 |
| 2009 | 81 | 70 | 39 |
| 2010 | 59 | 47 | 38 |
| Total | 935 | 706 | 296 |

Table 2: **Descriptive Statistics: Targeted and Non-Targeted Boards.** This table reports differences in characteristics of targeted and non-targeted boards. *Board Size* is the average number of board members, *Tenure* is the average tenure of board members, *Age* is the average age of board members, and *Female* indicates the proportion of female directors on the board. The sample covers all BoardEx directors-year observations during the pre-proxy contest year. Column (1) reports the average characteristic for targeted boards. Column (2) reports the average characteristic for non-targeted boards. Column (3) reports the difference between columns (1) and (2). Column (4) reports the standard errors of the difference, clustered at company level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | Targets (1) | Non-Targets (2) | Difference (3) | Standard Errors (4) |
|------------|----------------|--------------------|-------------------|------------------------|
| Board Size | 8.51 | 8.27 | 0.23 | 0.14 |
| Tenure | 7.31 | 6.36 | 0.95*** | 0.22 |
| Age | 59.86 | 56.87 | 2.99*** | 0.26 |
| Female | 0.09 | 0.07 | 0.02*** | 0.01 |

Table 3: Descriptive Statistics: Incumbent Directors and Dissident Nominees. This table reports differences in characteristics of incumbent directors and dissident nominees. *Tenure* is the average tenure of board members, *Female* indicates the proportion of female directors on the board, *Number of Board Seats* is the number of directorships held, *Age* is the age of a board member or a nominee, and *Total Compensation* is defined as salary plus bonus. The sample covers all BoardEx directors-year observations during the pre-proxy contest year. Column (1) reports the average characteristic for incumbent directors. Column (2) reports the average characteristic for dissident nominees. Column (3) reports the difference between columns (1) and (2). Column (4) reports the standard errors of the difference, clustered at director level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| | Incumbent Directors (1) | Dissident Nominees (2) | Difference (3) | Standard Errors (4) |
|-----------------------|-------------------------------|------------------------------|-------------------|---------------------------|
| Tenure | 7.97 | 8.18 | 0.21 | 0.33 |
| Female | 0.11 | 0.11 | 0.00 | 0.02 |
| Number of Board Seats | 3.18 | 3.16 | 0.02 | 0.14 |
| Age | 60.53 | 61.20 | -0.67* | 0.39 |
| Total Compensation | 344.23 | 271.77 | 72.46 | 52.70 |

Table 4: Directorships in Targeted Companies. This table presents the effect of being a proxy-contest target on the directorships in the targeted company. Panel A reports the average percentage of directors remaining on the boards of the targeted companies during the five-year period after the proxy contest. In panel B, we report estimates of the following regression: $y_{dit} = \alpha + \sum_{\tau=1}^5 \beta_{\tau} Post_{it+\tau} + \eta_e + \eta_{ed} + \varepsilon_{dit}$, where y_{dit} is the number of seats director d of company i holds in the targeted company during year t (either 0 or 1), $Post_{it+\tau}$ indicates τ years after company i is targeted in a proxy contest, η_e are firm-event year fixed effects, and η_{ed} are firm-event year-director fixed effects. In columns (1), (2), and (3), we impose $\beta_{\tau} = \beta$ for all τ . The sample covers all BoardEx directors-year observations. In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and are clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Panel A | | | | | |
|-------------------|---|--|--|--|--|
| Year around Event | Percentage of directors remaining on the boards of targeted company | | | | |
| | (1) | | | | |
| Event Year | 100.0% | | | | |
| t+1 | 79.2% | | | | |
| t+2 | 62.3% | | | | |
| t+3 | 43.5% | | | | |
| t+4 | 18.7% | | | | |
| t+5 | 10.0% | | | | |

| Panel B | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Dependent variable: Total number of seats in targeted company | | | | |
| | (1) | (2) | (3) | (4) |
| Post (t+1)-(t+5) | -0.44*** [0.03] | -0.42*** [0.03] | -0.42*** [0.03] | |
| Post (t+1) | | | | -0.24*** [0.02] |
| Post (t+2) | | | | -0.41*** [0.03] |
| Post (t+3) | | | | -0.52*** [0.04] |
| Post (t+4) | | | | -0.61*** [0.04] |
| Post (t+5) | | | | -0.66*** [0.04] |
| Constant | 1.00*** [0.00] | 0.99*** [0.01] | 0.99*** [0.01] | 1.00*** [0.01] |
| <i>N</i> | 19,303 | 19,303 | 19,303 | 19,303 |

Table 5: **Career Effects of Proxy Contests.** This table presents the effect of being a proxy-contest target on number of directorships. We estimate the following regression: $y_{dit} = \alpha + \beta_1 Post_{it} + X_{it}\gamma + \eta_{di} + \eta_t + \eta_{it} + \varepsilon_{dit}$, where y_{dit} is the number of seats director d of company i holds in other (non-targeted) companies during year t , $Post_{it}$ indicates years after company i is targeted in a proxy contest, X_{it} is the vector of firm-level controls, η_{di} are director-firm fixed effects, η_t are year fixed effects, and η_{it} are firm-year fixed effects. The sample covers all BoardEx directors-year observations. The vector of firm-level controls includes the natural logarithm of market cap, return on assets, the percentage of shares held by institutional investors, and the annual stock return. In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and are clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: Total number of seats on other boards | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Post (t+1)-(t+5) | -0.80*** [0.11] | -0.78*** [0.12] | -0.47*** [0.06] | -0.35*** [0.06] | -0.34*** [0.03] | -0.41*** [0.13] |
| Constant | 2.67*** [0.03] | 3.13*** [0.08] | 2.67*** [0.00] | 3.02*** [0.02] | 2.15*** [0.04] | 2.67*** [0.01] |
| <i>N</i> | 737,702 | 737,702 | 737,702 | 737,702 | 251,438 | 737,702 |
| Year FE | No | Yes | No | Yes | No | No |
| Director x Firm FE | No | No | Yes | Yes | Yes | No |
| Firm x Year FE | No | No | No | No | No | Yes |
| Controls | No | No | No | No | Yes | No |

Table 6: **Staggered Board - An Example.** This table shows an example of a company with a staggered board. The board consists of 9 directors divided in 3 classes, A, B, and C. Each year only 1 class out of the 3 can be up for election. Therefore, if the company is targeted in the proxy contest in 2004, only the directors in class B can be up for election and can be voted out, whereas the rest are protected and cannot be up for election.

| Director | Class | Election Year |
|----------|----------|---------------|
| 1 | A | 2003 |
| 2 | A | 2003 |
| 3 | A | 2003 |
| 4 | B | 2004 |
| 5 | B | 2004 |
| 6 | B | 2004 |
| 7 | C | 2005 |
| 8 | C | 2005 |
| 9 | C | 2005 |

Table 7: Staggered Board Structure and Director Characteristics. This table reports differences in characteristics of nominated and non-nominated directors. We estimate the following regression: $y_{dit} = \alpha + \beta_1 Nominated_{di} + \varepsilon_{dit}$, where y_{dit} is a characteristic of director d of company i during year t and $Nominated_{di}$ indicates whether director d was nominated for re-election during the proxy-contest year. *Female* indicates female directors, *Total Compensation* is total compensation in \$1,000, *CEO* indicates directors who are also CEOs, *Independent* indicates independent directors, *Tenure* is director's tenure in the company, *Age* is age of the director, and *Years to Retirement* is the number of years until retirement (*72-Age*). The sample covers all BoardEx directors-year observations and is restricted to companies with a staggered board structure. In Panel A the sample is restricted to the pre-proxy contest year ($t - 1$). In Panel B the sample is restricted to the year which is two years before the proxy-contest year ($t - 2$). In Panel C the sample is restricted to the year which is three years before the proxy-contest year ($t - 3$). In each column, we report estimated coefficients and heteroscedasticity robust standard errors, clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: | Female (1) | Total Compensation (2) | CEO (3) | Independent (4) | Tenure (5) | Age (6) | Years to Retirement (7) |
|----------------------|-------------------|------------------------------|-------------------|--------------------|-------------------|--------------------|-------------------------------|
| Panel A: ($t - 1$) | | | | | | | |
| Nominated | -0.01 [0.02] | -10.53 [78.22] | 0.03 [0.02] | -0.03 [0.03] | 0.13 [0.50] | 0.30 [0.48] | -0.30 [0.48] |
| Constant | 0.12*** [0.01] | 190.84*** [44.98] | 0.09*** [0.01] | 0.72*** [0.02] | 7.66*** [0.26] | 59.86*** [0.30] | 12.14*** [0.30] |
| Panel B: ($t - 2$) | | | | | | | |
| Nominated | 0.01 [0.02] | -46.39 [106.89] | 0.00 [0.02] | -0.02 [0.03] | 0.17 [0.56] | 0.02 [0.53] | -0.02 [0.53] |
| Constant | 0.11*** [0.01] | 310.28*** [98.85] | 0.10*** [0.01] | 0.72*** [0.02] | 7.47*** [0.30] | 59.39*** [0.32] | 12.61*** [0.32] |
| Panel C: ($t - 3$) | | | | | | | |
| Nominated | -0.01 [0.03] | 42.46 [48.78] | 0.02 [0.03] | -0.03 [0.04] | 0.34 [0.64] | -0.15 [0.61] | 0.15 [0.61] |
| Constant | 0.12*** [0.02] | 203.63*** [28.79] | 0.10*** [0.01] | 0.74*** [0.02] | 7.31*** [0.33] | 58.98*** [0.36] | 13.02*** [0.36] |

Table 8: **Causal Effect of Contested Nomination.** This table reports estimates of the effect of contested nominations on the number of directorships in firms with a staggered board structure. We estimate the following regression: $y_{dit} = \alpha + \beta_1 Post_{it} + \beta_2 Nominated_{di} + \beta_3 Post_{it} * Nominated_{di} + \eta_e + \varepsilon_{dit}$, where y_{dit} is the number of seats director d of company i holds on boards of other companies during year t , $Post_{it}$ indicates years after company i is targeted in proxy contest, $Nominated_{di}$ indicates whether director d was nominated for re-election during the proxy-contest year, and η_e are firm-event year fixed effects. The sample covers all BoardEx directors-year observations during the five-year period around the proxy contest and is restricted to companies with a staggered board structure. In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and to within correlation clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: Total number of seats on other boards | | | | |
|---|--------------------|-------------------|--------------------|--------------------|
| | (1) | (2) | (3) | (4) |
| Post | -0.47*** [0.11] | | -0.39*** [0.11] | -0.44*** [0.10] |
| Nominated | | 0.07 [0.17] | 0.15 [0.17] | 0.01 [0.12] |
| Post*Nominated | | | -0.23** [0.11] | -0.21** [0.10] |
| Constant | 2.42*** [0.22] | 2.19*** [0.20] | 2.37*** [0.23] | 2.44*** [0.07] |
| Firm x Event Year FE | No | No | No | Yes |
| N | 10,353 | 10,353 | 10,353 | 10,353 |

Table 9: **Causal Effect of Contested Nomination: Robustness Tests.** This table reports estimates of the effect of contested nominations on the number of directorships in firms with a staggered board structure. We estimate the following regression: $y_{dit} = \alpha + \beta_1 Post_{it} + \beta_2 Nominated_{di} + \beta_3 Post_{it} * Nominated_{di} + \eta_e + \varepsilon_{dit}$, where y_{dit} is the number of seats director d of company i holds on boards of other companies during year t , $Post_{it}$ indicates years after company i is targeted in proxy contest, $Nominated_{di}$ indicates whether director d was nominated for re-election during the proxy contest year, and η_e are firm-event year fixed effects. The sample covers all BoardEx directors-year observations during the five-year period around the proxy contest and is restricted to companies with a staggered board structure. Panel A reports estimates in the sub-sample of directors who are not mentioned in proxy statements submitted by dissident shareholders. Panel B reports estimates in the sub-sample of companies targeted only once (i.e., we drop companies that are targeted more than once). In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and to within correlation clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: Total number of seats on other boards | | | | |
|--|---------------------|-------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| Panel A: Nominees who are not mentioned by dissidents | | | | |
| Post | -0.47*** [0.11] | | -0.39*** [0.11] | -0.44*** [0.10] |
| Nominated | | 0.14 [0.17] | 0.21 [0.18] | 0.03 [0.13] |
| Post*Nominated | | | -0.22* [0.12] | -0.21** [0.11] |
| Constant | 2.44*** [0.23] | 2.19*** [0.20] | 2.37*** [0.23] | 2.45*** [0.07] |
| Panel B: Companies that are targeted only once | | | | |
| Post | -0.56*** [-3.39] | | -0.44*** [-2.63] | -0.49*** [-2.84] |
| Nominated | | -0.06 [-0.24] | 0.07 [0.29] | -0.09 [-0.54] |
| Post*Nominated | | | -0.33** [-2.36] | -0.33** [-2.48] |
| Constant | 2.37*** [6.57] | 2.15*** [6.53] | 2.35*** [6.31] | 2.43*** [24.06] |
| Firm x Event Year FE | No | No | No | Yes |
| <i>N</i> | 10,353 | 10,353 | 10,353 | 10,353 |

Table 10: **Media Coverage.** This table studies the media coverage of nominated and non-nominated directors during proxy contests. We estimate the following regression: $Coverage_{dip} = \alpha + \beta_1 Nominated_{di} + \beta_2 After_{ip} + \beta_3 Nominated_{di} After_{ip} + \eta_e + \varepsilon_{dit}$, where $Coverage_{dip}$ indicates whether during period p director d of company i was mentioned in news related to the proxy contest, $Nominated_{di}$ indicates whether director d was nominated for re-election during the proxy-contest year, $After_{ip}$ indicates the one-year period after the proxy-contest meeting date, and η_e are firm-event year fixed effects. News articles are collected from Factiva for the period from one year before announcement of the proxy contest to the one year after the meeting date. We restrict the sample to companies with a staggered board structure. In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and to within correlation clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: media Coverage | | | | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| Nominated | 0.09*** [0.02] | | 0.05*** [0.02] | 0.03* [0.02] |
| After | | 0.07*** [0.02] | 0.03* [0.02] | 0.03* [0.02] |
| Nominated*After | | | 0.11*** [0.03] | 0.11*** [0.03] |
| Constant | 0.31*** [0.01] | 0.31*** [0.01] | 0.30*** [0.01] | 0.30*** [0.01] |
| N | 9,249 | 9,249 | 9,249 | 9,249 |
| Firm x Event Year FE | No | No | No | Yes |

Table 11: **Election Outcomes.** This table reports estimates of the effect of contested nominations on the number of directorships for re-elected and non re-elected directors. We estimate the following regression: $y_{dit} = \alpha + \beta_1 Post_{it} + \beta_2 Lostseat_{di} + \beta_3 Post_{it}Lostseat_{di} + \sum_{q=1}^3 \gamma_q closeness_{di}^q + \sum_{p=1}^3 \gamma_p closeness_{di}^p Lostseat_{di} + \varepsilon_{dit}$, where y_{dit} is the number of seats director d of company i holds on boards of other companies during year t , $Post_{it}$ indicates five years after contested election in company i , $Lostseat_{di}$ indicates incumbent director d that lost his seat in the contested election when company i was targeted, and $closeness_{di}$ measures the closeness of the voting outcome. The closeness of the voting outcome is defined as $(vote_{di} - medvote_i) / medvote_i$, where $vote_{di}$ is the number of votes director d receives in a contested election in company i and $medvote_i$ is the median of the number of votes the "worst winner" and "best loser" receive. The "worst winner" is the elected nominee who receives the lowest number of votes. The "best loser" is the non-elected nominee who receives the highest number of votes. In column (1), we do not control for the closeness of the voting outcome (i.e., $\gamma_q = \gamma_p = 0$). In column (2), we include the linear polynomial in the closeness measure in the regression. In column (3), we include the quadratic polynomial in the closeness measure in the regression. In column (4), we include the cubic polynomial in the closeness measure in the regression. The sample covers all BoardEx directors-year observations during the five-year period around proxy contests and is restricted to directors that experienced contested elections. In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and to within correlation clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: Total number of seats on other boards | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| Post | -0.36** [0.15] | -0.33** [0.14] | -0.34** [0.14] | -0.33** [0.13] |
| Lostseat | -0.22 [0.61] | 0.33 [0.99] | 0.78 [1.00] | 2.01 [1.56] |
| Lostseat*Post | -0.45* [0.24] | -0.47** [0.23] | -0.42* [0.22] | -0.57** [0.25] |
| Constant | 2.43*** [0.21] | 2.14*** [0.30] | 2.10*** [0.30] | 2.08*** [0.34] |
| Closeness (polynomial) | None | Linear | Quadratic | Cubic |
| N | 2,727 | 2,727 | 2,727 | 2,727 |

Table 12: **Career Effects: Director and Event Characteristics.** This table reports estimates of the effect of proxy contests on the number of directorships in other companies. We estimate the following regression: $y_{dit} = \alpha + \beta_1 Post_{it} + \beta_2 Interaction_{di} + \beta_3 Post_{it} * Interaction_{di} + \eta_e + \varepsilon_{dit}$, where y_{dit} is the number of seats director d of company i holds on boards of other companies during year t , $Post_{it}$ indicates five years after company i is targeted in a proxy contest, $Interaction_{di}$ is the interaction variable, specified in each column, and η_e is firm-event year fixed effects. The sample covers all BoardEx directors-year observations during the five-year period around the proxy contests. In columns (1) and (2), the interaction variable is an indicator of an independent director. In columns (3) and (4), the interaction variable is the indicator of a director who has ever served as CEO in an other company. In column (5), the interaction variable is an indicator of contested nomination events with equal incumbent and dissident slates. In column (6), the interaction variable is an indicator of contested-nomination events with all board seats being up for re-election. In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and to within correlation clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: Total number of seats on other boards | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| Interaction: | Independent | | CEO - other | | Equal Slates | Full Slate |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Post | -0.19** [0.10] | -0.33*** [0.08] | -0.44*** [0.07] | -0.47*** [0.06] | -0.54*** [-6.77] | -0.41*** [-4.43] |
| Interaction | 0.39*** [0.14] | 0.45*** [0.08] | 1.08 [0.80] | 0.36 [1.25] | 0.43 [1.33] | 0.33 [0.44] |
| Post*Interaction | -0.34*** [0.10] | -0.20** [0.08] | 0.17 [0.54] | 0.29 [0.57] | 0.14 [0.87] | 0.12 [0.30] |
| Constant | 2.03*** [0.18] | 2.01*** [0.07] | 2.30*** [0.13] | 2.32*** [0.03] | 2.15*** [17.65] | 2.25*** [11.69] |
| Firm x Event Year FE | No | Yes | No | Yes | No | No |
| N | 19,284 | 19,284 | 19,223 | 19,223 | 14,164 | 12,329 |

Appendix A. Career Effects of Proxy Contests: Year-by-Year Results.

Table A1: **Career Effects of Proxy Contests: Year-by-Year Results.** This table presents the effect of being a proxy-contest target on number of directorships. We estimate the following regression: $y_{dit} = \alpha + \sum_{\tau=1}^5 \beta_{\tau} Post_{it+\tau} + X_{it}\gamma + \eta_{di} + \eta_t + \eta_{it} + \varepsilon_{dit}$, where y_{dit} is the number of seats director d of company i holds in other (non-targeted) companies during year t , $Post_{it+\tau}$ indicates year τ after company i is targeted in the proxy contest, X_{it} is the vector of firm-level controls, η_{di} are director-firm fixed effects, η_t are year fixed effects, and η_{it} are firm-year fixed effects. The sample covers all BoardEx directors-year observations. The vector of firm-level controls includes the natural logarithm of market cap, return on assets, the percentage of shares held by institutional investors, and the annual stock return. In each column, we report estimated coefficients and their standard errors. Standard errors are robust to heteroscedasticity and are clustered by firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

| Dependent variable: Total number of seats on other boards | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Post (t+1) | -0.59*** [0.12] | -0.61*** [0.13] | -0.21*** [0.03] | -0.13*** [0.03] | -0.21*** [0.03] | -0.26*** [0.08] |
| Post (t+2) | -0.72*** [0.11] | -0.72*** [0.12] | -0.41*** [0.06] | -0.31*** [0.06] | -0.31*** [0.04] | -0.40*** [0.14] |
| Post (t+3) | -0.85*** [0.12] | -0.81*** [0.13] | -0.61*** [0.08] | -0.49*** [0.08] | -0.44*** [0.05] | -0.43*** [0.14] |
| Post (t+4) | -1.03*** [0.13] | -0.96*** [0.14] | -0.72*** [0.09] | -0.57*** [0.09] | -0.49*** [0.07] | -0.61*** [0.21] |
| Post (t+5) | -1.16*** [0.13] | -1.07*** [0.14] | -0.88*** [0.17] | -0.71*** [0.17] | -0.58*** [0.11] | -0.71*** [0.26] |
| Constant | 2.67*** [0.03] | 3.13*** [0.08] | 2.67*** [0.00] | 3.01*** [0.02] | 2.14*** [0.04] | 2.67*** [0.01] |
| <i>N</i> | 737,702 | 737,702 | 737,702 | 737,702 | 251,406 | 737,702 |
| Year FE | No | Yes | No | Yes | No | No |
| Firm x Director FE | No | No | Yes | Yes | Yes | No |
| Firm x Year FE | No | No | No | No | No | Yes |
| Controls | No | No | No | No | Yes | No |
