Can Institutional Investors Improve Corporate Governance Through Collective Action?

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Abstract

Can institutional investors generate sufficient power through collective action to drive improvements in governance? We use proprietary data on the private communications of a formal coalition of Canadian institutional investors and find that its private engagements influenced firms' adoption of majority voting and say-on-pay advisory votes, improved compensation structure and disclosure, and influenced CEO incentive intensity. Spillovers to non-engaged firms occur through board interlocks and to firms in which the CCGG is expected to be more powerful in a voting contest. This form of activism is both a substitute and complement to other interventions to address governance concerns.

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In *The Modern Corporation and Private Property* (1932), Berle and Means warned that with the separation of corporate ownership and control, the interests of shareholders and managers may diverge and that "no shareholder is in the position to place important pressure upon the management..." (p. 84). The substantial increase in institutional ownership over the last few decades now positions institutional investors to have significant influence, particularly if they can work collectively and coordinate their efforts. But, do institutional investors work collectively? If so, do they effectively engage firms to represent shareholder interests and address governance concerns? What mechanisms are important for success? Are there limitations of shareholder engagement through collective action? These questions are of more than academic interest. Effective collective action by institutional investors provides a potentially attractive alternative to regulated solutions to governance concerns, as advocated by Berle and Means and others.

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

Our data and setting offer several advantages to identify investor-led governance changes. First, the CCGG serves as a focal point for institutional investor activism and its members use the CCGG rather than shareholder proposals or proxy fights to advance their agenda. Second, the CCGG has the potential to have significant influence with firms. During our sample period, its members collectively held an average stake of 14% (21% by value-weight) in firms included in the S&P/TSX index, the leading index in Canada. Third, the CCGG privately engages specific firms through letter writing campaigns, phone calls, and meetings with independent directors. It made its records available to us so that we could form a complete picture of its activism efforts. Our tests exploit the fact that only some firms were engaged by the CCGG on a specific governance issue in a given year. Finally, interpretation of our results is not confounded by concurrent regulatory changes. Governance in Canada is largely guideline based with a

comply-or-explain requirement and there were no mandated governance changes on the issues the CCGG focused on during our sample period.

The literature predicts activism by institutions that hold large stakes, have a long holding period, are independent, and are foreign. Such institutions are classified as "independent" or "active". Others are classified as "grey" or "passive" (Ferreira and Matos (2008)). We find that institutions with large stakes and long holding periods are members and take a leading role in the CCGG. But importantly, so do institutional owners that are usually classified as passive. For example, bank-affiliated asset managers, traditionally viewed as passive because of potential conflicts of interest, are prominent members. All members are domestic institutions.

The CCGG engaged firms on three main governance issues: majority voting for director elections, say-on-pay, and compensation structure and disclosure. Several factors explain which firms the CCGG chose to engage, but its members' total dollar stakes in a firm is the most important. We examine the extent to which engagements resulted in governance changes and find that CCGG engagements are associated with a statistically and economically significant increase in the likelihood of an improvement in governance.

We begin with simple comparisons of governance changes, with and without engagement by the CCGG. In 2005, the CCGG engaged 42% of the firms in the S&P/TSX index on majority voting. Engaged firms were more likely to subsequently adopt majority voting compared to firms not engaged by 32 percentage points. From 2008 to 2012, the CCGG conducted engagement meetings creating a direct dialogue between shareholders and firms' independent directors. The time and resources required for these meetings limited the number of firms the CCGG could engage in any given year to about 13% of firms in the index. Meeting reports made available to us show the topics raised included requests for firms to adopt say-on-pay and to make specific improvements to compensation structure and disclosure, including capped pension payouts, clawback provisions, and using and disclosing performance peer groups ("compensation policies"). For both say-on-pay and compensation policies, engaged firms were more likely to adopt by about 45 percentage points compared to firms not engaged. Finally, we test whether engagements focused on compensation were followed by changes in performance-based incentives. We find that the CEO's equity pay ratio (EPR) and pay-for-performance sensitivity (PPS) increased, but with no change in total pay.

These differences are large and attributing them to the influence of the CCGG faces potential concerns such as reverse causality and bias due to correlated omitted variables. Reverse causality is easily ruled out by the timing of the engagements and firms' subsequent adoptions. However, firms that adopted may have done so absent CCGG engagement and/or because of other external pressures. We estimate logit regressions that control for other external pressures and observable firm characteristics. With these controls, we continue to find that CCGG engagements are associated with subsequent adoptions. The probability of adopting majority voting is 18% higher for engaged firms and it is 12% and 22% higher for say-on-pay and compensation policies, respectively. There could also be unobservable differences between engaged and non-engaged firms that lead engaged firms to adopt the governance changes. We verify that the results for the 2008 to 2012 engagements for say-on-pay and compensation policies and for changes in EPR and PPS hold after controlling for unobservable differences.

Do the specific governance changes sought by the CCGG matter? The fact that CCGG members devoted financial resources and scarce management time to engage firms on these issues indicates their importance. To examine the immediate value consequences, we estimate abnormal returns around the date when the formation of the CCGG was first announced and find higher abnormal returns for firms in which CCGG members held larger stakes, i.e., those firms that were more likely to be subsequently engaged by the CCGG. Although there was significant uncertainty at this time about whether the CCGG would be successful, we still find that a movement from the 25th percentile to the 75th percentile in CCGG dollar holdings is associated with a 2.36% higher abnormal return. Evidence from other countries provides further support that the CCGG identified value enhancing governance changes. Majority voting and say-on-pay are valued by shareholders (e.g., Cuñat, Gine, and Guadalupe (2014), Cai and Walkling (2011), and Ferri and Maber (2013)) although this conclusion is not unanimous (e.g., Cai, Garner, and Walkling (2013) and Larcker, Ormazabal, and Taylor (2011)). There are benefits and costs to having clawback provisions in compensation contracts, but on net, they are associated with higher valuations (e.g., Chen, Greene, and Owers (2015) and Iskandar-Datta and Jia (2013)). Performance peer groups filter out the common factor of firms' performance measures to ensure that executives are not paid for luck (e.g., Holmstrom (1982)) and improve executives' incentives (Bettis, Bizjak, Coles, and Young (2014)). There is an extensive literature that examines pay-for-performance as a way to provide value-increasing incentives for managers (e.g., Jensen and Murphy (1990)).

A potential limitation of firm-level engagements is that the CCGG's scope of influence may be limited. Does the CCGG's impact extend to non-engaged firms? One channel that could broaden its influence is the spillover of governance practices through board interlocks (e.g., Bouwman (2011)). We test for spillovers by focusing on firms not engaged by the CCGG and identify which firms share at least one director with a firm previously engaged by the CCGG on a particular governance issue. For the majority voting initiative, we find that non-engaged firms with overlapping directors are more likely to adopt than other non-engaged firms, particularly when the overlapping directors are more influential (e.g., Fogel, Ma, and Morck (2014)). A second channel is that non-engaged firms may be more willing to make changes when the CCGG has more power to force change, if it chooses to do so. To proxy for the CCGG's potential power, we construct a measure of its potential to be pivotal in a voting contest among a firm's shareholders, i.e., its Shapley value. We find that the Shapley value predicts adoptions by non-engaged firms. Finally, we also document one important regulatory change and efforts towards "informal regulation" by defining best practices, measuring firms' governance relative to these practices, and sharing this information, which was subsequently incorporated into widely reported governance scores.

Did the CCGG make strategic and organizational decisions that enhanced its impact? The decision to seek large investors as members, regardless of type, ensured that the CCGG had a substantial stake in many firms. Firms in which the CCGG has more influence, as captured by its Shapley value, were more likely to adopt governance changes. The coalition of different types of large investors also mitigated the concern that its requests were not representative of a firm's investor base. The choice to focus much of its effort on engagement meetings with independent directors was also important because insiders who might oppose such changes were not part of the conversation. Finally, in addition to economic incentives, the CCGG leveraged social incentives to encourage firms to adopt governance changes. These efforts include repeat engagements with the same firms and restricting membership to Canadian-domiciled investors. Both decisions created a higher likelihood of repeated face-to-face contact that created reputational and social penalties for directors that did not respond to CCGG requests.

Does the CCGG's collective action approach to activism offer a compelling substitute for other governance mechanisms or is it complementary? For large, widely-held firms, the CCGG had considerable success with majority voting, say-on-pay, and compensation policies. These firms were responsive and had some flexibility as to when and how to respond, likely lowering adoption costs. The CCGG was less likely to engage controlled corporations and we find some evidence that, when engaged,

controlled corporations were less likely to respond. For non-engaged firms, the CCGG's impact was less direct and less powerful. Other interventions may be required for controlled corporations and non-engaged firms. The CCGG appears to be a complement to hedge fund activism and both a complement and substitute to proxy advisors.

Our paper contributes to the literature on institutional investor activism and governance (see Gillan and Starks (2007) and Yermack (2010) for reviews)). We provide new evidence that collective action through a formal organization of institutional investors leads to changes in firms' governance. Importantly, we observe the coordination mechanisms and channels through which the CCGG influences firms. Prior research typically focuses on total institutional ownership or ownership concentration, and with few exceptions, cannot identify specific coordination mechanisms or channels. Black and Coffee (1994) and McCahery, Sautner, and Starks (2014) survey institutional investors and find evidence of a willingness to coordinate. The Council of Institutional Investors' Focus List of underperforming firms is a well-known example of limited coordination (e.g., Opler and Sokobin (2000) and Song and Szewczyk (2003)). Huang (2013) infers when institutional investors coordinate and concludes that there are benefits to coordination. Hedge funds sometimes work in parallel in "wolf packs" but do not form formal coalitions (Brav, Dasgupta, and Mathews (2015)).

We show there is significant interest and willingness of institutional investors to engage firms. Members of this formal group include not only institutions with large holdings and long-horizons, but also institutions normally considered passive, including bank-affiliated and domestic institutions. These findings complement prior research that identifies which institutional investors are more active (e.g. Almazan, Hartzell, and Starks (2005), Chen, Harford, and Li (2007), Ferreira and Matos (2008), and Aggarwal, Erel, Ferreira, and Matos (2011)). We also confirm and reinforce the importance of observing engagements through private channels (e.g., Carleton, Nelson, and Weisbach (1998) and Becht, Franks, Mayer, and Rossi (2008)) to measure the full impact of activism efforts. Without access to information about CCGG's private engagements, one would reach different conclusions about its impact. In our setting, these private engagements precede, and where successful, replace other coordination mechanisms such as shareholder proposals and voting that are important in other settings (e.g., McCahery et al. (2014), Choi, Fisch, and Kahan (2010), and Iliev and Lowry (2015)). The paper also demonstrates how institutional investors can overcome potential legal concerns surrounding coordinated activism. As a matter of policy, the CCGG limited its activities to 'process' governance issues rather than strategic

choices which mitigated concerns that it would influence control of a firm and trigger additional disclosure requirements and other restrictions.

Finally, our paper highlights organizational choices associated with a successful formal collective action organization of institutional investors which may have broader applicability and is consistent with prior work on collective action (Olson (1965)). To maximize voice while maintaining a small group size, the CCGG opened up membership to all Canadian-based institutional investors rather than focusing on specific ownership types. To bring together a group of different investor types and to facilitate an impact with firms, the CCGG limited the scope of issues it focused on, but devoted significant effort to generate and disseminate information about them. Restricting membership to domestic investors likely enhanced the CCGG's influence through social norms as top managers of CCGG members and firms' independent directors have many repeated interactions.

The paper is organized as follows. Section 1 provides some evidence on institutional ownership of Canadian firms and discusses some challenges that limit institutional investor activism. Section 2 describes the CCGG and the private data on engagement records we exploit in our empirical tests. Section 3 presents our main empirical results on engagements and adoptions. In Section 4 we consider broader impacts, including spillovers to non-engaged firms, informal regulation, and event study results. We discuss organizational choices, why firms respond to the CCGG, and whether the CCGG is a substitute or complement for other governance mechanisms in Section 5. Section 6 concludes.

1. Institutional Ownership in Canada and Challenges that Limit Activism

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

For Canadian firms, we focus on firms included in the S&P/TSX index, the leading index for the Canadian equity market. It includes the largest, most liquid Canadian publicly-listed firms. We use institutional ownership data from Factset, including the classification scheme of institutional owners developed by Ferreira and Matos (2008). We supplement data missing from Factset with information from Capital IQ. The data from these sources originate from 13-F disclosures filed with the Securities and Exchange Commission as well as interim and annual reports, early warning reports (for 10% holders), and alternative monthly reports (AMR's) filed by investors with the Ontario Securities Commission.

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

Although aggregate institutional ownership is substantial, each individual institution typically holds a small stake, leading to the well-known free rider problem. That is, an individual investor bears all of the costs of governance engagements but reaps only a small percentage of the benefits, leading to limited engagement activity in equilibrium (e.g., Admati, Pfleiderer, and Zechner (1994)). The extent to which ownership is concentrated may influence activism. To measure concentration we use the Hirschman-Herfindahl index (HHI). It squares and sums the ownership stakes and ranges from 0 to 10,000. For example, if there are 100 institutional owners and each owns 1% of a firm, the HHI is 100. Figure 1B shows that in Canada the HHI of institutional investors is 196 in 2005. In comparison, the HHI for the U.S. and U.K. is 256 and 78, respectively. Again, results are similar in 2012.

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

A third challenge is the need to overcome legal and regulatory obstacles to firm engagements by a group of institutional investors. The rules in Canada limit selective disclosure by firms to specific investors. If a group is considered to be acting "jointly or in concert" and has sufficient voting rights, there are additional public disclosure obligations, a potentially costly public formal solicitation, and takeover rules can be triggered. Similar legal obstacles to collective action are found the U.S. and U.K. (see Black (1998), McCahery et al. (2014), and the Collective Engagement Working Group (2013)). In 2001, following earlier changes in the U.S. in 1992, Canada made changes to the Canada Business Corporation Act to relax proxy solicitation rules, relieving doubts that communications between investors when an investor was not seeking proxy authority, would constitute a solicitation.[1]

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

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

2.1. The CCGG as a Focal Point for Governance Activism

On June 27, 2002 two prominent investors that were active in governance announced their intent to form the CCGG. They were joined by a number of other important institutional investors. The announcement was covered in the national and international press. The press releases and media commentary noted that the recent change in legal rules facilitated the creation of such an organization.[2] The founders hoped that the CCGG would act as "the voice of the shareholder". By the spring of 2003 CCGG hired a prominent Canadian independent director as managing director and created a high profile board. The board was chaired by the chair of UBS Canada, previously the Canadian federal government finance minister, and included chief executives of the institutional investors that joined the CCGG.

Over our sample period from 2005 to 2012, the CCGG was the main vehicle that its members used to advocate for the governance changes that are the focus of this paper. To confirm the importance of the CCGG we searched for signs of investor activity through other channels on these governance issues. First, we gathered data on shareholder proposals and found 108 related proposals.[3] However, only two (smaller) CCGG members were active, filing eight of these proposals. Second, we looked for evidence of investor

[1] Bill S-11 to amend the CBCA, final approval, June 14, 2001.
[2] See Dan Westell, "Canadian investors focus on governance," *Financial Times*, July 1, 2002.
[3] We use a list compiled by SHARE.ca. We code each shareholder proposal by category and restrict our attention to proposals related to majority voting, say-on-pay, and compensation structure and disclosure.

involvement in lawsuits on these issues and found one case.[4] Finally, we looked through 13D filings which indicate potential activity for firms with U.S. listings. We found two filings by CCGG members, but neither filing was related to governance issues addressed by the CCGG.[5]

For our study, an attractive feature of the Canadian setting is that governance is largely principles-based with a mandatory "comply or explain" approach for some governance issues (Anand, Milne, and Purda (2012)). During our sample period none of the governance changes advocated by the CCGG (at the time of the engagements) were required by corporate law, listing rules, or regulators. Canada does not have a national securities regulator. Instead, the formal regulatory structures include provincial and territorial security commissions and stock exchange listing requirements.[6] This contrasts with the U.S. where legislators and regulators periodically impose new governance requirements on firms (e.g., changes following the Sarbanes-Oxley and Dodd-Frank acts). If investors in Canadian firms put a lower probability on such regulatory interventions it enhances their incentives to act on their own. It is also easier for researchers to identify an impact of investors' actions because there is less concern that governance changes followed from mandatory requirements, or anticipation of their introduction.

2.2. Who Joins the Collective Action Group?

To predict which institutions are active, the institutional investor activism literature focuses on the tradeoff between the costs and benefits of activism for an individual investor. The characteristics of institutional investors that join the CCGG could be the same as those identified in this literature, e.g., independent institutions with large, long-term holdings. The collective action literature focuses more on factors that allow groups to avoid an uncooperative outcome. Olson (1965) discusses the importance of small group size and the ability of the group to provide specific benefits to members separate from the shared benefits that arise from the group's activities. Ostrom (2000), in a review of the evidence, highlights the role of mutual trust in overcoming the free rider problem. It is aided by some actors who are "norm using" and willing to initiate cooperative behavior with the belief that a sufficient proportion of

[4] Three CCGG members (the Canada Pension Plan Investment Board, RBC Global Asset Management, and Connor, Clark, and Lunn Investment Management) filed a lawsuit to force disclosure of director voting results for Magna in 2011. See Janet McFarland, "Mike Harris lacked shareholder support as Magna chairman," *The Globe and Mail*, December 7, 2011.

[5] In 2007, two CCGG members, the Canada Pension Plan Investment Board and the Ontario Teachers' Pension Plan made bids as part of an unsuccessful private equity purchase of BCE In 2009, the Ontario Teachers' Pension Plan was involved in the merger of PetroCanada.

[6] While the provincial and territorial security commissions cooperate through an umbrella organization called the Canadian Securities Administrators (CSA), the enforcement of securities regulation takes place within the provincial and territorial jurisdictions.

others will reciprocate. Both Olson (1965) and Ostrom (2000) point to the importance of face-to-face communication for the creation of social rewards and penalties. If social incentives are important, we predict membership by domestic rather than foreign investors as domestic investors are likely to have more frequent and repeated face-to-face contact.

We first examine the characteristics of institutions that join the CCGG. We then examine the characteristics of the institutions that are active members of the CCGG (sit on the board and/or a working-group of the CCGG). These roles require additional time and effort from a top executive (the member's representative with the CCGG is almost always the CEO or CIO).

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

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

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

Controlling for economic interest, are other characteristics important? In models (1) and (5) we introduce a dummy to identify banks, insurers, pension plans, endowments, and sovereign wealth funds

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

from other institutions. Ferreira and Matos (2008) classify these institutions as grey, and thus, more likely to be passive ("Grey Institution"). In models (2) and (6), we use an alternative definition of grey that also includes bank-affiliated asset managers. Regardless of the definition, we find no evidence that grey institutions are less likely to join or be an active member of the CCGG. In (1) and (2), the coefficient is positive and significant while it is not significant in (5) or (6).

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

Perhaps more interesting is the result that bank-insurer-affiliated institutions are more likely to join the CCGG and take an active role in the later period after the CCGG established itself. This contrasts with the view that such affiliated, or grey, institutions are less likely to engage in activism (Ferreira and Matos (2008)). The coefficient on the interaction term with bank-insurer-affiliated institution dummy is positive and significant in both models (4) and (8). These institutions were more willing to join the CCGG in later years and were more willing to take an active role. This is important because in terms of equity holdings, bank-affiliated asset managers account for a significant fraction of Canadian institutional equity holdings.

A central factor in participation is the economic interest of the institution, with independence not playing a significant role. Active involvement costs (e.g., senior management time) are borne by institutions with the most significant economic interest, as are direct fees, making costs roughly proportional to benefits.[8] One interpretation is that this collective action vehicle provides a mechanism

[8] The absolute dollar amount of fees changes over time, but the process has remained the same. "Fees are based on total assets under management (AUM). The annual fee for members with total AUM below $3.5 billion is $5,458.

that enables investors that are otherwise presumed to be passive or conflicted to become more active. Moreover, as a result of the involvement of various types of investors, no one type of investor dominates decision making. We return to this point later, as it may help explain why firms are responsive to CCGG requests for governance changes.[9]

2.3. The CCGG's Voice

To maximize voice, the CCGG focused on scale of holdings rather than investor type. The resulting size and importance of its members, along with the broad representation of institutional investor types, gives the CCGG influence with firms it engages and a strong claim as "the voice of the shareholder".

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

Figure 2B shows there is variation in CCGG ownership across firms at the beginning of the sample period in 2005 and at the end in 2012. In 2005, in more than 15% of firms, CCGG members held stakes of less than 4% while at the same time their stakes exceeded 20% in 20% of firms. Finally, CCGG members invest similarly compared to other Canadian institutional investors but invest in different types of firms compared to foreign institutional investors (not reported). The correlation between CCGG ownership and foreign ownership is only 0.136. For CCGG members there is no statistically significant difference in their ownership of widely-held firms and controlled firms (those with a shareholder with a stake of 20% or more, a significant minority of Canadian firms). Foreign institutional investors own significantly smaller stakes in controlled corporations. This is consistent with prior literature that finds foreign investors invest less in firms with weaker governance (e.g., Leuz, Lins, and Warnock (2009)).

As the AUM increases above $3.5 billion, the fee escalates on a straight line basis, for $1,516 for every billion to a maximum of $38,202." (CCGG Annual Report, 2012, p. 23).

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

In its communications with firms, the CCGG regularly highlighted these collective stakes. But it was mindful to make clear that legally, individual members retained their right to vote on any proxy proposals and were not required to vote with the group. In addition, as discussed in more detail below, the CCGG focused its engagements on 'process' issues rather than on issues that might be viewed as influencing the control of a firm. These steps ensured that CCGG members were not considered a group for purposes of securities regulation, which would have triggered additional disclosures and other restrictions.[10]

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

The CCGG's strategic agenda includes working in the policy arena, developing and broadcasting best practices and guidelines, and directly engaging with firms' boards to promote good corporate governance policies and practices. Our empirical analysis focuses on the engagements. These engagements were done privately and information about them was not made public. The private records made available to us specify the timing of the engagements, the identity of the engaged firms, the meeting attendees, and the specific governance issues discussed.

In these engagements, the CCGG pursued several specific governance campaigns. The first campaign focused on majority voting for directors, with the goal of improving shareholder democracy. In 2003, directors in all Canadian firms (except one) were elected by a plurality of votes cast so that in uncontested elections, directors could be elected with a single vote. There were no votes for individual directors and no required publication of the vote totals. As the CCGG stated in its letters to firms and in subsequent publicly posted board policies, the existing system "does not permit shareholders to vote against an underperforming director and allows an entrenched board to continue to be in charge of the company, even if they are opposed by a majority of the owners of the company. The only option … is to undertake a costly and confrontational proxy fight" (CCGG Majority Voting Policy, March 2011, available at www.ccgg.ca). Instead, the CCGG suggested that "to ensure effective shareholder democracy in the election of directors, the CCGG recommends that the board of every public company adopt a

[10] An investor group organized similarly in the U.S. would in likely face similarly few legal constraints. The Council of Institutional Investors (CII) has organized meetings between its members and boards of directors of U.S. firms to discuss similar issues and these meetings have been structured to limit concerns about selective disclosure (Regulation FD) and have not triggered concerns about filing a Schedule 13D for the group of investors involved [Phone conversation with Jeff Mahoney, Chief Legal Counsel, CII, June 22, 2015]. If investors' stakes are above 5%, and they are not passive, they need to file a 13D rather than a 13G. The SEC has not brought enforcement actions for improperly filing a 13G and civil litigants have not been very successful in challenging an improper filing (Giglia (2015)). Another example that highlights how investor-director interactions can be structured to avoid Regulation FD concerns is the Shareholder-Director Exchange (SDX). It developed the "SDX protocol" to provide guidelines and a framework for shareholder-director engagements (www.sdxprotocol.com, accessed July 24, 2015).

majority voting bylaw or board policy".[11] Such policy changes can be tracked, as they are reported in the proxy circulars filed in advance of firms' annual shareholder meetings.[12]

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

A related, but distinct campaign started in 2008 and became clear in April 2009 when the CCGG publicly advocated for firms to introduce an advisory say-on-pay vote, stating that it would give shareholders "an opportunity to express directly to the board their satisfaction with the prior years' compensation plan and actual awards" (CCGG Shareholder Engagement and "Say-on-pay" Policy, April 2009, available at www.ccgg.ca). Similar to its majority voting policy, after consulting with firms and legal experts, the CCGG issued a model form for say-on-pay in September 2010.

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

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

[12] An issue perhaps notable for its absence was an initiative on anti-takeover devices or staggered boards. This reflects the fact that in Canada a number of features limit the impact of anti-takeover efforts. First, investors can call an Extraordinary General Meeting and replace directors, thus effectively eliminating staggered boards. Though they are rarely used, EGMs do make investors potentially more powerful. Second, in Canada investors can appeal to the Securities regulator to cease trade poison pills which makes it more difficult for directors to just say no to potential takeover offers.

2.5. The CCGG's Private Engagements With Firms

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

For the majority voting campaign, we first identify the CCGG's efforts to convey its views to firms through letters and meetings. The 2005/2006 private engagement campaign had two related stages. It began in the fall of 2005 when the CCGG contacted the boards of the five major Canadian banks (RBC, TD Bank, Scotiabank, CIBC, and BMO) and two major insurers (Manulife and Sun Life). The lead contact at the CCGG was its managing director David Beatty, a prominent Canadian business leader who also sat on the board of a leading bank. In the letter to each bank the CCGG stated the total shareholdings of its members and provided a model majority voting provision. The model provision was drafted by one of Canada's leading corporate law firms and was pre-vetted by the provincial financial regulator. All seven firms committed to adopt majority voting by the spring of 2006 and it was widely acknowledged that the CCGG was the driving force behind the adoptions.[13] The CCGG then sent letters to 81 additional firms in which they identified majority voting for directors as an important issue. In many cases, the letters stated CCGG members' combined stakes and noted that the seven major financial institutions had agreed to adopt majority voting. Finally, the letter provided examples of ways to improve. The engaged firms were sent a follow up letter, sometimes accompanied by a phone call, or other communication. Following these contacts with specific firms, the CCGG also published its policy guidelines on Majority Voting (in August 2006) to provide additional guidance on best practices.

For the CCGG's say-on-pay initiative and its efforts to encourage changes in compensation policies, we focus on a second round of CCGG activity that started in 2008 and involved more intensive engagements between the CCGG and firms' boards. As it stated: "the CCGG believes that institutional shareholders should have regular, constructive engagement with the boards and board compensation committees of public companies to explain their perspectives on governance, compensation and disclosure practices, and to provide detailed comment on the company's practices to the board. CCGG

[13] See for example, "Big banks to allow election of individual directors," *National Post, November 9, 2005.* A few of the banks also mentioned CCGG by name in their proxy statements when they disclosed adoption of the policy.

expects boards will welcome this direct constructive interaction with large shareholders, which will normally be held without management or advisors, and that it will lead to a better alignment of the interests of shareholders with the interest of the board and management" (CCGG Shareholder Engagement and "Say-on-pay" Policy, April 2009, available at www.ccgg.ca).

Over a period of five years from 2008 to 2012, the CCGG conducted (attempted) 143 (146) engagements. It met with 76 different firms so that 65 of the engagements were repeated, providing some form of accountability. The CCGG has an escalation protocol that it follows when firms decline to meet.[14] In advance of most meetings, CCGG staff compiled a briefing report on the company that was shared with CCGG members attending the meeting. After the meeting CCGG staff prepared a meeting report that summarized the issues discussed and who was present. To ensure accuracy and a form of accountability, meeting reports were sent to the independent directors of the engaged firm and to CCGG members who checked it for accuracy before it was posted on the members' only version of the web site. We read each report and identified the issues raised. We identified four issues that were commonly raised in the engagements: say-on-pay, capped pensions, clawbacks, and performance peer groups. Table 2, Panel A provides summary statistics on the number of engagements by year as well as the issues raised.

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

2.6. Data on Adoptions and Other Variables

To identify whether firms adopted the governance practices raised in the engagements, we read firms' proxy circulars which are circulated in advance of annual shareholder meetings and are available

[14] Three firms declined to meet with the CCGG. Requests to meet, sent in writing by the CCGG managing director to the lead independent director were followed by phone calls from CCGG staff to the corporate secretary. If this failed, the CCGG's managing director proposed to call directly, emphasizing the percentage of equity held by CCGG members and to express surprise at the board's lack of interest in the views of major shareholders and to reiterate the need for a meeting. Failing this, the CCGG chair would notify all members advising them of the process that was followed and to ask members to consider this in their voting decisions for the board at the next AGM. [CCGG internal email March 11, 2011]

on SEDAR.[15] In particular, we identified whether the proxy circulars disclosed that the firm had an internal policy requiring the resignation of a director receiving a majority of withheld votes during director elections (majority voting); had a policy of holding shareholder advisory votes (say-on-pay); had a policy to allow for it to recoup performance-based executive compensation in the event of a restatement of performance metrics (clawback); imposed a limit on the pension or retirement benefits that could be paid out as a part of executive compensation packages (capped pensions); evaluated performance relative to a specified group of peer firms when determining performance-based compensation (performance peer groups). Table 2, Panel C provides a summary of adoptions for engaged and non-engaged firms. The adoptions sample is smaller than the engagements sample because not all firms survived over the subsequent two years.

We use several additional variables in our analysis. Table A.I provides definitions. We collect data on institutional investor holdings for firms included in the S&P/TSX index from Factset and use Capital IQ to fill in missing data for a small number of firms. Each year we categorize institutions as CCGG members and compute their total holdings in each firm ("Log(1+CCGG $ Ownership)" or "CCGG % Ownership"). We do the same for Canadian non-CCGG institutional investors ("Canadian Institutional % Ownership ex CCGG") and foreign institutional investors (Foreign Institutional % Ownership). We identify as controlled corporations those that have multiple voting shares or a shareholder (or affiliated shareholders) that controls 20% or more of a firm's votes ("Controlled Corporation").[16] As an alternative to the controlled corporation dummy, we use a good governance dummy, constructed using governance scores that are published annually by *The Globe and Mail*. Our results are robust to using this measure (not reported).[17]

We also construct the Shapley value for the CCGG ("CCGG Shapley Value"). It measures the probability that the CCGG, voting as a group, will be pivotal in a vote among a firm's shareholders. This should be relevant to firms as the implied threat of not responding to a CCGG request is a shareholder

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

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

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

proposal and vote. To construct the Shapley value we incorporate information on the CCGG's voting stake (as a group) as well as the voting stakes of other significant shareholders (see Milnor and Shapley (1978), Rydqvist (1987), and Zingales (1995)).[18] We use proxy circulars to identify investors that control at least 10% of a firm's votes.

Firm size ("Log(Assets)") and the financing deficit ("Financing Deficit") are from Worldscope. We follow Frank and Goyal (2003) and construct the financing deficit as the sum of dividends, investment and change in net working capital less cash flow, deflated by total assets. We use data from Datastream to measure stock returns ("1-year Stock Return") and compute a proxy for liquidity ("Turnover"). Information on shareholder proposals is from SHARE.ca, the website of the Shareholder Association for Research and Education ("Shareholder Proposal"). We focus on shareholder proposals specifically related to the governance practices that the CCGG discussed with firms in their engagements. We use a variety of sources to identify U.S. Listed firms and create a dummy that equals one for firms cross-listed on a U.S. stock exchange in a given year ("U.S. Listed Firm"). For media exposure we use the log of one plus the number of media citations ("Log(1+Firm Media Cites)") found in *The Globe and Mail* and *The Financial Post* during a given year. Finally, we use data from proxy circulars, annual reports, and data collected by the Clarkson Centre for Business Ethics and Board Effectiveness to construct measures of CEO compensation and incentive intensity and to construct a measure of board interlocks.

3. Empirical Results

In this section, we present the results of tests that examine the CCGG's influence on the adoption of governance changes, including majority voting, say-on-pay, compensation policies, and CEO incentives. We first examine the determinants of CCGG engagements, i.e., which firms did the CCGG choose to engage? We estimate logit regressions, where the dependent variable equals one if a firm was engaged on a given policy by the CCGG in a given year and zero otherwise. To test for an impact of CCGG engagements on firms' adoptions of governance policies, we estimate logit regressions where the dependent variable equals one if a firm adopted a given governance policy within the subsequent two

[18] The Shapley value is based on an oceanic voting game among the firm's shareholders who are classified as either major (large) shareholders or minor (small) shareholders (Milnor and Shapley (1978)). We compute the Shapley value for the total ownership of CCGG members. We consider other major shareholders to be any shareholders (excluding CCGG members) that control at least 10% of a firm's voting rights. The 10% threshold is chosen because Canadian firms are required to identify owners with a share of voting rights of 10% or more in their annual proxy circulars. The remaining shareholders are considered to be minor shareholders.

years and zero otherwise. The key explanatory variable of interest is the engagement dummy that equals one if the CCGG engaged the firm in that year and zero otherwise. Finally, we estimate panel regressions that examine whether CEO incentives changed following CCGG engagements.

3.1. Majority Voting: Engagements and Adoptions

The sample we use for majority voting engagements includes 212 firms in the S&P/TSX index with complete data for 2005 (we exclude income trusts throughout). Of these, 88 firms were sent letters by the CCGG at the end of 2005 requesting that the firm adopt majority voting (see Table 2). Models (1) to (3) of Table 3 present results of logit regressions in which the dependent variable is set to one for these firms is zero otherwise ("Engaged on Majority Voting"). The regressions in Table 3 include industry fixed effects based on SIC division classifications (1-digit SIC level). The *t*-statistics are computed based on robust standard errors.

We expect that the CCGG focused its costly engagement efforts on firms in which it had the greatest interest and influence. In model (1) we start with a parsimonious specification that includes firm size as a catch all measure for firm importance and openness to external influence and a controlled corporation dummy to capture the fact that the CCGG might have less influence with these firms. The coefficient on *Log(Assets)* is positive and significant, as expected, while the coefficient on the *Controlled Corporation* dummy is not significant. The Pseudo R^2 is 0.31.

In model (2) we include more specific proxies to capture the CCGG's incentives to engage firms. Though the literature typically uses percentage stakes to capture incentives, Edmans (2014) states that dollar stakes are a more accurate measure of investors' economic incentives to take action. This is consistent with statements made in the CCGG's annual reports, namely, that dollar stakes were a key determinant of its engagement strategy, as well as its efforts to collect data on its members' dollar holdings in Canadian firms. In model (2) we include CCGG members' total dollar holdings to capture incentives, total percentage holdings to capture its potential influence, and as in model (1), the controlled corporate dummy. We also include the percentage ownership stakes held by other institutions (domestic and foreign), prior stock returns, and a U.S. listed dummy. Higher ownership by other institutions could provide the CCGG with additional influence, while the prior stock returns capture the fact that the CCGG might focus more on underperforming firms. U.S. listed firms are subject to other external pressures which could influence their choices and/or their receptiveness to engagements. Note that we do not

include firm size in regressions that include CCGG dollar holdings because the correlation between Log(Assets) and Log(1+CCGG $ Ownership) is 0.70.

The coefficient on *Log(1+CCGG $ Ownership)* is positive and significant at the 1% level while that on *CCGG % Ownership* is not significant. Other factors also play a role. The coefficient on the *Controlled Corporation* dummy is positive and significant (at the 10% level) as are the coefficients on *Canadian Institutional % Ownership ex CCGG* and *Foreign Institutional % Ownership*. The coefficient on *1-year Stock Return* is negative and significant (at the 10% level) as is the coefficient on the *U.S. Listed Firm* dummy. The Pseudo R^2 is 0.50.

Model (3) is similar except that we use the CCGG Shapley value for a firm instead of total percentage holdings. The Shapley value measures the probability that CCGG members (as a group) will be pivotal in a vote among a firm's shareholders. Because this measure includes information on the CCGG's voting stake, as well as the voting stakes of other significant shareholders, we exclude the controlled corporation dummy and ownership by other institutional investors. The coefficient on *CCGG Shapley Value* is not significant and the other results are similar to those in model (2).

Overall, engagements are driven by primarily by dollar stakes and not by measures of expected influence. We also find that the CCGG did not avoid controlled corporations, is more likely to engage underperforming firms, and is less likely to engage U.S. listed firms.

The majority voting adoption results are in models (4) to (7) of Table 3. We focus on adoptions in the two years subsequent (2006 and 2007) to the engagements in 2005. The letters were sent in December 2005 which left little time for firms to make changes to their proxy for spring 2006. More generally, such governance changes are discussed over several meetings, first in the governance committee then with the full board.[19] The sample includes the same set of firms as in the engagements but is smaller because 16 firms were delisted in 2006 and 2007. These firms could not potentially adopt majority voting and are dropped. Of the 85 engaged firms that survived through 2007, 40 adopted majority voting. Of the 111 firms that were not engaged, 17 adopted.

Model (4) includes the *Engaged on Majority Voting* dummy without any controls other than industry fixed effects. The coefficient is positive and significant and the marginal effect is 0.32, i.e., CCGG engagement increased the probability of adoption by 32%. We next estimate regressions that include controls for other internal factors that could influence adoptions as well as other external influences. In

[19] Results are similar with a one year window but are less robust than those with a two year window.

model (5) we first add the controlled corporation dummy and firm size. The *Engaged on Majority Voting* dummy remains positive and significant, and as expected, the coefficient on the *Controlled Corporation* dummy is negative while that on *Log(Assets)* is positive. Both are statistically significant.

In models (6) and (7) we replace firm size with specific factors that could influence adoption decisions. In (6) we include percentage ownership by CCGG members and by other institutional investors while in (7) we include the CCGG Shapley value (as before, we exclude the controlled corporation dummy and ownership by other institutional investors in regressions that include the Shapley value). In both cases, we predict that firms are more likely to adopt when the CCGG is more influential. We also include prior stock returns, turnover, and a measure of the financing deficit in both models. With higher turnover, institutional investors can more easily express their displeasure by exiting, which could put pressure on firms to consider the CCGG's request. Firms with poor prior performance may be more readily influenced by investor pressures as might firms with a greater need to raise external capital. Other external factors that could lead to adoptions are media exposure, pressure from shareholder proposals, or pressure from the U.S. markets. The Pseudo R^2's are 0.29 and 0.32 in these models.

The coefficient on *Engaged on Majority Voting* is positive and significant in both models. The marginal effects suggest that the engagements are also economically important. In model (7), for example, the marginal effect for the *Engaged on Majority Voting* dummy is 18%. We also find that firms in which the CCGG potentially has more influence were more likely to adopt. The coefficient on the *Controlled Corporation* dummy is negative and significant while the coefficients on *CCGG % Ownership* and the *CCGG Shapley Value* are positive and significant. The coefficient on *Turnover* is not significant while that on the *Financing Deficit* is significant at the 10% level model (7). However, contrary to expectations, the coefficient is negative. The coefficient on *Log(1+Firm Media Cites)* in model (6) and on *Shareholder Proposal* in models (6) and (7) are positive and significant at the 10% level. In unreported regressions we also included interactions of the engaged dummy with CCGG percentage ownership and with CCGG Shapley value but neither is significant. The interaction with the controlled corporation dummy is negative and significant so that controlled corporations were less likely to respond to the engagements than widely-held firms.

Because we use prior engagements to explain subsequent adoptions, reverse causality cannot explain the results. Though we include a number of control variables, we cannot rule out that unobservable differences between firms engaged by the CCGG and those not engaged explain adoptions rather than

CCGG engagements. The most important determinant of majority voting engagement is the aggregate dollar stake of CCGG members. Therefore, concerns about causality must stem from unobserved differences between firms in which CCGG members, who acquired their holdings independently from each other, jointly held larger dollar stakes, and those in which they held smaller stakes.

Unfortunately, all majority voting engagements occurred in 2005 and the sample size is relatively small which limits our options to address this problem. That said, we note that CCGG engagement increased discontinuously once its combined dollar holdings exceeded a threshold. Thus we can use a regression discontinuity design (e.g., Malenko and Shen (2015)) to provide additional evidence. However, as shown earlier in the engagement regressions, other secondary criteria were also used to identify firms to engage. Another concern is that there are only a small number of firms around the threshold. In unreported regressions using a regression discontinuity design, we find results consistent with engagement having a significant impact, with the caveats that the results are based on a small number of observations and employ a relatively wide bandwidth.[20] In the next sub-section that examines say-on-pay and compensation policies, we introduce more powerful tests to formally examine the potential impact of unobserved differences.

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

In its second campaign, the CCGG focused on engagement meetings with firms' boards to discuss governance issues. To facilitate the engagements, CCGG staff contacted the board and requested a meeting. These meetings involved a considerable time commitment for CCGG's board members, e.g., reading a CCGG produced analysis of the firm's most recent proxy before the meeting, attending a meeting that usually lasted one hour, and reading and commenting on briefing notes summarizing the meeting. These notes were later made available to all CCGG members. For the firm's board members, the meetings were, at least initially, an unusual event. Because they met directly with the CCGG without top

[20] We employ a fuzzy regression discontinuity design and identify a threshold for CCGG holdings at $209 million, a level below which there were no engagements. We use a two-stage least squares procedure with a linear probability model for the first stage and a rectangular kernel (Imbens and Lemieux (2008)). We experimented with various bandwidths to obtain a sample that was large enough. With a 60% bandwidth there are 69 observations. In the first stage regression, the dummy for holdings above the threshold predicts engagement as expected (at the 1% level, *t*-statistic of 3.92). We use a linear probability model for the second stage that models majority voting adoption and restrict the regression slope to be the same on either side of the threshold. The engagement variable (instrumented by the dummy for holdings above the threshold) is statistically significant at the 10% level in both a parsimonious specification (constant and CCGG $ interest only) and in specifications with the controls used in models (6) or (7). To maximize the discontinuity, we use CCGG's self-reported dollar holdings that they used for their internal decision making rather than the dollar holdings reported in the Factset database. With a 50% threshold there are 59 observations and the results are similar.

executives present, the meetings often required additional preparation. And, there was the possibility of a follow-on meeting where the board members would be asked to describe steps, if any, taken in response to previous requests.

From 2008 to 2012, the CCGG conducted 143 engagement meetings. In 40% of these meetings the CCGG requested that the firm introduce say-on-pay. It also requested changes to policies related to compensation structure and disclosure (including capping pension payouts, introducing clawback provisions, and using performance peer groups) in half of these engagements. For our analysis, we include firms in the S&P/TSX index during 2008 to 2012 with complete data. For the say-on-pay engagement logit regressions in models (1) to (3) of Table 4, there are 894 observations. The dependent variable equals one for 57 observations ("Engaged on Say-on-pay"). Similarly, for compensation policies in Table 5, there are 989 observations and the dependent variable equals one for 69 observations ("Engaged on Compensation Policies").[21] We focus on the same explanatory variables we used for majority voting engagements in Table 3, but we now have a five-year panel. The regressions in Tables 4 and 5 include industry and year fixed effects. Standard errors are clustered at the firm-level.

Do the determinants of engagements differ for these more time consuming meetings compared to the letter writing and phone call engagements for majority voting? In model (1) of both Tables 4 and 5, the coefficient on the *Controlled Corporation* dummy is negative and significant and the coefficient on *Log(Assets)* is positive and significant. Thus, in contrast to the majority voting engagements, the evidence here suggests that the CCGG sought to economize its time by avoiding firms least likely to respond. Inferences in models (2) and (3) are otherwise similar to those from Table 3. It is the total dollar stake of CCGG members in a firm that drives engagements. The coefficient on *Log(1+CCGG $ Ownership)* is positive and statistically significant while the coefficients on *CCGG % Ownership* and *CCGG Shapley Value* are not significant. The coefficient on the *Controlled Corporation* dummy remains negative and statistically significant. We also find robust evidence of a negative and significant coefficient on *1-year Stock Return*, suggesting that the CCGG also focused on weaker performing firms.

The logit regressions that examine say-on-pay adoptions are in models (4) to (8) of Table 4. The sample construction is the same as with the engagements, but excludes firms that were delisted in the two years following a potential engagement. Of the 49 engaged firms that survived, 28 adopted say-on-pay

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

within two years of the engagement. We focus on adoptions from 2009 to 2013 so that engagements and explanatory variables are lagged. We also drop firms in the years after they adopt say-on-pay as they no longer face a choice to adopt or not. This leaves a sample 751 firm-year observations.

The coefficient on the *Engaged on Say-on-Pay* dummy is positive and significant in each model at the 1% level. The marginal effect in model (4) is 0.24, i.e., CCGG engagement increased the probability of adopting say-on-pay by 24%. Model (5) shows that controlled corporations were less likely to adopt say-on-pay and this inference holds no matter whether we control for internal factors and external pressures with firm size in model (5) or whether we use more explicit proxies in model (6). In model (7) we use the CCGG Shapley value in place of the controlled corporation dummy, CCGG percentage ownership, and ownership by other institutions. The coefficient on *CCGG Shapley Value* is positive and significant implying that firms in which the CCGG had more influence were more likely to adopt. Control variables have the expected signs and many are significant. The coefficient on *1-year Stock Return* is negative, the coefficient on *Turnover* is positive and significant, as are the coefficients on *Log (1+Firm Media Cites)*, *Shareholder Proposal*, and the *U.S. Listed Firm* dummy. Note that cross-listed firms are exempt from U.S. legislation that mandated say-on-pay in 2010 but nonetheless were more receptive. The Pseudo R^2 of this regression is 0.27 and the marginal effect for the *Engaged on Say-on-pay* dummy is 0.13. We also estimated a model that includes an interaction of the engaged dummy with the controlled corporation dummy and with the CCGG Shapley value (not reported). The coefficients are as expected, but are not significant.

As with majority voting, the specific timing of the CCGG's engagements and firms' subsequent adoptions rules out reverse causality. However, the potential concern that adoption decisions could be driven by unobservable differences between engaged and non-engaged firms remains. In its second campaign, the CCGG engaged firms in different years and on different issues. We exploit these differences to address concerns about unobservable differences and set a dummy variable that equals one for firms that were engaged by the CCGG on any issue in any year between 2008 and 2012 ("Engaged Firm"). For example, if a firm was engaged in 2010 on any issue, we set the dummy to one each year from 2009 to 2013. When we include the engaged firm dummy in the say-on-pay adoption regressions, it controls for unobservable differences between engaged and non-engaged firms and allows the engaged on say-on-pay dummy to identify the specific impact of the say-on-pay engagements. The results are in model (8), which is similar to (7) but adds the engaged firm dummy. Although the coefficient on the

Engaged Firm dummy is positive, the coefficient on the *Engaged on Say-on-pay* dummy remains significant at the 1% level and inferences are similar.

We provide similar results for the adoption of compensation policies in models (4) to (8) in Table 5. Of the 66 engaged firms that survived, 40 adopted at least one of capped pensions, clawbacks, or performance peer groups within two years of the engagement. A firm is dropped from the sample once it adopts all three of these policies. The final sample includes 920 firm-year observations. The coefficient on the *Engaged on Compensation Policies* dummy is positive and significant in each regression. In model (4), the marginal effect is 0.29, implying that an engaged firm was 29% more likely to adopt the proposed changes in compensation policies than a non-engaged firm. Compared to say-on-pay in Table 4, adding control variables does little to reduce the estimated economic impact. There were a lot of say-on-pay shareholder proposals during this period and to be conservative we allow them to influence our estimates even though many were not effective (out of 79 say-on-pay proposals, only 26 received at least 50% of the votes or were withdrawn because the company adopted say-on-pay). In contrast to say-on-pay, there were fewer outside influences pushing for changes to compensation polices aside from the CCGG. In Table 5, the coefficients on *Shareholder Proposal* and *U.S. Listed Firm* dummy are not statistically significant. However, the coefficient on *1-year Stock Return* is negative and significant. The marginal effect in model (7) is 23%. Finally, we estimated a model that includes an interaction of the engaged dummy with the controlled corporation dummy and with the CCGG Shapley value (not reported). The former is negative, the latter is positive, and both are significant at the 5% level. That is, controlled corporations were less likely to respond to the engagement than widely-held firms while firms in which the CCGG has more influence were more likely to respond.

3.3. CEO Compensation and Incentive Intensity

The regressions so far focus on the specific governance issues raised in the engagements and the adoption of those issues. Through their dialogue with firms' board members, the CCGG could also influence related choices. One important choice is the incentive intensity in the top executives' compensation plan. There is a large literature that examines the influence of institutional investors on executive compensation (e.g., Hartzell and Starks, 2003). The CCGG actively promotes executive compensation principles that align long-term firm and shareholder success (see Executive Compensation Principles, January 2013, available at www.ccgg.ca).

We expect that engaged firms increase the proportion of CEO compensation that is sensitive to firm performance following an engagement that discusses improvements in compensation practices. We measure CEO incentive pay with two different proxies. First, we use the equity pay ratio, the ratio of equity pay to total pay (EPR), as in Fernandes, Ferreira, Matos, and Murphy (2013). Second, we use the pay-performance sensitivity (PPS) of the CEO's compensation contract. PPS, or the compensation delta, is the change in the dollar value of CEO wealth derived from ownership of stock and stock options in the firm when the firm's stock price changes by one percent (see Jensen and Murphy (1990) and Core and Guay (1999)). To ensure that the results are not driven by outliers, we winsorize both measures at the 1% and 99% tails each year and for PPS, we use a log transformation to account for skewness (Core and Guay (1999)). The log transformation significantly improves the explanatory power of the regression.

To conduct these tests we use hand-collected data on CEO compensation contracts from firms' disclosures, some of which we collected and some were compiled by the Clarkson Centre at the University of Toronto. Each year we compute total pay (salary, bonus, stock, share units, and options) and equity-based pay (stock plus options plus performance share units (PSUs) plus restricted share units (RSUs)). We value options using standard methods and follow the methodology developed in Core and Guay (1999, 2002) to estimate CEO PPS. We identify annual grants of PSUs and RSUs and make assumptions about holding periods and other factors. Table A.I provides further details. In our sample, the mean (median) CEO earns $4.4 million ($2.8 million), has an EPR of 44% (49%), and PPS of $686,000 ($176,000).

Table 6 presents regressions estimated over the period from 2008 to 2013. We start in 2008 as this was the first year the CCGG engaged firms on compensation-related issues. The dependent variable is either EPR (models (1) to (4)) or Log(1+PPS) (models (5) to (8)). The main variable of interest is whether or not a firm was engaged by the CCGG on compensation policies during this period ("Engaged on Compensation"). It equals one in year t and all subsequent years if a firm was engaged on compensation polices in year t-1. Each model includes year and industry fixed effects, as well as a dummy that equals one if the CEO is changed during year t ("CEO Turnover") and a dummy that equals one if a firm is included in the S&P/TSX index in year t ("S&P/TSX Index Member").[22]

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

In Model (1), the coefficient on the *Engaged on Compensation* dummy is 17.17 and is significant at the 1% level. Model (2) adds controls for whether or not a firm is a controlled corporation and firm size. The coefficient decreases in magnitude but remains significant. Model (3) controls for variation in a larger set of lagged observable firm characteristics commonly used in the literature (e.g., Fernandes et al., 2013) while model (4) includes these variables as well as the engaged firm dummy to control for differences in unobservable firm characteristics between engaged and non-engaged firms. The coefficient on the *Engaged on Compensation* dummy is 7.28 in (3) and is 6.21 in (4). Both are statistically and economically significant. The coefficient in model (4) implies an increase in EPR of about 13% relative to the average of engaged firms in the years before they were engaged. Finally, the coefficients on the control variables are generally consistent with existing empirical studies. In particular, CEO EPR tends to be higher for firms with better stock performance and more growth opportunities.

In models (5) to (8), we replace CEO EPR with the log of one plus PPS and re-estimate the previous regressions. The main results are similar: CEO incentives, as measured by PPS, increase significantly following engagements by the CCGG. In models (7) and (8), which include the full set of control variables, the coefficients on the *Engaged on Compensation* dummy are 0.322 and 0.342, respectively and both are significant at the 10% level. The coefficient in model (8) implies an increase in the log of PPS of about 6%. In unreported regressions, we also examined the potential impact of engagements on the log of total CEO pay. There is no statistically significant change. Overall, the results in Table 6 are consistent with the conclusion that CCGG engagements are followed by improvements to the structure of CEO pay.

4. The CCGG's Broader Influence

CCGG engagement actions focus on firms in which its members have the most dollars invested. However, in any year, engaged firms constitute a relatively small fraction of all publicly-traded firms and CCGG's members interests extend beyond them. To what extent does it have a broader impact beyond the firms it directly engages? In this section we consider several channels. First, we examine potential governance spillovers through board interlocks. We also examine whether the potential power of the CCGG to force change helps predict voluntary changes by non-engaged firms. Next, we describe and discuss attempts to change behavior through "informal" and formal regulation that likely impacted governance practices, but where identification is more of a challenge. Finally, we present event study

evidence from the announcement of the formation of the CCGG to provide an assessment of its expected impact on firm values.

4.1. Governance Changes in Firms Not Engaged by the CCGG

Prior research finds that governance practices spill over across firms through board interlocks (Bouwman (2011)). Interviews with CCGG staff and the CCGG's internal correspondence suggest that it believed interlocks would help magnify its impact and that it sought to leverage these interlocks in some of its engagements. This was particularly important for the majority voting initiative.

Engaging the major financial institutions and getting them to be the first adopters of majority voting was deemed important. Directors of these institutions were influential as they sit on other boards, including those of non-engaged firms. In its initial engagement letters to firms on majority voting, for example, the CCGG stated that these seven financial institutions had agreed to adopt majority voting. In some letters the CCGG also mentioned that the board might want to consult with a particular director who sat on the board of another firm that had recently adopted majority voting. An excerpt from a letter sent by the CCGG on November 26 to a firm targeted in the majority voting campaign illustrates the idea: "Your most recently appointed director, [*director name*], may be familiar with some of the issues surrounding the adoption of a majority vote standard, as [*firm name*] has adopted a majority vote policy."

We examine whether firms not engaged by the CCGG were more likely to adopt governance policies advocated by the CCGG if they shared a director with a firm that was engaged by the CCGG. To test whether board interlocks affected the probability of adoption, we focus on majority voting and say-on-pay, as the CCGG engaged a reasonably large number of firms on these issues.[23] We use data from Clarkson Centre for Business Ethics and Board Effectiveness to construct a professional network of directors of Canadian public firms. The data indicates directorship positions and starting dates and end dates for each position that each director holds.[24]

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

[23] The CCGG also engaged firms on three policies related to compensation structure and disclosure (capped pensions, clawbacks, and performance peer groups) but each issue was raised with a smaller number of firms.

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

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

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

We also construct an interlock measure that utilizes concepts and tools from the network theory literature to capture a director's influence. This literature suggests interlock measures that are weighted by the power of the interlocked director(s) within the network of all directors (e.g., Milgram (1967), Watts and Strogatz (1998), and Banerjee, Chandrasekhar, Duflo, and Jackson (2013)). Like El-Khatib, Fogel, and Jandik (2015) we use a director's network centrality to measure the power of engaged directors. Directors with high centrality measures have more connections with other more connected directors and this means that they have the potential to receive more information and pass it to other directors. There are four common measures of network centrality: degree, betweenness, closeness, and eigenvector. We follow Larcker, So, and Wang (2013) and focus on eigenvector centrality. It most closely captures the importance of an individual in the network. It weights the power of the interlocked director(s) within the network of all directors (see Fogel, Ma, and Morck (2014)). Table 7, Panel B shows that this measure is significantly higher for big bank directors.

A second channel through which the CCGG could influence non-engaged firms is through its potential power to force change. Managers might voluntarily adopt changes if they are concerned that the CCGG might otherwise step in and use its voting power to force changes. We use the Shapley value for the CCGG for each firm to proxy for the CCGG's potential power.

Table 8, Panel A presents the results for majority voting. The sample includes 111 firms with complete data that were not engaged on majority voting by the CCGG in 2005. It examines factors that

influenced their decision to adopt majority voting in 2006 or 2007. To examine the importance of director interlocks we focus on a dummy that equals one if a firm has a director that also sits on the board of a firm that was engaged on majority voting by the CCGG in 2005 ("Interlock"). To examine the importance of the CCGG's potential power, we focus on its Shapley value. We do not include industry fixed effects in these regressions because some industries are not represented in this smaller sample. We drop the shareholder proposal dummy from model (3) because only one firm received a majority voting proposal.

We find strong evidence of the importance of interlocks and weaker evidence on the CCGG's potential power. Model (1) includes just the interlock dummy and we find that its coefficient is not statistically significant. In models (2) to (4) we differentiate between big bank board members originally targeted by the CCGG ("Big Bank Interlock") and those that sat on the boards of other firms engaged by the CCGG ("Non Big Bank Interlock"). In these models the coefficient on *Big Bank Interlock* dummy is positive and significant while that on the *Non Big Bank Interlock* dummy is not. In model (4), the marginal effect for the *Big Bank Interlock* dummy implies that having an influential director that also sits on the board of a firm engaged by the CCGG increases the probability a firm adopts majority voting by 15%. In model (5) and (6) we use the summed eigenvector centrality of directors who sat on a board which was engaged by CCGG ("Interlock Eigenvalue"). The coefficient on this variable is positive and significant. We also find a positive coefficient on *CCGG Shapley Value*. In model (4) the coefficient is positive and significant at the 5% level. In model (6), the coefficient is similar but is no longer significant.

In Panel B we focus on say-on-pay adoptions. The CCGG did not focus on firms with more influential directors in this campaign and we anticipate weaker results on the director interlocks compared to the majority voting initiative. We expect a stronger impact of shareholder proposals and media pressure because say-on-pay was a high profile issue in Canada, the U.S., and other countries. The sample for say-on-pay also focuses on firms not engaged by the CCGG and as before, once a firm adopts say-on-pay it is dropped. The interlock dummy equals one for firms with a director who was also on the board of a firm that was engaged on say-on-pay by the CCGG during the prior two years. The final sample includes 615 firm-year observations from 2009 to 2013. We do distinguish between interlocks of big bank and non-big bank directors separately because the CCGG did not begin this campaign with a specific focus on the big banks. In these regressions, we include industry and year fixed effects.

The results are consistent with a positive impact of board interlocks, but are not strong. In Panel B, the coefficient on *Interlock* (models (1) through (3)) and for *Interlock Eigenvalue* (models (4) and (5)) is

consistently positive but is statistically significant only in (1), at the 10% level. More powerful is the impact of potential CCGG power. The coefficient on *CCGG Shapley Value* is significant at the 1% level in both (3) and (6). The coefficients on *Shareholder Proposal* and *Log(1+Firm Media Cites)* are also positive and significant.

Summing up, the evidence suggests that the CCGG's influence extends to non-engaged firms. A potentially powerful channel, when focused upon, is director interlocks. Also of importance is the potential power of the CCGG, particularly when paired with the prospect of a shareholder proposal or proxy fight.

4.2. Informal Regulation Using Guidelines and Measurement to Change Norms

The CCGG's strategy of engaging firms is an important aspect of their strategy that can be identified empirically. A second strategy the CCGG uses is what we term "informal regulation". This is less amenable to empirical identification but is also a potential source of CCGG influence. The CCGG articulated a goal to shape norms through the creation and dissemination of good governance guidelines and related activities that ensure firm performance is measured against these guidelines. CCGG guidelines focused first on building high performance boards, then on a variety of issues, including majority voting and executive compensation. The CCGG controls the agenda in setting these principles. It consults with firms and outside experts, but it is not a political process open to other interest groups that invites comment letters or seeks a compromise across opposing views. As the CCGG's first chair stated: "… [regulators] can only enforce minimum standards. They cannot enforce best practices…. It is our mandate to establish best practices and encourage boards to adopt and live by these." (CCGG annual report (2005)). The Managing Director of the CCGG described this as the Drucker Wagon Train approach where you learn from the fast movers at the front of the train, and you take that information to those in the middle, hoping to speed them up, whilst ignoring those at the end who are unlikely to survive or listen to you." (David Beatty, CCGG board presentation (2006)).

Not only did the CCGG devise such norms, it also collected and helped publicize data that facilitated measurement against these norms. The CCGG's managing director summarized this approach to the CCGG's board: "measurement + best practices + exposure = board behavioural change." (Report to the Board of Directors of CCGG (2007)). For example, changes in publicly-reported governance scores and criteria coincide with CCGG-subsidized data collection efforts around later stages in the majority voting and compensation campaigns. *The Globe and Mail* rates firms' governance each year and reports on them

in a series of articles, a fact well-known by corporate secretaries and board members. The categories and scoring system were originally devised by *Globe and Mail* reporters, but given the costs and need for standardization of collection of information for this exercise, *The Globe and Mail* relied on the Clarkson Centre at the University of Toronto to collect the raw data. CCGG members and the CCGG itself provided the bulk of the financing for the data collection and for several years, the managing director of the CCGG was also the director of the Clarkson Centre. The CCGG managing director described this as the Brandeis strategy, referring to Louis Brandeis' famous phrase that "sunlight is the best disinfectant."

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

4.3. Impact on Governance Regulation

Another alternative to engagements is to mandate change through regulation so that all firms adopt the same approach. Potential regulatory channels include national legislation, securities regulation, or stock exchange listing requirements. Since its inception, the CCGG had a public policy sub-committee and was active in voicing its views in public comments when regulators considered policy changes. But the CCGG faces challenges in this arena that it does not face with engagements or informal regulation as regulators also receive views from firms and other groups with opposing views.

We find only limited evidence of success through this channel. In 2014 the TSX made majority voting a listing requirement. This rule not only required listed firms (with exemptions for firms where one holder or group controlled 50% or more of the voting shares and for firms on the venture exchange) to adopt majority voting, it strengthened the majority voting policies many firms had previously adopted voluntarily. The CCGG's actions cannot be ignored in this change. As we showed in Section 3, its actions increased the likelihood of voluntary adoption and the TSX rule was close to the model first publicly

advocated by the CCGG in 2006. External commentators, such as *The Globe and Mail* and Glass Lewis give the CCGG credit for this change.[25]

4.4. Event Study Results

A natural question is whether the CCGG's engagements and its broader impacts are value enhancing.[26] As discussed in the introduction, evidence from other countries and settings provides support for the value impact of majority voting, say-on-pay, and clawbacks. In addition, performance peer groups and other pay-for-performance mechanisms provide value increasing incentives for managers.

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

The results, provided in Table 9, suggest that firms expected to be engaged by the CCGG, and not subject to other engagement pressures, experienced a greater increase in value upon the announcement of the formation of the CCGG. We use similar specifications to the engagement regressions in Tables 3 to 5. Model (1) provides a baseline, including a controlled corporation dummy and firm size. The coefficient on the *Controlled Corporation* dummy is negative and significant which suggests that the marked expected the CCGG to have less influence on controlled firms. The coefficient on *Log(Assets)* is not significant so that larger firms did not react differently than smaller firms. Models (2) and (3) include the strongest predictor of CCGG engagement, CCGG members' dollar holdings. We use the combined holdings of potential CCGG members mentioned in the press release (the actual list of CCGG members ultimately differed somewhat). The coefficient on *Log(1+CCGG $ Ownership)* is positive and significant

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

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

at the 1% level. In model (3) we also include the Shapley value for CCGG ownership. The coefficient is positive and but is not significant. Interestingly, the coefficient on *U.S. Listed Firm* is negative and significant, suggesting the market expected the CCGG to focus on other firms.

Summing up, the evidence shows that firms the CCGG was expected to engage had more positive price reactions. Because the CCGG's organizational structure, membership, activities, and its actual impact were not known at the time of the announcement, we place more emphasis on the sign and statistical significance of the coefficient on *Log(1+CCGG $ Ownership)* rather than its magnitude, although we note that it is large. An increase in the log of CCGG dollar holdings from the 25th percentile (1.24) to the 75th percentile (4.86) is associated with a 2.36% higher abnormal return (model 3).

5. Discussion: Why Was the CCGG Effective?

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

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

Three different reasons why directors' perceived net benefits of adoption might have changed with engagement are: expected firm-level costs of inaction arising from investors' use of voting power or voting with their feet; new or better information to directors about the benefits and costs of governance changes; and, expected social and reputational incentives for directors arising from CCGG engagements.

The CCGG made explicit the threat that it could use its voting power to drive change. When its formation was announced, one of the founders stated: "The organizations forming this coalition are the large shareholders of Canadian companies. We have the voting power to influence governance practices that should benefit all shareholders." In almost all engagements, the CCGG reminded directors of its members' ownership stakes. A number of the findings in Section 3 are consistent with the threat of voting power being important. In the adoption regressions, the coefficient on *CCGG Shapley Value* is positive and significant and the coefficient on *Controlled Corporation* is negative and significant. Thus, firms in which the CCGG has more influence were more likely to improve their governance whereas the CCGG has no ability to force change on controlled corporations and these firms were less likely to improve. We also found some weaker evidence that controlled corporations, where CCGG stakes would matter less,

were less likely to respond to engagements and that firms in which the CCGG Shapley value is higher, were more likely to respond.

We next examine whether CCGG members created explicit economic consequences for firms that did not respond to their private engagements. For example, CCGG members could exit, or threaten to exit, by selling shares. In fact, when the CCGG was formed, the threat to sell shares was discussed as a weapon in its arsenal. For the majority voting and say-on-pay engagement campaign, we examine whether CCGG members sold more shares in firms that did not respond compared to those that did. We examine CCGG member holdings in the quarter before the engagement and up to six quarters after (the last quarter where we have a constant sample of firms). CCGG member holdings decreased more in firms that did not respond. For majority voting, the difference is 1.55 percentage points (p-value=0.13) and for say-on-pay it is 0.17 percentage points (p-value=0.45). While the direction of change is consistent with investors voting with their feet, the change is not statistically significant.

The CCGG documentary record, interviews with CCGG members and staff, as well as directors at engaged firms, suggest that the information channel is also important. Absent CCGG engagement, directors may not know about a particular governance issue or may rely on insiders for information about benefits and costs. The engagements help overcome these information problems by creating a direct dialogue between shareholders and independent directors. The CCGG conducted research on a governance issue, collected data, used credible third parties to certify the information, and shared it with directors. For example, the CCGG raised majority voting as an important governance issue in advance of any public discussion or introduction by proxy advisory firms. It solicited a legal opinion from a leading corporate law firm on how firms could adopt majority voting without raising legal concerns and it solicited and shared regulators' endorsement of the change.[27] In addition, the CCGG's membership and operating policies help make it a trusted source of information. To make a governance issue a priority requires support from its members. The CCGG's members include all types of institutional investors from across the country. This helped alleviate concerns that the CCGG has a particular bias or speaks for only certain types of investors. Finally, the CCGG has a policy of not publicly criticizing firms, filing shareholder proposals, or taking other more aggressive actions. This policy likely facilitates the CCGG's efforts to engage with firms, to get them to voluntarily share information, and to take part in data

[27] CCGG correspondence, Explanatory notes attached to Suggested form of policy statement that accompanied letters to directors, sent Dec. 12, 2005.

collection around new and evolving guidelines and best practices. Although we cannot construct specific tests, it seems likely that all of these steps increased the perceived net benefits of the changes proposed by the CCGG.

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

5.2. Complement or Substitute?

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

The CCGG focuses on firms in which its members have large dollar stakes, mainly large, widely-held firms, and it had a significant impact on their governance choices. For these firms and the governance issues the CCGG engaged them on, it appears to be a substitute governance approach, with an advantage relative to regulatory solutions. Regulatory responses are slower and less predictable in their outcome because they involve a public call for comments that provide an opportunity for insiders, and groups that support them, to lobby against change. For example, regulatory change for majority voting was implemented in 2014, nine years after the initial CCGG campaign. There has been no regulatory movement on say-on-pay or on the other compensation issues identified in CCGG engagements.

For other firms, however, the CCGG has had less influence to promote governance changes and other mechanisms are required. Mid-size and smaller firms that do not attract significant investment from CCGG members, and controlled corporations, were less likely to be engaged by the CCGG in the first

place. We also find that controlled corporations were less likely to adopt the requested governance changes, and in some cases, find that they are less responsive to CCGG engagements.

The CCGG engages firms on a common, but limited set of governance issues that do not require significant firm-specific information and that are measurable. In contrast, activist hedge funds typically engage individual firms on specific issues such as business strategy, financial policy, or leadership (Brav, Jiang, Partnoy, and Thomas (2008)). In an interview with the CCGG's managing director, a number of arguments are offered to explain the CCGG's different focus. The first is that the CCGG's mission is governance and nothing else. Second, the CCGG is a non-profit organization with limited resources. Third, it would be more difficult to reach sufficient consensus among CCGG members on more complex issues. Finally, its members have legal concerns about learning material non-public information in engagements. We found only a small number of firms that were engaged (almost) simultaneously by the CCGG and by activist hedge funds. There was no overlap in the topics of the engagements. Thus, compared to hedge fund activism the CCGG is a complement.

The CCGG's approach also contrasts with that of proxy advisors. The CCGG acts proactively on governance issues it considers important and individually engages firms in which its members have substantial holdings. It focuses on a small number of issues that have clear support from a broad cross-section of important investors. The cost of this approach is that the CCGG focuses on a small number of issues and firms in a given year. Proxy advisors provide voting advice to their clients on a wide range of issues that arise in thousands of firms around the world. Some commentators have raised concerns that proxy advisors follow a "one size fits all" approach and face conflicts of interest (Gallagher (2014)), though the related evidence is mixed. Ertimur, Ferri, and Oesch (2013) conclude that proxy advisors mostly act as information intermediaries rather than identifying and promoting superior governance practices. Thus, the CCGG is thus both a substitute and complement to proxy advisors.

6. Conclusions

In this paper we examine whether collective action by institutional investors can improve firms' governance. We exploit the fact that in Canada a broad group of investors of different types, including public pension plans and asset managers, formed a formal organization called the Canadian Coalition for Good Governance (CCGG) and used it as the primary vehicle to pursue governance reforms. We test whether the organization had an impact on governance by focusing on its engagement strategy with

individual firms. We exploit information on private communications between the CCGG and firms to test whether these private engagements influenced the adoption of governance improvements. The changes we focus on include majority voting, say-on-pay, improved compensation structure and disclosure, and incentive intensity. We provide additional discussion and some related evidence on the CCGG's strategies to influence governance more broadly through public policy, publishing good governance guidelines, and measuring firms' governance practices against principles.

CCGG engagements had a statistically significant and economically meaningful impact on firms' governance. The results are robust to a large set of control variables as well as unobservable differences between engaged and non-engaged firms. We find the CCGG's influence extends beyond the engaged firms through board interlocks and to firms in which the CCGG is expected to be more powerful in a voting contest. An event study of the announcement of the intent to form the CCGG shows that firms most likely to be engaged by the CCGG had positive and significant abnormal returns.

Our evidence suggests that a collective action organization can have an impact on governance through activism. The CCGG's structure facilitated activism by all types of domestic institutional investors, including those that are traditionally expected to be more passive. The factors that contributed to CCGGs effectiveness may have relevance elsewhere. These include forming a powerful group with a small number of members by focusing on investor scale rather than type and harnessing social incentives, in addition to economic incentives, to improve group functioning and firms' responses.

The results also raise questions about the potential future for such investor groups in a world with increasingly large international capital flows. If trust plays an important role and face-to-face interaction between leading investors and directors, either formally through engagement meetings or more informally at social events, is an important channel for creating social rewards and penalties, these interactions will be more difficult with foreign rather than domestic owners. Moreover, it suggests that efforts to encourage collective action among all institutional investors, regardless of country of origin, may not be successful (see e.g., the Kay Report (2012) in the U.K.). It could also pose a problem for the CCGG in the future as founding members, such as the large pension plans, have reduced the percentage of their assets in Canadian equities.

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Table 1. Who Joins the CCGG?

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

	CCGG Membership				CCGG Board and/or Working Group			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-9.022***	-8.551***	-8.551***	-7.554***	-16.226***	-15.892***	-17.825***	-16.867***
	(-7.34)	(-6.90)	(-6.53)	(-6.05)	(-5.38)	(-5.55)	(-4.32)	(-4.15)
Log(1+$ Ownership)	0.488***	0.438***	0.461***	0.470***	0.869***	0.858***	1.007***	1.007***
	(5.76)	(4.86)	(4.87)	(4.89)	(4.51)	(4.44)	(3.87)	(3.91)
Grey Institution	2.338***				0.726			
	(3.65)				(0.98)			
Grey Institution (alternate)		1.861***				-0.029		
		(3.88)				(-0.04)		
Bank-Insurer-Affiliated Institution			0.429	-0.331			-1.448	-2.825**
			(0.67)	(-0.43)			(-1.55)	(-2.40)
Pension Fund			2.657***	1.825***			0.255	-0.574
			(3.66)	(2.79)			(0.28)	(-0.55)
Investment Manager			-0.337	-0.497			-0.623	-1.030
			(-0.73)	(-0.99)			(-0.76)	(-1.15)
Late Period				-0.308				-0.553
				(-1.16)				(-1.28)
Late Period × Bank Insurer-Affiliated Institutions				1.374**				2.191**
				(2.13)				(2.31)
Late Period × Pension Fund				1.804***				1.459**
				(2.66)				(1.98)
Late Period × Investment Manager				0.300				0.740
				(0.85)				(1.14)
Year FE	YES	YES	YES	NO	YES	YES	YES	NO
Observations	1,770	1,770	1,770	1,770	1,770	1,770	1,770	1,770
Pseudo R^2	0.314	0.305	0.335	0.336	0.314	0.305	0.332	0.341

Table 2. CCGG Engagement Meetings and Adoptions.

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

Panel A. CCGG Engagements

		2005	2008 to 2012					
Year	N	Majority Voting	Total Engagements	Say-on-pay	Compensation Policies	Capped Pension	Performance Peer Groups	Clawbacks
2005	212	88						
2008	186		5	5	5	5	3	5
2009	169		26	15	15	14	4	7
2010	190		25	9	8	6	2	3
2011	237		49	18	20	7	7	11
2012	223		38	10	22	4	12	12
Total		88	143	57	70	36	28	38

Panel B. Participants in CCGG Engagement Meetings: 2008 to 2012

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

Panel C. Adoptions

	Majority Voting (2006 – 2007)				Say-on-pay (2009 – 2013)				Compensation Policies (2009 – 2013)			
	Yes	No	Total	% Adopted	Yes	No	Total	% Adopted	Yes	No	Total	% Adopted
Engaged Firms	40	45	85	47%	28	21	49	57%	40	26	66	61%
Non-Engaged Firms	17	94	111	15%	64	638	702	9%	124	730	854	15%
Total (Difference)	*57*	*139*	*196*	*(32%)*	*92*	*659*	*751*	*(48%)*	*164*	*756*	*920*	*(46%)*

Table 3. Majority Voting Engagements and Adoptions.

This table reports estimates from logit regressions that examine the determinants of CCGG engagements on majority voting during 2005 and the subsequent adoption of majority voting. The sample includes firms in the S&P/TSX index in 2005 that have complete data on firm characteristics, measured at the end of 2005. In models (1) – (3), the dependent variable equals 1 if, during 2005, the CCGG sent a letter to the firm requesting the adoption of majority voting. In models (4) – (7), the dependent variable equals 1 if a firm adopted majority voting in 2006 or 2007 and Engaged on Majority Voting equals 1 if the firm was engaged in 2005. In (4) – (7), the other explanatory variables are lagged and are defined in Table A.I. 1-digit SIC industry fixed effects are included. *t*-statistics are computed with robust standard errors. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Engagements			Adoptions			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Constant	-16.193***	-11.300***	-9.200***	0.811	-8.296***	-0.288	-0.171
	(-6.44)	(-5.86)	(-5.79)	(0.70)	(-3.05)	(-0.19)	(-0.12)
Engaged on Majority Voting				1.675***	0.915**	0.957*	1.032**
				(4.57)	(2.09)	(1.85)	(2.37)
Controlled Corporation	0.108	0.818*			-1.200***	-0.916*	
	(0.29)	(1.72)			(-2.61)	(-1.93)	
Log(Assets)	1.049***				0.671***		
	(6.29)				(3.77)		
Log(1+CCGG $ Ownership)		1.672***	1.638***				
		(5.84)	(6.66)				
CCGG % Ownership		0.014				0.055**	
		(0.45)				(1.96)	
CCGG Shapley Value			-0.023				0.056***
			(-1.56)				(3.37)
Canadian Inst. % Ownership ex CCGG		0.064**				0.004	
		(2.19)				(0.15)	
Foreign Inst. % Ownership		0.037**				0.01	
		(2.37)				(0.64)	
1-year Stock Return		-0.014*	-0.015**			0.007	0.006
		(-1.89)	(-2.06)			(0.94)	(0.85)
Turnover						-0.147	-0.044
						(-0.37)	(-0.12)
Financing Deficit						-0.039	-0.045*
						(-1.58)	(-1.69)
Log(1+Firm Media Cites)						0.300*	0.251
						(1.67)	(1.31)
Majority Voting Proposal						1.865*	1.672*
						(1.76)	(1.71)
U.S. Listed Firm		-2.297***	-0.914*			0.309	0.588
		(-3.13)	(-1.92)			(0.48)	(1.24)
Industry FE	YES	YES	YES	YES	YES	YES	YES
Observations	212	212	212	196	196	196	196
Pseudo R^2	0.309	0.495	0.471	0.156	0.266	0.294	0.321

Table 4. Say-on-pay Engagements and Adoptions.

This table reports estimates from logit regressions that examine the determinants of CCGG engagements on say-on-pay from 2008 to 2012 and subsequent adoptions from 2009 to 2013. The sample includes firms in the S&P/TSX index during those years that have complete data on firm characteristics, measured at the end of each year. In models (1) – (3), the dependent variable equals 1 if, during the year, representatives from the CCGG met with a firm's board members and requested the adoption of say-on-pay. In models (4) – (8), the dependent variable equals 1 if a firm adopted say-on-pay during 2009 to 2013 and Engaged on Say-on-Pay equals 1 if the firm was engaged in the prior two years. The Engaged Firm dummy equals 1 for all years if a firm was ever engaged on any issue by the CCGG. In (4) – (8), the other explanatory variables are lagged and are defined in Table A.I. Year fixed effects and 1-digit SIC industry fixed effects are included. *t*-statistics are computed with standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Engagements			Adoptions				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-18.785***	-6.298***	-6.429***	-2.838***	-11.560***	-3.993***	-3.988***	-4.103***
	(-9.31)	(-4.79)	(-6.26)	(-4.47)	(-6.29)	(-4.90)	(-5.73)	(-6.06)
Engaged on Say-on-pay				2.718***	1.783***	1.932***	2.013***	1.728***
				(7.79)	(4.96)	(5.47)	(5.65)	(4.67)
Engaged Firm								0.436
								(1.32)
Controlled Corporation	-1.240***	-0.804**			-1.992***	-1.566***		
	(-3.45)	(-1.96)			(-4.67)	(-3.69)		
Log(Assets)	1.060***				0.622***			
	(8.48)				(5.44)			
Log(1+CCGG $ Ownership)		0.784***	0.685***					
		(4.89)	(4.86)					
CCGG % Ownership		-0.020				0.021		
		(-0.81)				(1.23)		
CCGG Shapley Value			0.010				0.033***	0.030***
			(1.21)				(4.14)	(3.50)
Canadian Inst. % Ownership ex CCGG		-0.019				0.001		
		(-0.63)				(0.10)		
Foreign Inst. % Ownership		-0.004				0.013		
		(-0.31)				(1.18)		
1-year Stock Return		-0.014**	-0.015**			-0.007	-0.008	-0.008*
		(-2.14)	(-2.31)			(-1.46)	(-1.64)	(-1.71)
Turnover						0.407	0.662**	0.661**
						(1.39)	(2.52)	(2.50)
Financing Deficit						-0.457	-0.162	-0.079
						(-0.36)	(-0.13)	(-0.06)
Log(1+Firm Media Cites)						0.322**	0.211*	0.179
						(2.35)	(1.73)	(1.39)
Shareholder Proposal						2.331***	2.021***	2.098***
						(4.30)	(3.32)	(3.54)
U.S. Listed Firm		0.286	0.046			0.677	0.953***	0.953***
		(0.58)	(0.13)			(1.45)	(3.21)	(3.13)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	894	894	894	751	751	751	751	751
Pseudo R^2	0.258	0.235	0.223	0.149	0.249	0.286	0.267	0.270

Table 5. Compensation Policy Engagements and Adoptions.

This table reports estimates from logit regressions that examine the determinants of CCGG engagements on compensation policies (one or more of clawbacks, capped pensions, or performance peer groups) from 2008 to 2012 and subsequent adoptions from 2009 to 2013. The sample includes firms in the S&P/TSX index during those years that have complete data on firm characteristics, measured at the end of each year. In models (1) – (3), the dependent variable equals 1 if, during the year, representatives from the CCGG met with a firm's board members and requested the adoption of a compensation policy. In models (4) – (8), the dependent variable equals 1 if a firm adopted a compensation policy during 2009 to 2013 and Engaged on Compensation Policies equals 1 if the firm was engaged in the prior two years. The Engaged Firm dummy equals 1 for all years if a firm was ever engaged on any issue by the CCGG. In (4) – (8), the other explanatory variables are lagged and are defined in Table A.I. Year fixed effects and 1-digit SIC industry fixed effects are included. *t*-statistics are computed with standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Engagements			Adoptions				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-15.862***	-6.872***	-6.526***	-2.402***	-7.024***	-2.628***	-3.027***	-2.973***
	(-8.26)	(-4.87)	(-5.83)	(-5.00)	(-6.13)	(-5.20)	(-5.84)	(-5.37)
Engaged on Compensation Policies				2.184***	1.635***	1.791***	1.768***	1.903***
				(7.00)	(5.41)	(5.82)	(5.72)	(6.14)
Engaged Firm								-0.266
								(-1.19)
Controlled Corporation	-1.078**	-0.840*			-0.768***	-0.743***		
	(-2.50)	(-1.95)			(-3.23)	(-3.14)		
Log(Assets)	0.872***				0.328***			
	(7.54)				(4.59)			
Log(1+CCGG $ Ownership)		0.864***	0.738***					
		(4.97)	(4.65)					
CCGG % Ownership		-0.025				0.01		
		(-1.03)				(0.80)		
CCGG Shapley Value			0.008				0.019***	0.020***
			(0.93)				(3.01)	(3.11)
Canadian Inst. % Ownership ex CCGG		0.001				-0.013		
		(0.03)				(-1.01)		
Foreign Inst. % Ownership		0.006				-0.016**		
		(0.56)				(-2.18)		
1-year Stock Return		-0.016***	-0.016***			-0.006*	-0.007**	-0.007**
		(-2.94)	(-2.99)			(-1.90)	(-2.19)	(-2.17)
Turnover						0.02	0.035	0.044
						(0.10)	(0.18)	(0.23)
Financing Deficit						0.138	0.327	0.291
						(0.14)	(0.32)	(0.29)
Log(1+Firm Media Cites)						0.235***	0.206**	0.234**
						(2.66)	(2.38)	(2.57)
Shareholder proposal						0.609	0.676	0.664
						(0.63)	(0.77)	(0.78)
U.S. Listed Firm		-0.485	-0.449			0.308	-0.116	-0.111
		(-1.06)	(-1.16)			(1.07)	(-0.52)	(-0.51)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	989	989	989	920	920	920	920	920
Pseudo R^2	0.238	0.235	0.222	0.094	0.130	0.134	0.125	0.127

Table 6. Changes in CEO Incentives After CCGG Engagements.

This table reports estimates from OLS regressions that examine changes in CEO equity pay ratio (EPR) and pay-for-performance sensitivity (PPS) following CCGG engagements. The sample period is from 2008 to 2013 and includes firms that were included in the S&P/TSX index during any of those years and have complete data on lagged firm characteristics. In models (1) – (4), the dependent variable is the CEO's EPR and in (5) – (8) it is Log(1+PPS). Engaged on Compensation equals 1 in year t and in all subsequent years if a firm was engaged on a compensation issue in year t-1. The Engaged Firm dummy equals 1 for all years if a firm was ever engaged on any issue by the CCGG. The other explanatory variables are lagged and are defined in Table A.I. Year fixed effects and 1-digit SIC industry fixed effects are included. *t*-statistics are computed with standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Equity Pay Ratio				Pay-for-performance Sensitivity			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	11.121	-37.090**	-57.503***	-56.093***	2.848***	-2.293**	-4.679***	-4.705***
	(1.16)	(-2.50)	(-2.90)	(-2.85)	(2.95)	(-2.13)	(-3.47)	(-3.50)
Engaged on Compensation	17.170***	8.997***	7.277***	6.211**	1.165***	0.435**	0.322*	0.342*
	(7.07)	(3.54)	(2.90)	(2.39)	(6.57)	(2.57)	(1.90)	(1.95)
Engaged Firm				1.759				-0.033
				(0.57)				(-0.13)
CEO Turnover	-2.691	-3.667	-3.851	-3.857	-0.358**	-0.448***	-0.479***	-0.479***
	(-1.14)	(-1.54)	(-1.63)	(-1.63)	(-2.37)	(-3.13)	(-3.61)	(-3.61)
S&P/TSX Index Member	11.535***	5.027**	2.278	2.303	1.660***	0.974***	0.612***	0.611***
	(5.10)	(2.13)	(0.82)	(0.83)	(9.28)	(4.83)	(2.96)	(2.96)
Controlled Corporation		-6.606***	-5.056**	-4.923**		-0.079	0.012	0.01
		(-2.65)	(-2.05)	(-1.99)		(-0.34)	(0.05)	(0.04)
Log(Assets)		3.916***	4.864***	4.706***		0.414***	0.493***	0.496***
		(5.14)	(5.21)	(4.76)		(7.39)	(6.27)	(6.12)
1-year Stock Return			0.042**	0.041**			0.001	0.001
			(2.21)	(2.19)			(1.10)	(1.12)
Institutional Ownership %			0.068	0.065			0.010*	0.010*
			(1.12)	(1.06)			(1.90)	(1.93)
Volatility			0.314	0.317			0.029	0.029
			(0.55)	(0.56)			(0.78)	(0.78)
Tobin's Q			2.754**	2.707**			0.318***	0.319***
			(2.45)	(2.40)			(3.88)	(3.85)
Leverage			-0.027	-0.023			0.009	0.009
			(-0.37)	(-0.32)			(1.58)	(1.57)
Cash/Assets			0.017	0.017			0.006	0.006
			(0.19)	(0.19)			(0.90)	(0.90)
Dividend Paid			-2.252	-2.436			0.156	0.16
			(-0.79)	(-0.85)			(0.66)	(0.67)
U.S. Listed Firm			2.270	2.281			-0.175	-0.175
			(0.78)	(0.78)			(-0.77)	(-0.77)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Adjusted R^2	0.100	0.138	0.160	0.160	0.200	0.268	0.305	0.304

Table 7. Board Interlocks and Director Influence.

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

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

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

Panel B. Big Bank vs. Non-Big Bank Directors

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

Table 8. Adoptions By Non-engaged Firms.

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

	Panel A. Majority Voting Adoption					
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-2.398***	-2.475***	-2.984*	-3.423***	-2.639*	-2.631*
	(-3.96)	(-4.32)	(-1.80)	(-2.71)	(-1.73)	(-1.77)
Interlock	0.926					
	(1.37)					
Big Bank Interlock		1.635***	1.943**	1.976**		
		(2.83)	(2.16)	(2.33)		
Non Big Bank Interlock		0.434	0.801	0.646		
		(0.67)	(1.10)	(0.94)		
Interlock Eigenvalue					5.330*	5.509**
					(1.96)	(2.02)
Controlled Corporation			-0.744		-0.453	
			(-1.13)		(-0.74)	
CCGG % Ownership			0.094*		0.077	
			(1.86)		(1.34)	
CCGG Shapley Value				0.048**		0.042
				(2.04)		(1.34)
Canadian Inst. % Ownership ex CCGG			-0.039		-0.018	-0.007
			(-0.76)		(-0.31)	(-0.13)
Foreign Inst. % Ownership			0.006		0.019	0.020
			(0.31)		(1.02)	(1.14)
1-year Stock Return			0.024**	0.021**	0.020**	0.019*
			(2.14)	(2.12)	(1.98)	(1.93)
Turnover			0.032	0.238	0.077	0.124
			(0.05)	(0.37)	(0.11)	(0.18)
Financing Deficit			-0.040	-0.042	-0.053*	-0.056*
			(-1.24)	(-1.33)	(-1.73)	(-1.80)
Log(1+Firm Media Cites)			-0.439	-0.372	-0.402	-0.397
			(-1.15)	(-0.94)	(-1.02)	(-1.00)
U.S. Listed Firm			1.093	1.166	0.628	0.616
			(1.24)	(1.56)	(0.78)	(0.78)
Year FE	NO	NO	NO	NO	NO	NO
Industry FE	NO	NO	NO	NO	NO	NO
Observations	111	111	111	111	111	111
Pseudo R^2	0.023	0.096	0.271	0.257	0.213	0.205

Table 8, continued.

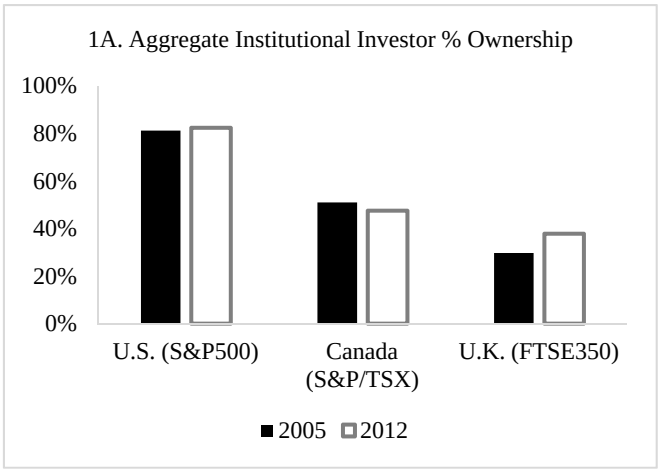
	Panel B. Say-on-pay Adoption				
	(1)	(2)	(3)	(4)	(5)
Constant	-15.111***	-16.845***	-15.509***	-16.551***	-16.236***
	(-14.02)	(-13.99)	(-13.49)	(-13.60)	(-14.09)
Interlock	0.512*	0.523	0.255		
	(1.75)	(1.63)	(0.82)		
Interlock Eigenvalue				4.336	1.747
				(1.10)	(0.47)
Controlled Corporation		-1.569***		-1.514***	
		(-3.29)		(-3.21)	
CCGG % Ownership		0.013		0.014	
		(0.66)		(0.66)	
CCGG Shapley Value			0.029***		0.029***
			(2.80)		(2.70)
Canadian Inst. % Ownership ex CCGG		0.005		0.005	
		(0.29)		(0.30)	
Foreign Inst. % Ownership		0.024**		0.025**	
		(2.06)		(2.06)	
1-year Stock Return		-0.007	-0.007	-0.007	-0.007
		(-1.45)	(-1.38)	(-1.34)	(-1.34)
Turnover		0.368	0.678**	0.364	0.670**
		(1.23)	(2.48)	(1.24)	(2.48)
Financing Deficit		-0.982	-0.459	-0.947	-0.483
		(-0.69)	(-0.34)	(-0.64)	(-0.35)
Shareholder Proposal		1.790***	1.521**	1.785***	1.519**
		(2.80)	(2.21)	(2.87)	(2.22)
Log(1+Firm Media Cites)		0.448***	0.304**	0.433**	0.303**
		(2.65)	(2.08)	(2.47)	(1.97)
U.S. Listed Firm		0.126	0.758**	0.078	0.749**
		(0.26)	(2.57)	(0.16)	(2.55)
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Observations	615	615	615	615	615
Pseudo R^2	0.062	0.205	0.170	0.203	0.169

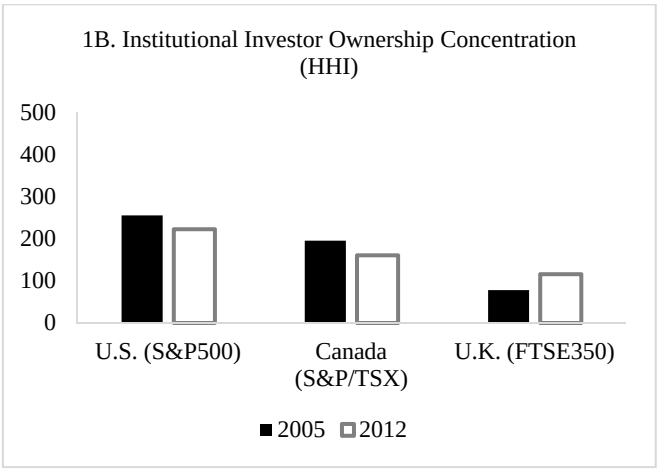
Table 9. Abnormal Returns Around the Announcement of CCGG Formation.

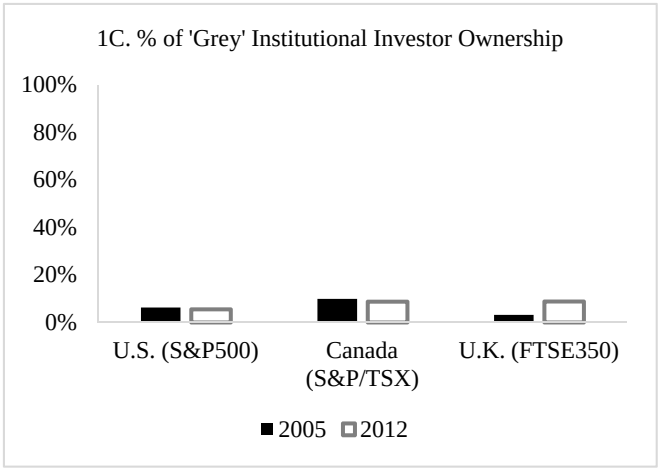
This table reports estimates from OLS regressions that examine cross-sectional differences in price reactions around the announcement on June 27, 2002 of the intent to form the CCGG. The dependent variable is the cumulative abnormal return over a 3 day window (t-1 to t+1) around the announcement. The sample includes Canadian firms included in the TSX300 index with complete information in Datastream. CCGG holdings are based on the institutional investors mentioned in the press release. They include the aggregate holdings of these investors in a given firm in dollars (Log(1+CCGG $ Ownership)) or percent (CCGG % Ownership). All other variables are defined in Table A.I. 1-digit SIC industry fixed effects are included. *t*-statistics are computed with robust standard errors. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)
Constant	-3.0284	-1.9262	-3.0563*
	(-0.94)	(-0.94)	(-1.81)
Controlled Corporation	-1.3108**	-1.2715*	
	(-1.98)	(-1.89)	
Log(Assets)	0.1953		
	(1.07)		
Log(1+CCGG $ Ownership)		0.6382***	0.6545***
		(2.61)	(2.71)
CCGG % Ownership		0.0252	
		(0.56)	
CCGG Shapley Value			0.0412
			(1.55)
Canadian Inst. % Ownership ex CCGG		0.0258	
		(0.91)	
Foreign Inst. % Ownership		-0.0122	
		(-0.42)	
U.S. Listed Firm		-1.8626*	-1.8170**
		(-1.82)	(-2.13)
Industry FE	YES	YES	YES
Observations	238	238	238
Adjusted R^2	0.179	0.228	0.226

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







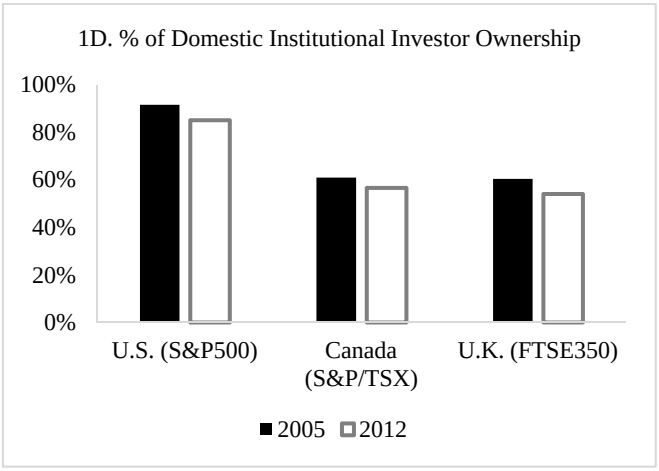
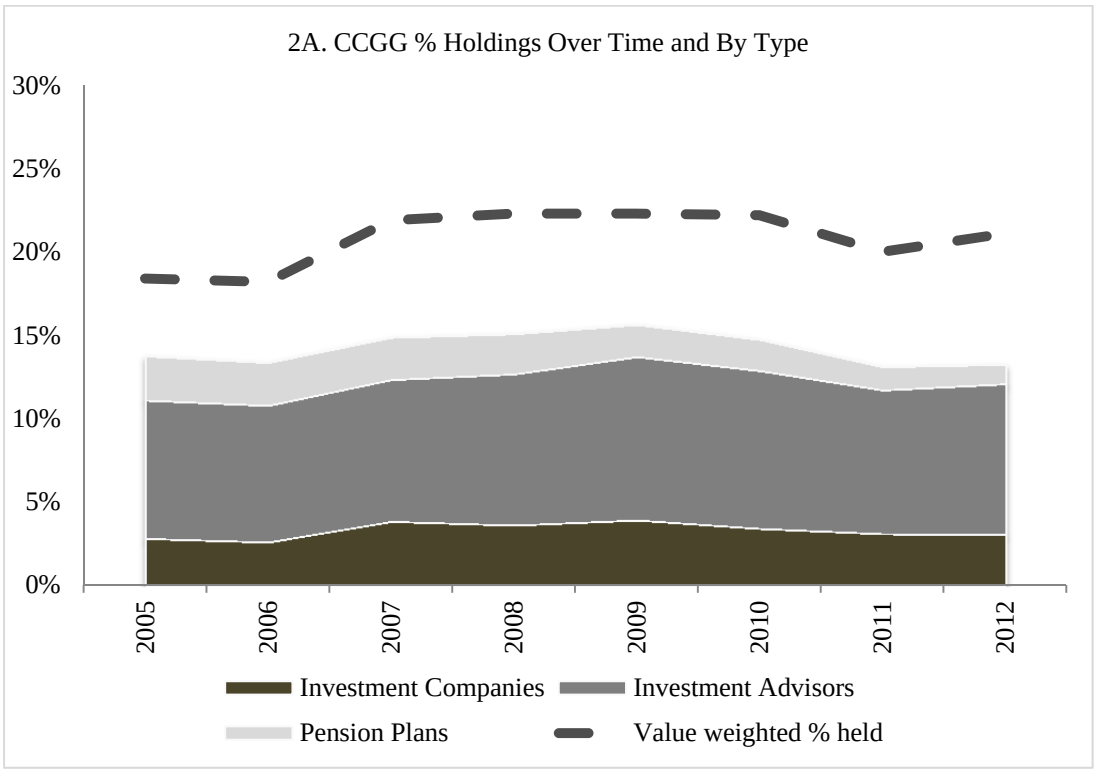


Figure 2. CCGG Members' Ownership of Canadian Firms.
The solid lines in Figure 2A show the average, aggregate percentage holdings CCGG members in S&P/TSX index firms over time and by type of member. The dashed line shows the value-weighted aggregate percentage holdings. Figure 2B shows the distribution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



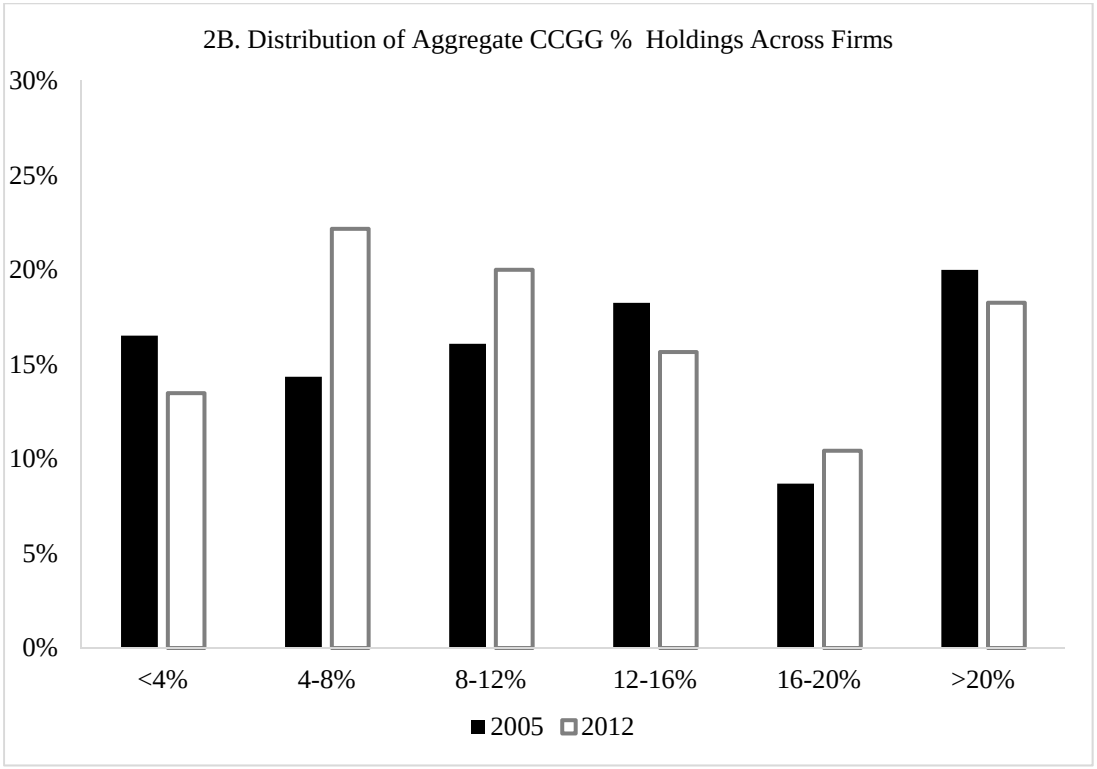
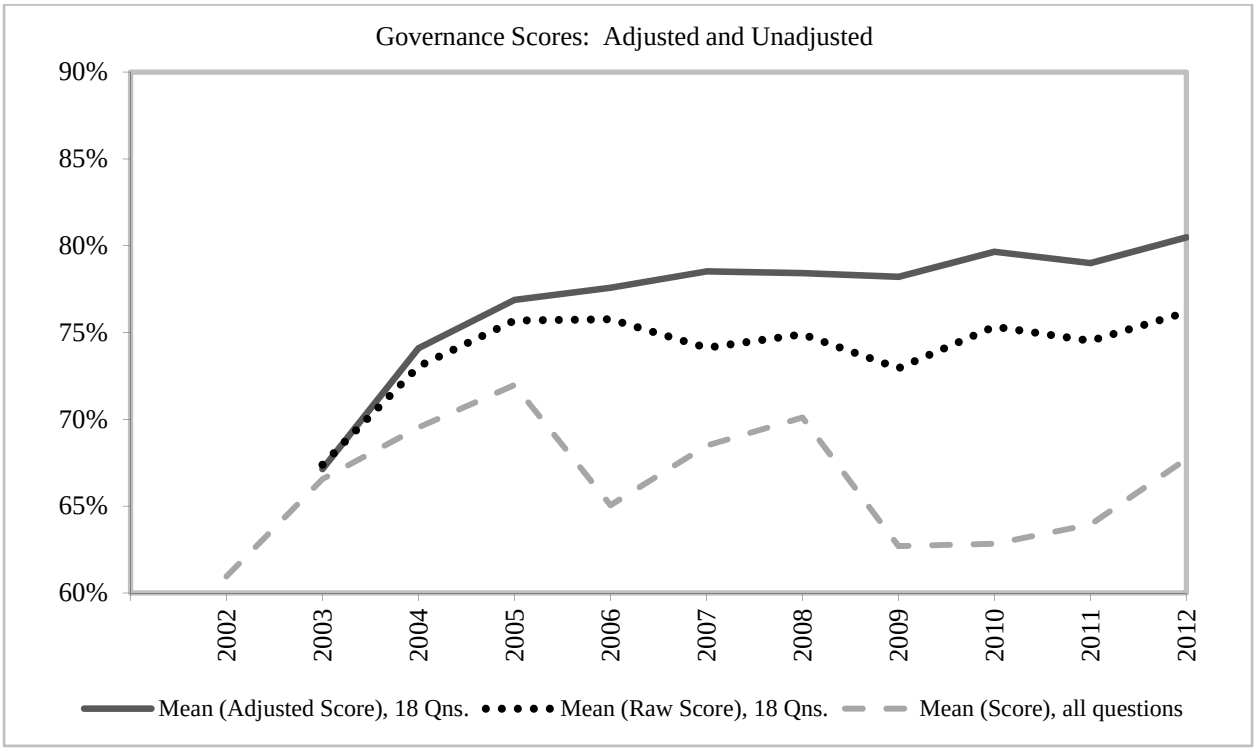


Figure 3. Changes in Governance Scores Over Time.

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



APPENDIX

Table A.I. Variable Definitions.

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

Variable	Description
1-year Stock Return	Buy-and-hold stock return in the 1-year period ending June 30 of the current year. (Source: Datastream).
Adopted Compensation Policies	Equals 1 if within the subsequent two years of a potential engagement, the firm adopted at least one of the following "compensation policies" during 2009 to 2013; a clawback policy, a provision that allows a firm to recoup performance-based executive compensation in cases where financial information upon which the performance payments are made need to be restated; a capped pension, a policy that limits the pension/retirement benefits awarded to a firm's CEO; performance peer groups, the practice of evaluating firm performance relative to a disclosed group of peer firms when determining performance-based executive compensation. For firms that adopted all three policies, this variable is set to missing in subsequent years. (Source: Firms' proxy circulars).
Adopted Majority Voting	Equals 1 if within two years of the majority voting campaign in 2005, the firm adopted a majority voting policy. Firms should lists individual directors on the Registered Form of Proxy or the Voting Instruction form, adopt an internal policy which states that for any director receiving 50% + 1 withheld votes, those votes would be considered votes "against" the director, and such directors immediately resign, which the board is expected to accept absent extraordinary circumstances. (Source: Firms' proxy circulars).
Adopted Say-on-pay	Equals 1 if, within the subsequent two years of a potential engagement, the firm adopted a policy to hold a non-binding shareholder advisory vote on the firm's approach a executive compensation (say-on-pay) during 2009 to 2013. Equals 0 if the firm did not adopt such a policy. For firms that adopted such a policy, this variable is set to missing in subsequent years. (Source: Firms' proxy circulars).
Canadian Inst. Ownership % ex CCGG	The percentage of a firm's outstanding shares owned in aggregate by institutions domiciled in Canada excluding CCGG members in a given year. (Source: FactSet, Capital IQ).
Cash/Assets	The ratio of the cash held by the firm to Total Assets. (Source: Worldscope).
CCGG % Ownership	The percentage of a firm's outstanding shares owned in aggregate by CCGG member institutions in a given year. (Source: FactSet, Capital IQ).
CCGG Shapley Value	The Shapley value of the CCGG which is assumed to be a single major shareholder holding the collective voting rights of its members in an oceanic voting game with a voting threshold of 50%. Other shareholders with voting rights of 10% or more are considered major shareholders and the remaining shareholders are considered minor shareholders (Source: Firm's proxy circulars, Factset).
CEO Turnover	Equals 1 if the CEO is changed during the year. Equals 0 otherwise. (Source: Firms' proxy circulars and annual reports).
Controlled Corporation	Equals 1 if a firm has multiple classes of shares or if the fraction of the closely held shares exceeds 20%. Closely held shares include shares held by officers, directors, and their immediate families, shares held in trust, shares of the company held by any other corporation (except shares held in a fiduciary capacity by banks or other financial institutions), shares held by pension/benefit plans and shares held by individuals with ownership exceeding 5%. Equals 0 otherwise. (Source: Worldscope; CCGG records).
Cumulative Abnormal Returns	The cumulative abnormal returns, in percent, are estimated for the 3-day window around the announcement on June 27, 2002 of the intent to form the CCGG. Each firm's abnormal return is defined relative to returns on the Canadian market (Canada-DS market). A beta for each firm is estimated from 60 days prior to 310 days before the event date. (Source: Datastream)
Dividend Paid	Equals 1 if the firm paid a dividend during the year. Equals 0 otherwise. (Source: Worldscope).
Engaged on Compensation	Equals 1 in year t and in all subsequent years if a firm was engaged on a compensation issue in year t. Equals 0 otherwise. (Source: Private CCGG records).
Engaged on Compensation Policies	Equals 1 if, the CCGG engaged a firm's board between 2008 and 2012 and requested that the firm adopt one more of capped pensions, clawbacks, or performance peer groups. (Compensation Policies). Equals 0 otherwise. (Source: Private CCGG records).
Engaged on Majority Voting	Equals 1 if, during 2005, the CCGG sent a letter to a firm's board requesting that the firm adopt a majority voting policy. Equals 0 otherwise. (Source: Private CCGG records).
Engaged on Say-on-pay	Equals 1 if, the CCGG engaged a firm's board between 2008 and 2012 and requested that the firm adopt say-on-pay. Equals 0 otherwise. (Source: Private CCGG records).
Engaged Firm	Equals 1 for all years for firms that were engaged on any issue in any year between 2008 and 2012. Equals 0 otherwise. (Source: Private CCGG records).
Equity Pay Ratio	The fraction of the total compensation awarded to the firm's CEO during the year consisting of either shares or options. (Source: Firms' proxy circulars and annual reports; Clarkson Centre for Business Ethics and Board Effectiveness).

Table A.I, continued.

Variable	Description
Foreign Inst. % Ownership	The percentage of a firm's outstanding shares owned in aggregate by institutions domiciled outside Canada in a given year. (Source: FactSet, Capital IQ).
Financing Deficit	Financing deficit defined as the sum of dividends, investment and change in net-working capital less cash flow, all deflated by total assets. See Frank and Goyal (2003). (Source: Worldscope).
Grey Institution	Equals 1 for institutional investors defined as 'grey' based on the Ferreira and Matos (2008) classification scheme. It includes banks, insurers, pension plans, endowments and sovereign wealth funds. The alternate definition also includes bank-affiliated asset managers.
Institutional Ownership %	The percentage of a firm's outstanding shares held in aggregate by institutional investors in a given year. (Source: FactSet and Capital IQ).
Institutional Investor HHI	The sum of the squared percentage ownership stakes held by the institutional shareholders in a given year. (Source: FactSet and Capital IQ).
Interlock	For firms not engaged by the CCGG, it equals 1 if the firm has a director who also sits on the board of a firm that was engaged by the CCGG to adopt majority voting (say-on-pay) during the prior two years. Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Interlock – Big Bank	For firms included in the majority voting sample that were not engaged by the CCGG, this dummy equals 1 if the firm shares a director with one of the seven major financial institutions that were initially engaged by the CCGG on majority voting (Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Toronto-Dominion Bank, Manulife Financial, Sunlife Financial). Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Interlock Eigenvalue	Equals the combined (summed) eigenvector centrality of directors who sat on a board which was engaged by CCGG to adopt a majority voting policy (say-on-pay) in the prior year. Eigenvector centrality of director i is his power in the network, weighed by the similarly calculated power of all his direct contacts, each weighted by the power of their direct connections, and so on. The recursions in the calculation process result in estimation of an eigenvector of connections matrix. The eigenvector centrality values of the directors in the network are taken as the elements of the eigenvector associated with the connections matrix's principal eigenvalue. The centrality measure is calculated using directors sitting on the same board in the same year as a connection within the directors' network. Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Interlock – Non Big Bank	For firms included in the majority voting sample that were not engaged by the CCGG, this dummy equals 1 if the firm shares a director with a firm engaged by the CCGG on majority voting excluding the seven major financial institutions. Equals 0 otherwise. (Source: Clarkson Centre for Business Ethics and Board Effectiveness).
Leverage	The ratio of Total Debt to Total Assets. (Source: Worldscope).
Log(Assets)	Natural logarithm of Total Assets. (Source: Worldscope).
Log (1+$ Ownership)	Natural logarithm of 1 + the total dollar holdings of an institution's holdings of all Canadian firms in the TSX index in a given year .
Log(1+CCGG $ Ownership)	Natural logarithm of 1 + the dollar value of CCGG's members' shareholdings in the firm (see *CCGG % Ownership*).
Log(1+Firm Media Cites)	Natural logarithm of 1 + the number of news articles appearing in *The Globe and Mail* or *Financial Post* during a given year that mention the firm. (Source: LexisNexis).
Pay-for-performance Sensitivity	The change in the value of a CEO's stock and option portfolio per 1% increase in stock price (thousands of dollars). Pay-Performance Sensitivity from outstanding option grants is calculated based on the methodology in Core and Guay (1999) and Core and Guay (2002). RSUs and PSUs are treated similarly as they are assumed to be held for three years. (Source: Firms' proxy circulars and annual reports; Datastream; Clarkson Centre for Business Ethics and Board Effectiveness).
Shareholder Proposal	Equals 1 if a shareholder proposal requesting adoption of Majority Voting (Table 3) Say-on-pay (Table 4, Table 8, Panel B), or Compensation Policies (Table 5) was filed with the firm during the year. Equals 0 otherwise. (Source: SHARE.ca).
Tobin's Q	The ratio of the sum of a firm's market value of equity and book value of debt to Total Assets. (Source: Worldscope).
S&P/TSX Index Member	Equals 1 if the firm was a member was included in the S&P/TSX Index as of June 30 that year. Equals 0 otherwise. (Source: Datastream).
Turnover	Number of shares traded during the year divided by the number of shares outstanding. (Source: Datastream).
U.S. Listed Firm	Equals 1 if the firm was cross-listed on an exchange in the United States (AMEX, NYSE or NASDAQ) in a given year. Equals 0 otherwise. (Sources: Bank of New York, Citibank, JP Morgan, the NYSE, NASDAQ, CRSP and SEC).
Volatility	The volatility of the firm's stock returns during the 104-week period ending in June 30 of the current year. (Source: Datastream).