

**CORPORATE GOVERNANCE MECHANISMS IN
MANAGEMENT RESEARCH – DESIGNS AND STRATEGIC
IMPLICATIONS FOR M&AS, CEO CONTRACTING AND
SHAREHOLDER VOTING**

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M. Sc.

Cihan Demirtas

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Referentin: Prof. Dr. Christiana Weber, Leibniz Universität Hannover

Korreferentin: Prof. Dr. Kathrin Weidner, Hochschule Rhein-Waal

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Kurzfassung

Seit der zweiten Hälfte des 20. Jahrhunderts ist die Corporate Governance börsennotierter Unternehmen ein wesentlicher Bestandteil der Managementforschung und ein stetig diskutiertes Thema in der Betriebswirtschaftslehre (Aguilera, Desender, Bednar, & Lee, 2015; Aguilera & Jackson, 2010; Bebchuk & Weisbach, 2010; Dalton, Hitt, Certo, & Dalton, 2007; Davis, 2005; Filatotchev & Boyd, 2009; Rau et al., 2013; Tihanyi, Graffin, & George, 2014). Ein essentieller Teil der Debatte ist die Prinzipal-Agent-Theorie, die einen Interessenskonflikt aufgrund der Trennung von Eigentum und Kontrolle zwischen Management und Aktionären beschreibt (Jensen & Meckling, 1976, p. 302). Die einflussreichen Analysen von Mace (1971), Jensen und Meckling (1976), Shleifer und Vishny (1997) sowie Fama und Jensen (1983) zeigen Governance Mechanismen auf, die versuchen, PAT-Konflikte zu entschärfen. Diese Governance Mechanismen sind in den Vordergrund der theoretischen und empirischen Forschung gerückt, wie z. B. die vertragliche Gestaltung von Managementverträgen (Cowen, King, & Marcel, 2016) und Aktionärsvorschläge (Goranova & Ryan, 2014).

Ziel dieser Dissertation ist es, zu untersuchen, wie Unternehmenseigentümer mit Hilfe neuartiger Governance Mechanismen wie Shareholder Proposals und Severance Agreements PAT-Konflikte lösen und damit den Unternehmenserfolg begünstigen können. Neben dem Einfluss der Anteilseigner auf die operative Führung von Unternehmen, werden in dieser Dissertation auch die vertraglichen Regelungen (Severance Agreements) der CEOs und deren Einfluss auf die persönlichen Präferenzen der Manager, wie z. B. deren Risikoaffinität, betrachtet.

Der erste Beitrag untersucht, wie Unternehmenseigentümer ihren Einfluss in der Unternehmensführung durch Shareholder Proposals geltend machen. Bisherige Forschung hat in den vergangenen Dekaden besondere Aufmerksamkeit auf den Einfluss von Shareholder Proposals gelegt. Insbesondere die zugrundeliegenden Mechanismen der Shareholder

Proposals, wie die Incentivierungsfunktion des Managements (Say on Pay), die Mitarbeitervergütung (Employee Stock Options) und deren Häufigkeit (Say on Frequency) sowie die Wechselwirkung mit der Wahl der Unternehmensprüfer, welche für Transparenz sorgt (Independent Auditors), wurden bislang nicht vollständig verstanden. Auf Basis der Principal-Agenten-Theorie werden im ersten Beitrag Hypothesen zum Zusammenspiel verschiedener Shareholder Proposals sowie deren Interaktion im Kontext von M&A Transaktionen entwickelt. Diese Hypothesen werden empirisch anhand eines Datensatzes aus 170 Unternehmen und 369 Shareholder Proposals getestet und bestätigt. Indem die Wechselwirkung zwischen Shareholder Proposals aufgezeigt werden, wird ein wesentlicher Beitrag zur Prinzipal-Agenten-Theorie geleistet.

Der zweite Beitrag befasst sich mit der Frage, wie Kombinationen (Komplementäre und Substitute) von Shareholder Proposals auf die Eigenkapitalrendite wirken. Bislang gibt es in der Literatur keine einheitliche Auffassung über die Wechselwirkung von Shareholder Proposals. Sie werden als Empfehlung der Unternehmenseigentümer an die Unternehmensleitung (aufgrund ihres nicht bindenden Charakters) zur Beeinflussung der Unternehmensführung gesehen. Im Rahmen einer konfiguralen Betrachtung mit einem Datensatz von 744 Shareholder Proposals in 124 Unternehmen werden im zweiten Beitrag die Einflüsse von Shareholder Proposals auf die Eigenkapitalrendite betrachtet. Im Ergebnis haben klassische Erfolgsfaktoren wie Interessensgleichheit (zwischen Shareholdern und Management) und Transparenz einen wesentlichen Einfluss auf die gemeinsam erzielbare Eigenkapitalrendite. Employee incentives weisen hingegen keinen Effekt auf die Eigenkapitalrendite auf. Mit diesen Ergebnissen stellt die Studie die Relevanz von Shareholder Proposals als governance tool dar.

Der dritte Beitrag fokussiert sich auf Incentivierungsmaßnahmen, die Unternehmenseigentümer bei der Stärkung der Risikoneigung des Managements anwenden

können bspw. Severance Agreements. Die bisherige Forschung hat erst vor kurzem besondere Aufmerksamkeit auf die Wirkung von Severance Agreements und deren Incentivierungsfunktion gelegt. Die zugrunde liegenden Mechanismen, wie das Triggering der Risikoneigung durch die Konfiguration von Absicherungsmaßnahmen des Humankapitals und auch der Einkommensperspektive von CEOs wurden noch nicht verstanden.

Auf Basis eines theoretischen Frameworks von Cowen et al. (2016) und Grundzügen der Prinzipal-Agenten-Theorie werden im dritten Beitrag im Rahmen einer konfiguralen Betrachtung mit einem Datensatz von 58 Ex-Ante Severance Agreements die Einflüsse der verschiedenen Dimensionen von Severance Agreements auf die Risikoaffinität betrachtet. Einzelne Elemente von Abfindungsvereinbarungen haben einen signifikanten Einfluss auf die Risikoaffinität von CEOs. Auch die Ausgestaltung von Abfindungspaketen, d. h. mehrere Abfindungselemente in Kombination, haben einen Einfluss auf die Risikoaffinität von CEOs. Damit stellt die Studie die Relevanz von Severance Agreements dar und legt nahe, die Bewertung der verschiedenen Severance Agreements Elemente in Konfigurationen vorzunehmen.

Schlagwörter: Corporate Governance, Managementvergütung, Mergers & Acquisitions

Short summary

Since the second half of the 20th century, corporate governance of publicly traded companies has been an integral part of management research and a constantly debated topic in management science (Aguilera et al., 2015; Aguilera & Jackson, 2010; Bebchuk & Weisbach, 2010; Dalton et al., 2007; Davis, 2005; Filatotchev & Boyd, 2009; Rau et al., 2013; Tihanyi et al., 2014). A central component of the debate is principal-agent theory, which describes a conflict of interest due to “the separation of ownership and control” between management and shareholders (Jensen & Meckling, 1976, p. 302). The influential analyses of Mace (1971), Jensen & Meckling (1976), Shleifer and Vishny (1997), and Fama & Jensen (1983) identify governance mechanisms that attempt to mitigate principal-agent conflicts. These governance mechanisms have come to the forefront of theoretical and empirical research, such as the contractual design of management contracts (Cowen, King, & Marcel, 2016) and shareholder proposals (Goranova & Ryan, 2014).

The purpose of this dissertation is to examine how shareholders can use novel governance mechanisms, such as shareholder proposals and severance agreements, to resolve principal-agent conflicts and thereby promote corporate success. In addition to the influence of shareholders on operational governance, this dissertation also examines CEOs' contractual arrangements (severance agreements) and their influence on managers' personal preferences, such as their affinity for risk.

The first paper examines how corporate owners exert their influence on corporate governance through shareholder proposals. Previous research has paid particular attention to the influence of shareholder proposals in recent decades. In particular, the mechanisms underlying shareholder proposals, such as the incentive function of management (Say on Pay), employee compensation (Employee Stock Options) and their frequency (Say on Frequency), as well as

the interactions with the choice of auditor providing transparency (Independent Auditors), are not yet fully understood. Based on the principal-agent theory, hypotheses were developed about the interaction of different shareholder proposals as well as their interaction in the context of Mergers & Acquisitions (M&A) transactions. These hypotheses were empirically tested and confirmed using a dataset of 170 companies and 369 shareholder proposals. By showing the interaction between shareholder proposals, a significant contribution to principal-agent theory is made.

The second paper deals with the question of how combinations (complementary and substitutive) of shareholder proposals affect the return on equity. To date, there is no uniform view in the literature on the interaction of shareholder proposals. Shareholder proposals are seen as a recommendation by the company owners to the company management (due to their non-binding character) to influence the management of the company. In a configuration analysis with a data set of 744 shareholder proposals in 124 companies, the influence of shareholder proposals on return on equity is investigated. In this context, classic success factors such as alignment of interests and transparency have a significant influence on the jointly achievable return on equity, while employee incentives have no impact on return on equity. Therefore, the study presents the relevance of shareholder proposals as a governance tool and recommends an evaluation of the design of the various shareholder proposals for the different stakeholders.

The third paper focuses on incentive measures that company owners can use to strengthen management's willingness to take risks, e. g. severance agreements. Previous research has only recently paid special attention to the effect of severance agreements and their incentive function. In particular, the underlying mechanisms, such as the triggering of risk-taking through the design of human capital protection and the CEO's income perspective, are not yet understood.

Based on a theoretical framework by Cowen et al. (2016) and basic tenets of PAT, I examine the influences of various dimensions of severance agreements on risk affinity within a configuration framework using a dataset of 58 ex ante severance agreements. Individual elements of severance agreements have a significant influence on CEOs' risk affinity. The design of severance packages, i. e. several severance elements in combination, also has an influence on CEOs' risk affinity. The study thus underscores the importance of severance agreements and encourages an evaluation of the configurations of the various severance elements.

Keywords: Corporate governance, management compensation, mergers & acquisitions

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III.LIST OF ABBREVIATIONS

Abbreviation	Meaning
AR	Abnormal return
CAR	Cumulated abnormal returns
CEO	Chief Executive Officer
DEF	Definitive Additional Materials
e. g.	Exempli gratia (for example)
et al.	Et alii (and other)
fsQCA	Fuzzy-set Qualitative Comparative Analysis
i. e.	id est
M&A	Mergers & Acquisitions
NASDAQ	NASDAQ OMX Group - international stock exchange operator
NYSE	New York Stock Exchange
OLS	Ordinary least squares
QCA	Qualitative Comparative Analysis
R&D	Research and Development
ROA	Return on Assets
ROI	Return on Investment
S&P 500	Standard & Poor's 500 (share index)
SEC	Securities and Exchange Commission
U.S.	United States (of America)
USD	US-Dollar
VIF	Variance inflation factor

CHAPTER 1: INTRODUCTION

1.1 Understanding the strategic function of Corporate Governance mechanisms

1.1.1 Scientific and practical relevance

Scientific relevance. Corporate governance research is considered a broad field that spans multiple disciplines (Aguilera et al., 2015; Aguilera & Jackson, 2010; Bebchuk & Weisbach, 2010; Dalton et al., 2007; Davis, 2005; Filatotchev & Boyd, 2009; Rau et al., 2013; Tihanyi et al., 2014). Research in the field of shareholder activism has intensified in recent years (Goranova & Ryan, 2014), and several special issues on corporate governance have been published on this topic (e. g., Academy of Management Review (“Special Issue “CORPORATE GOVERNANCE: DECADES OF DIALOGUE AND DATA” (Daily & Dalton, 2003)), Corporate Governance: An International Review (“Issue, Special ‘Ownership and Corporate Governance across Institutional Contexts,’” 2020); Journal of Risk and Financial Management (“Special Issue ‘The Role of Institutional Investors in Corporate Finance,’” 2021), British Management Journal („Special Issue on Sustainable Corporate Governance“) (Goergen & Tonks, 2019), Contemporary Accounting Research (Ferri, 2021)), and journals have been established that focus extensively on the topic. I highlight the importance of governance mechanisms such as shareholder activism (chapter 2 and 3) and the design of compensation arrangements (chapter 4), and emphasize the need for more in-depth research on specific aspects of corporate governance such as shareholder proposals and severance arrangements. The importance of shareholder activism on the board of directors has changed fundamentally in recent decades (Ertimur, Ferri, & Stubben, 2010; Guo, Kruse, & Nohel, 2008). Shareholder proposals were introduced to allow shareholders to express their interests (Hirschman, 1970; Zhengzi Li, Maug, & Schwartz-Ziv, 2021) and have since become increasingly important. Shareholder proposals have evolved from a non-binding instrument to one that investors can

use to strategically influence firm performance (Cuñat, Gine, & Guadalupe, 2016; Del Guercio, Seery, & Woidtke, 2008). The literature on the strategic use of shareholder proposals and the design of severance agreements is currently fragmented.

Practical relevance. Deficiencies in corporate governance mechanisms, as in the current case of Wirecard (Jo, Hsu, Llanos-Popolizio, & Jorge, 2021), are associated with persistent corporate governance failures (Coffee, 2005). Corporate governance failures lead to diminished credibility of key actors (Calhoun, 2013; Marti & Scherer, 2016) and executives (Bebchuk & Fried, 2006) and can have far-reaching consequences for firms (Goranova & Ryan, 2014; Sauerwald, Van Oosterhout, & Van Essen, 2016) and capital market dislocations (Bebchuk & Fried, 2006). Therefore, the advancement of corporate governance mechanisms plays an essential role (Levit & Malenko, 2011). Corporate governance is even considered to be one of the most important influencing factor in the rapidly evolving research and literature on factors that can strategically affect corporate outcomes (Cuñat et al., 2016; Levit & Malenko, 2011; Marquardt, Myers, & Niu, 2018; Maug & Rydqvist, 2009; Morck, Wolfenzon, & Yeung, 2005; Sauerwald, Heugens, Turturea, & van Essen, 2019; Yeh, 2014; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Governance research is one of the main foundation for management academics and business schools, thus a key element of management education (Ghoshal, 2005) with several special issues in the field (e. g. Academy of Management (Daily et al., 2003), Strategic Management Journal; Corporate Governance: An International Review, Journal of Finance, Review of Financial Studies (Ding, Zhao, & Wang, 2021)). Academic journals dealing exclusively with governance mechanisms that strategically influence the fate of the companies have emerged. Therefore, "the subject of corporate governance is of enormous practical importance" (Shleifer et al., 1997, p. 737).

1.1.2 Definition Corporate Governance

The concept of corporate governance has evolved over time (Ocasio & Joseph, 2005). Because corporate governance encompasses a broad field (Aguilera et al., 2015; Aguilera & Jackson, 2010; Bebchuk & Weisbach, 2010; Dalton et al., 2007; Davis, 2005; Filatotchev & Boyd, 2009; Rau et al., 2013; Tihanyi et al., 2014), there are many different perspectives and definitions on corporate governance. Management researchers define corporate governance as “formal structures, informal structures, and processes that exist in oversight roles and responsibilities in the corporate context” (Hambrick, Werder, & Zajac, 2008, p. 381). Legal and financial scholars, on the other hand, see it as a way to ensure a return to shareholders (Shleifer et al., 1997). Sociologists view corporate governance as a set of mechanisms by which participants in an organization can regulate resources and control power (Davis, 2005). The stakeholder perspective defines corporate governance as a “structure of rights and responsibilities among the parties with a stake in the firm” (Aoki, Oaki, Greif, & Milgrom, 2001, p. 11). For this elaboration, I follow the perspective of Millstein (1993) and Daily et al. (Daily et al., 2003), who define corporate governance as “the mechanism through which the managers’ control is monitored and held to fairly enhance corporate profit and shareholder gain” (Millstein, 1993, p. 513). I “define governance as the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations.” (Daily et al., 2003). Corporate governance describes how shareholders manage and control investments to achieve a financial return (Shleifer et al., 1997).

Shareholders use internal and external governance mechanisms to protect their investments (Dalton et al., 2007). Governance mechanisms fall into two broad categories (Cremers & Nair, 2005): (1) internal mechanisms that operate within the firm, such as the board of directors or ownership structure, and (2) external mechanisms that operate on the firm from outside, such as the legal system or shareholder activism (Aguilera et al., 2015). External mechanisms have

received little attention in the scientific community. However, they are increasingly seen as an important complement to internal mechanisms (Aguilera et al., 2015). External mechanisms include non-confrontational tools (such as letter writing and direct dialogue with management) to confrontational measures (such as shareholder proposals – e. g. board proxy contests) (Aguilera et al., 2015; Becht, Franks, Mayer, & Rossi, 2010). These mechanisms are used to put pressure on management to implement major changes in corporate strategy (Greenwood & Schor, 2009).

Both internal and external governance mechanisms can be used to align the interests of shareholders and managers (Walsh & Seward, 1990). Internal governance mechanisms consist of incentive schemes aligning shareholders' and managers' interests, board structure and ownership concentration leading to shareholder monitoring. When an interest alignment with internal governance mechanisms fails, external mechanisms like the market for corporate control can occur (when shareholders sell their stake) (Daily et al., 2003). Examples of dysfunctional corporate governance include exorbitant salaries, rope-a-dope director selection, and excessive performance-based compensation (Cole, 1998; Conyon, Gregg, & Machin, 1995; Merino, Mayper, & Tolleson, 2010; Ryan, 2000), which have attracted considerable media attention (Agrawal & Chadha, 2005; Heath & Norman, 2004; Rubach & Sebor, 2009; Stein, 2008) and led to calls for more effective governance mechanisms (Cole, 1998; Conyon et al., 1995; Merino et al., 2010; Ryan, 2000).

In this dissertation, I focus on two of these governance mechanisms: shareholder proposals and ex ante severance agreements. Shareholder proposals allow corporate governance processes to be influenced and give shareholders the opportunity to intervene in the fate of the company in order to strengthen corporate accountability (Cole, 1998; Wright & Chiplin, 1999). Through a variety of shareholder proposals, shareholders seek to challenge corporate governance and transfer corporate control to shareholders (Pound, 1988) in order to increase shareholder value

(Cuñat, Gine, & Guadalupe, 2012; Cuñat et al., 2016; Ferri & Maber, 2013; Pound, 1988) to generate high returns for shareholders (Becht et al., 2010). To this end, it is important to balance competing interests between shareholders and management (Bebchuk, 2005) and especially within shareholder groups (Pound, 1988). The way shareholders determine, complement, or align their actions (Connelly, Tihanyi, Certo, & Hitt, 2010b) determines their bargaining position (strong or weak) vis-à-vis management (Del Guercio et al., 2008) and their ability to assert their interests (Brandes, Goranova, & Hall, 2008; Easterbrook & Fischel, 1991).

Ex ante severance agreements are defined as “frequently included [...] part of CEOs’ initial employment contracts. These agreements guarantee an executive certain benefit — typically a combination of cash compensation, equity awards, and benefit extensions — in the event that he or she is later dismissed by the board.” (Cowen et al., 2016, p. 151).

1.1.3 History

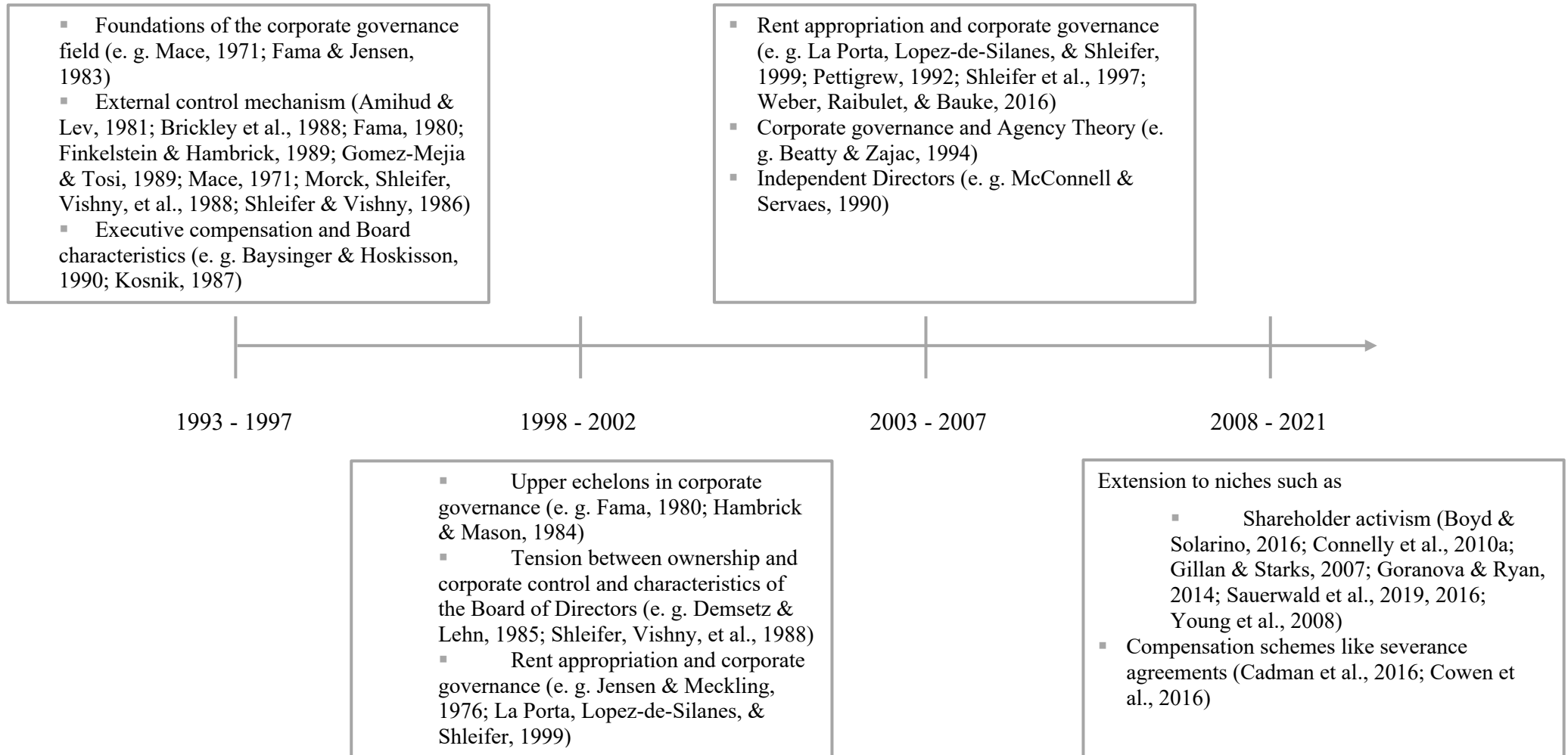
The roots of business management and its inherent problems go back to Adam Smith, who paraphrased that businesses would not survive because of waste and inefficiency (Smith, 1776). The notion that "people are self-interested and generally unwilling to sacrifice personal interests for the interests of others is both ancient and widespread" (Daily et al., 2003). The first to realize the separation of ownership and control as a problem in management research were Berle and Means (1932). This idea was extended by Jensen & Meckling (1976), who suggested principal-agent theory as a possible research perspective to understand the discrepancy between shareholder and management (e. g., self-interest) objectives. "Corporate governance" as a term was increasingly used from 1980 onward (L’Huillier, 2014).

I begin with a brief timeline of key trends in corporate governance - with a focus on shareholder activism and executive compensation (Figure 1). The main issues in corporate

governance relate to ownership structure, board of directors, and executive compensation, as well as governance in the context of the most widely used principal-agent theory (Beatty & Zajac, 1994; Huang & Ho, 2011; Rediker & Seth, 1995). A major focus in governance research has been in Journals like *Corporate Governance – An International Review*, *Journal of Financial Economics* and *Journal of Corporate Finance*. Among these pioneers was an important book contribution that influenced the field. Early contributions by Berle & Means (1932) and in the 1970s and 1980s by Mace (1971), as well as academic papers, continue to shape corporate governance research today, e. g., Jensen & Meckling (1976) and Fama & Jensen (1983), complemented in the 1990s by Shleifer and Vishny (1997) with their paper "a survey of corporate governance" (Durisin & Puzone, 2009; Huang & Ho, 2011). Studies such as that of Mace (1971) paved the way for research that addressed the importance of non-executive directors, the role and responsibilities of the board in explaining the strategic contribution of the board. These issues have been explored through specific work as the field has developed (Durisin & Puzone, 2009). As Durisin & Puzone (2009) note, the various developments can be categorized into three relevant observation periods (1993 - 1997 / 1998 - 2002 / 2003 - 2007) that have been influenced by prior corporate governance research over time. Figure 1 shows the articles that have most influenced corporate governance research between 1993 and 2016. Between 1993 and 1997, contributions were made to the foundations of the field of corporate governance (Donaldson & Davis, 1991; Eisenhardt, 1989a; Fama & Jensen, 1983; Kosnik, 1987; Mace, 1971; Pfeffer & Salancik, 1978; Walsh & Seward, 1990). The central conflict between the ownership structure and the external control mechanism (Amihud & Lev, 1981; Brickley, Lease, & Smith, 1988; Fama, 1980; Finkelstein & Hambrick, 1989; Gomez-Mejia & Tosi, 1989; Mace, 1971; Morck et al., 1988b; Shleifer & Vishny, 1986) and executive compensation (e. g. (Baysinger & Hoskisson, 1990; Kosnik, 1987) was the focus. As the field of corporate governance grew, researchers delved into specific areas. Specific factors (1998 -

2002) such as problems of upper echelons and governance (Boeker, 1992; Fama & Jensen, 1983; Finkelstein & Hambrick, 1989; Hambrick & Mason, 1984; Mace, 1971; Walsh & Seward, 1990; Westphal & Zajac, 1995; Wiersema & Bantel, 1992) gained prominence and basic research on the problem of separation of ownership and control and the properties of the board moved (Berle & Means, 1932; Demsetz & Lehn, 1985; Jensen, 1993; McConnell & Servaes, 1990; Morck et al., 1988b; Smith & Watts, 1992; Yermack, 1996) into focus. The fundamental question of how governance structures can be used for rent appropriation mechanisms (Jensen & Meckling, 1976; La Porta, Lopez-de-Silanes, & Shleifer, 1999; Pettigrew, 1992; Shleifer et al., 1997; Weber, Raibulet, & Bauke, 2016) has been an important area of corporate governance research ever since and remains relevant today (2003 - 2007) (La Porta et al., 1999; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998, 2000; Shleifer et al., 1997; Shleifer & Vishny, 1986). The governance literature has since evolved into several niches, e. g., on shareholder proposals (Boyd & Solarino, 2016; Connelly, Hoskisson, Tihanyi, & Certo, 2010a; Gillan & Starks, 2007; Goranova & Ryan, 2014; Sauerwald et al., 2019, 2016; Young et al., 2008) or compensation schemes like severance agreements (Cadman, Campbell, & Klasa, 2016; Cowen et al., 2016) and addressed the specific contexts and resulting influences on board composition (independent outside directors), CEO characteristics (separation of chief executive officers and board chairs), and the nature and size of executive compensation packages (e. g., Dalton, Daily, Johnson, & Ellstrand, 1999). Corporate scandals like Enron (Parker, 2005) led to extensions of U.S. federal corporate governance laws such as the Sarbanes Oxley Act (Abbott, Parker, Peters, & Rama, 2007). Corporate failures attracted the interest of regulators (Merino et al., 2010).

Figure 1: Timeline of key corporate governance research triggered by popular academic research articles (based on Durisin & Puzone (2009)).



Since then, corporate governance in companies and the legal framework are constantly evolving (Chang, Wu, & Chang, 2008). For example, shareholder proposals are increasingly accepted and regulatory adjustments are made, such as under Rule 14a-8, making shareholder proposals an important governance tool (Ferri & Sandino, 2009; Gillan & Starks, 2007; Gordon & Pound, 1993; McCahery, Sautner, & Starks, 2016; Pound, 1991; Thomas & Cotter, 2007).

Prior research analyzed governance mechanisms from various methods, like event study methodology (Antoniadis, Gkasis, & Kontsas, 2019), Ordinary Least Squares (OLS)-regression (Cuypers, Cuypers, & Martin, 2017; Flammer, Toffel, & Viswanathan, 2021), partial least squares structural equation modelling (Weber, Weidner, Kroeger, & Wallace, 2017), qualitative interviews (Jamali, Safieddine, & Rabbath, 2008; Rodrigue, Magnan, & Cho, 2013; Zain & Subramaniam, 2007), questionnaires (Bonini, Alkan, & Salvi, 2012; Gooderham, Minbaeva, & Pedersen, 2011), bibliometric methods (Ding et al., 2021; Durisin & Puzone, 2009; Huang & Ho, 2011), or fsQCA (Fuzzy-set Qualitative Comparative Analysis) (Campbell, Sirmon, & Schijven, 2016; Cucari, 2019a; Fischer, Kruse, Leonardy, & Weber, 2019; Misangyi & Acharya, 2014).

1.1.4 Motivation & objectives, strategic role

Previous research "[...] finds empirical support for strategic voting by [...] shareholders" (Marquardt et al., 2018, p. 50), supporting my assumption that governance mechanisms such as shareholder voting have an impact on firm outcomes. Shareholders influence corporate policy for several reasons: (i) value creation and scaling (Artiga González & Calluzzo, 2019; Maug & Rydqvist, 2009), (ii) voice in the strategic direction of the firm (Aguilera, Florackis, & Kim, 2016; Dalton, Daily, Ellstrand, & Johnson, 1998; Shleifer et al., 1997), (iii) protection of their interests (Brandes et al., 2008; Easterbrook & Fischel, 1991). By aligning shareholder interests

(Thomas & Tricker, 2017, p. 73), shareholders can use these governance mechanisms through strategic voting to increase firm value (Maug & Rydqvist, 2009) or gain cost advantages (Artiga González & Calluzzo, 2019). Shareholders' alignment with the board of directors on strategic issues (Dalton et al., 1998; Shleifer et al., 1997) through the formation of shareholder coalitions of interests among various competing interests is an important factor that influences the strategic direction of the firm (Artiga González & Calluzzo, 2019; Morck et al., 2005; Sauerwald et al., 2019; Young et al., 2008).

1.2 Literature framework and research gaps in Corporate Governance

Based on the historical overview (chapter 1.1.3) of the literature, I will provide a theoretical framework for the dissertation and summarize it in an explanation of selected research gaps that I will address. To derive the overarching research question of this dissertation, I identify research gaps on the specific corporate governance mechanisms addressed in this dissertation - shareholder proposals and severance agreements. Building on Goranova & Ryan (2014), Cowen et al. (2016), Aguilera, Kurt Desender, Bednar, & Lee (2015), Durisin & Puzone (2009), and Klein and colleagues (2017), I develop an integrative framework for corporate governance mechanisms considering factors that influence firm outcome. I build on Ding et al., (2021), Durisin & Puzone (2009) and Huang & Ho (2011) by tracing and adding to the development of research on corporate governance since the 1990s. It can be seen in Figure 1 that corporate governance emerged mainly in the 1990s and focused on finance, economics, management, and business, while law played a lesser role. Since then, the number of studies in this field has increased significantly (Huang & Ho, 2011).

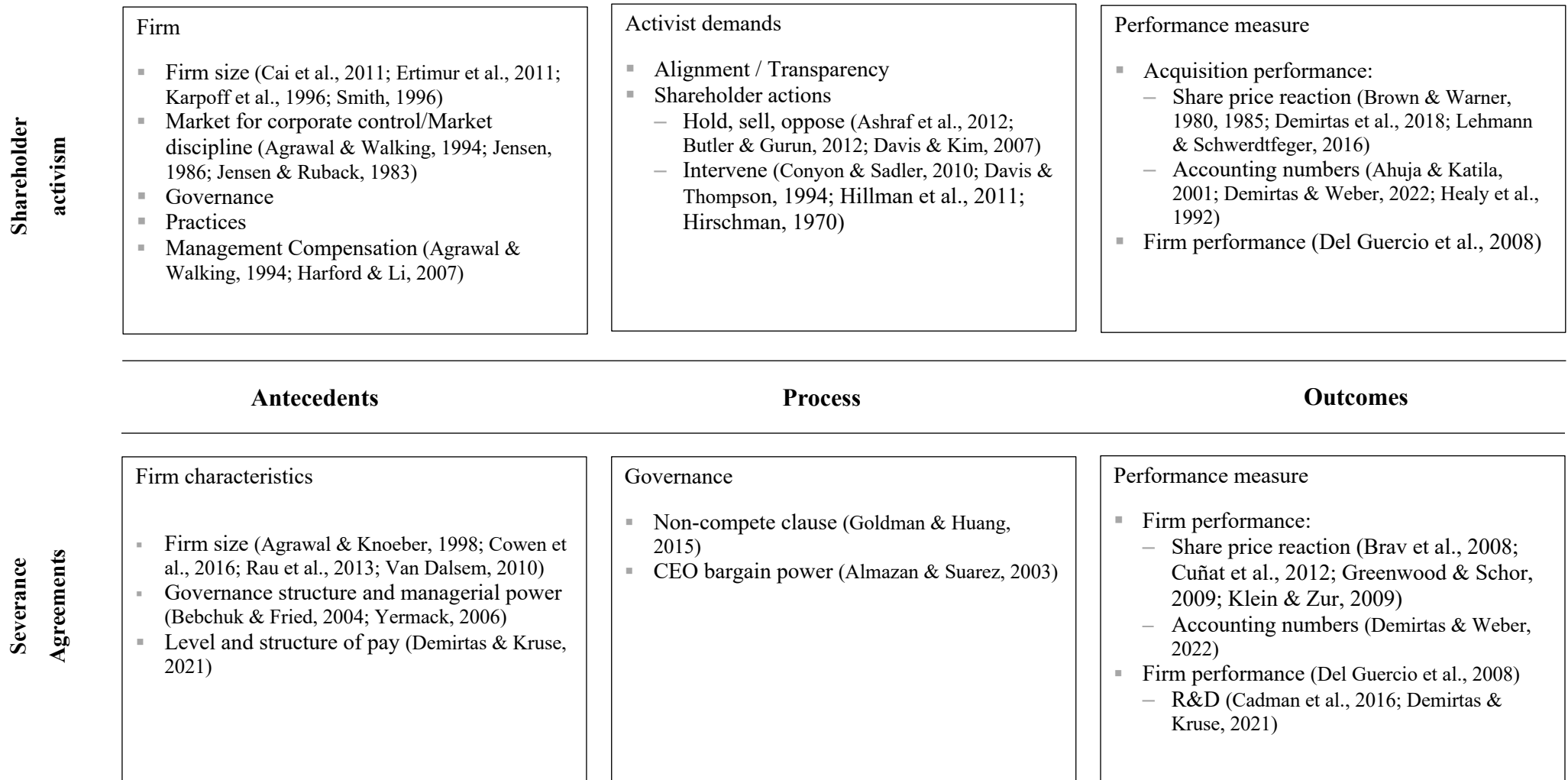
The dominant theoretical perspective in corporate governance research is the principal-agent theory (Beatty & Zajac, 1994; Berle & Means, 1932; Dalton et al., 1998; Demsetz & Lehn,

1985; Fama, 1980; Fama & Jensen, 1983; Finkelstein, Hambrick, & Cannella, 1996; Jensen & Meckling, 1976; Jensen & Ruback, 1983; Salancik & Pfeffer, 1978; Shleifer et al., 1997), which focuses on the conflict between shareholders and management. This strand of research on corporate governance examined specific factors such as the role and influence of the presence and independence of non-managers (Core, Holthausen, & Larcker, 1999; Jensen, 1993; McConnell & Servaes, 1990; Yermack, 1996). Corporate governance is a mature field, with increasing focus on shareholder influence on corporate performance (Ding et al., 2021).

Around 2000, the field expanded from basic research to various niches (Durisin & Puzone, 2009). I take a detailed look at influencing factors of shareholder activism (involving shareholder proposals) and executive compensation (ex ante severance agreements) and highlight the need for research. I focus on shareholders as important observers of management decisions (David, Hitt, & Gimeno, 2001) and on ex ante severance agreements that affect managerial risk-taking (e. g. Cummings & Knott, 2018; Dittmann, Yu, & Zhang, 2017) which affect firm performance (Hoskisson, Chirico, Zyung, & Gambeta, 2017). Bibliometric studies show that studies dealing with shareholders are growing exponentially (Ding et al., 2021). The five main knowledge clusters on shareholders are "Shareholder Activism," "Corporate Governance," "Global Convergence," "Corporate Reporting Regulation," and "Individual Investor" (Ding et al., 2021).

Figure 2 shows the extended integrative literature framework starting with firm level antecedents of shareholder activism and severance agreements, then I highlight the interaction process of these governance mechanisms and their outcome influencing corporate outcomes.

Figure 2: Integrative literature framework on Corporate Governance factors like shareholder activism and severance agreements adapted from Gorona and Ryan (2014) and Klein et al. (2017)



1.2.1 Governance antecedents

Antecedents of shareholder activism. I focus on the firm level factors that trigger shareholder activism (Ryan & Schneider, 2002). As Goranova & Ryan (2014) noted, a primary focus is on firm size and performance. Previous research has focused on firm size (Cai, Walkling, & Walkling, 2011; Ertimur, Ferri, & Muslu, 2011; Karpoff, Malatesta, & Walkling, 1996; Smith, 1996), with mixed results (Bizjak & Marquette, 1998; Ferri & Sandino, 2009). Large firms are more difficult to monitor and therefore prone to agency problems (Jensen & Meckling, 1976), making large firms particularly lucrative targets for activism (Guercio & Hawkins, 1999; Strickland, Wiles, & Zenner, 1996).

Consistent with principal-agent theory, well-managed, well-performing firms are less likely to be targets of activism, in contrast to poorly managed firms (Benson & Davidson, 2010; Brav, Jiang, Partnoy, & Thomas, 2008; Ertimur et al., 2011; Renneboog & Szilagyi, 2011; Smith, 1996). Alignment of shareholder and managerial interests, such as through managerial involvement (Ryan, Buchholtz, & Kolb, 2010), leads to a lower likelihood of shareholder activism (Carleton, Nelson, & Weisbach, 1998; Faleye, 2004; Prevost & Rao, 2000). Shareholder and director monitoring is necessary (Goranova & Ryan, 2014) because incentive compensation alone is not sufficient to mitigate agency conflicts (Ferri & Sandino, 2009; Sanders & Hambrick, 2007). The joint effects of the shareholder proposals on the firm's outcome have not yet been clearly clarified (Demirtas & Weber, 2022).

Antecedents of severance agreements. Researchers have attempted to determine the influence of severance pay and firm size (Cowen et al., 2016). An antecedent for severance agreements may be firm size (smaller firms), risk level (high risk), and performance level (poor performance), which increase the likelihood of granting severance agreements (Agrawal & Knoeber, 1998; Rau et al., 2013; Van Dalsem, 2010). Another antecedent to severance

agreements is manager power (Bebchuk & Fried, 2004), although results on severance antecedents are mixed (Singh & Harianto, 1989; Wade, O'Reilly, & Chandratat, 1990) and research is not yet conclusive. To date, there is no conclusive evidence on why companies adopt severance packages and some do not (Goranova & Ryan, 2014) (e. g., Cowen et al., (2016): 80% of CEOs have severance packages in their contracts, 20% do not). Severance packages are perceived as an element of CEO compensation (Bebchuk & Fried, 2003). However, previous research has shown that severance agreements are associated with poor governance quality and signal low board power when the CEO can appropriate large severance packages (Yermack, 2006).

Prior research did not show the effects of severance design on firm's outcome for e. g. CEO risk-taking behavior (Demirtas & Kruse, 2021).

1.2.2 Governance process

Shareholder Activism - Processes. There is little research on activism processes, especially on the interaction between management and shareholders (Goranova & Ryan, 2014). The assumption that activism targets deficits in management (Gillan & Starks, 2007; Greenwood & Schor, 2009; Rehbein, Waddock, & Graves, 2004) and likely influences interaction is controversial (Goranova & Ryan, 2014). One cause of shareholder activism may be the conflict of interest between management and shareholders. Shareholders can hold their shares, opt out, or advocate for their interests with management (activism) (Davis & Thompson, 1994; Hirschman, 1970). With their voting rights, they have the opportunity to speak for or against managements' actions (Goranova & Ryan, 2014). Shareholders can vote against management (Ashraf, Jayaraman, & Ryan, 2012; Butler & Gurun, 2012; Davis & Kim, 2007), vote against lawsuits (Ferri & Sandino, 2009; Thomas & Cotter, 2007), and influence corporate outcomes

by voting against or in favor of board actions (Conyon & Sadler, 2010; Hillman, Shropshire, Certo, Dalton, & Dalton, 2011).

When shareholders have sufficient bargaining power, they can assert their interests (Useem, 1996) over the interests of management (Pound, 1988).

Alignment among different shareholders is essential for the assertion of shareholder interests (Artiga González & Calluzzo, 2019), as managers favor shareholders with the highest (legitimate) voting power due to the different signals that shareholders send (heterogeneous or even competing shareholder claims) (Chowdhury & Wang, 2007; Mitchell, Agle, & Wood, 1997; Neubaum, 2006; Stevens et al., 2005). For example, institutional investors or coordinated groups that own large blocks of shares (David, Bloom, & Hillman, 2007; Gillan & Starks, 2007). The cost of engagement also matters. Shareholder activism in the form of voting or shareholder proposals is a cost-effective way to incorporate investor interests (Black, 1998), especially in concert with other investors (Artiga González & Calluzzo, 2019).

One assumption of the activism literature is that activism strengthens governance so that all shareholders increase their value by increasing their share price (Cziraki, Renneboog, & Szilagyi, 2010; Karpoff et al., 1996). However, because it is a political instrument (Pound, 1992), it is not clear whether shareholders create value in their enlarged portfolio at the expense of minority shareholders (Shinozaki, Moriyasu, & Uchida, 2016). Due to their different characteristics, shareholders' interests may be affected by different factors like the investment horizons (Bushee, 1998; Connelly et al., 2010b; Dikolli, Kulp, & Sedatole, 2009; Hoskisson, Hitt, Johnson, & Grossman, 2002; Tihanyi, Johnson, Hoskisson, & Hitt, 2003), business networks with the invested companies (Brickley et al., 1988; David, Kochhar, & Levitas, 1998; Davis & Kim, 2007; Kochhar & David, 1996), or their portfolio (Davis & Kim, 2007; Goranova, Dharwadkar, & Brandes, 2010; Ryan & Schneider, 2002) which influence the value

of the target company (Ahmadjian & Robbins, 2005; Ashraf et al., 2012; Davis & Kim, 2007; Ryan & Schneider, 2002)

Severance Agreements - Processes. 40% of CEOs leave companies with severance packages (Goldman & Huang, 2015). We still know little about the causes and effects of severance agreements (Klein et al., 2017). In particular, the design of severance agreements is not yet clear (Demirtas & Kruse, 2021). Factors such as non-compete clauses in severance agreements may affect the quality of corporate governance (Goldman & Huang, 2015) and, in particular, the bargaining power of CEOs (Almazan & Suarez, 2003). Future research could address the process and decision making of executive separation and, in particular, how the characteristics of this separation affect severance payments (Klein et al., 2017).

1.2.3 Governance outcomes

Shareholder Activism - Outcomes. I adopt a multilevel perspective to examine firm-level outcomes and focus on the following. Firm-level outcomes: By focusing on the market's response to shareholder activism, I help clarify mixed results showing positive (Brav et al., 2008; Cuñat et al., 2012; Greenwood & Schor, 2009; Klein & Zur, 2009), negative (Bizjak & Marquette, 1998; Cai et al., 2011; Karpoff et al., 1996), and insignificant market responses (Agrawal, 2012; Carleton et al., 1998; Gillan & Starks, 2000; Guercio & Hawkins, 1999; Strickland et al., 1996; Wahal, 1996) to existing shareholder activism (Goranova & Ryan, 2014). Regarding the impact on performance, previous research has found mixed evidence on the effects of shareholder activism on firm performance, with positive (Del Guercio et al., 2008), negative (Karpoff et al., 1996; Prevost & Rao, 2000), or insignificant results (Gillan & Starks, 2007; Guercio & Hawkins, 1999; Song & Szewczyk, 2003; Wahal, 1996; Yermack, 2010). Shareholder proposals signal to the capital market that shareholders and managers have

been unable to reach an agreement in advance (Chowdhury & Wang, 2009; Guercio & Hawkins, 1999). The market can respond to many facets of manager-shareholder conflicts through shareholder proposals (Cai et al., 2011; Smith, 1996) or through the nature of shareholder activism (Cai et al., 2011; Cuñat et al., 2012; Gillan & Starks, 2000), shareholder demand (Carleton et al., 1998; Guercio & Hawkins, 1999) or shareholder alignment of interest (Agrawal, 2012; Alexander, Chen, Seppi, & Spatt, 2010; Cuñat et al., 2012). These signal shareholder needs and thus the extent of agency problems in the firm (Cai et al., 2011; Carleton et al., 1998) as well as openness to shareholder interests (Smith, 1996; Strickland et al., 1996). Studies show that shareholders are increasingly successful in influencing corporate governance (Ertimur et al., 2010; Thomas & Cotter, 2007), for example by replacing managers who oppose the interests of shareholder activists (Brav et al., 2008; Del Guercio et al., 2008). Or, for example, by improving corporate governance through say-on-pay proposals with the result of avoiding excessive executive compensation (Ertimur et al., 2011) and, in turn, strengthening performance-based pay (Brav et al., 2008).

Severance Agreements - Outcomes. Severance agreements have important implications for the alignment of CEO and shareholder interests. However, the results to date are unclear (Klein et al., 2017). Previous results show that severance agreements are associated with higher takeover premiums (Bebchuk, Cohen, & Wang, 2014) or influence CEO investment behavior by giving them a long-term perspective and reducing R&D investments less frequently (Chen, Cheng, Lo, & Wang, 2012), but may also trigger higher risk-taking (e. g., riskier projects leading to stock price fluctuations (Huang, 2012)). The design of severance agreements appears to have a significant impact on CEOs (Klein et al., 2017) and is determined by a combination of severance mechanisms (base salary, lump sum cash payment, stock options, insurance coverage, early retirement, and others) (Zhao, 2013). “Thus, diving deeper into the composition of severance packages may offer numerous potential fruitful insights” (Klein et al., 2017, p. 15)

“Indeed, it is unclear whether certain parts of severance packages make it easier to attract high-performing CEOs [...] or help boards align executives' interests with those of shareholders.” (Klein et al., 2017, p. 16).

1.3 Overriding research question and structure of the dissertation

Corporate governance is used to achieve efficiency gains in the firm (Cucari, 2019a; Eisenhardt, 1989b; Rediker & Seth, 1995) and to define a guide for corporate actors (Connelly et al., 2010b). If these efficiencies are not pursued, e. g., by management pursuing its own interests (Bach & Metzger, 2019), value-destroying activities occur (Pound, 1988), leading to corporate scandals such as Enron (Parker, 2005). Given developments in recent years (Jo et al., 2021), the question arises whether process structures and ultimately strategic decisions can be strategically influenced or improved through governance mechanisms, as studies suggest (Demichelis & Ritzberger, 2011; Dhillon & Rossetto, 2015; Ghoddusi, 2011; Meirowitz & Pi, 2020; Ritzberger, 2005; Yermack, 2010). If the governance mechanisms examined so far, individually or in a joint design, do not adequately explain firms' strategic decisions, the question arises as to which design of governance mechanisms influences firms' success. Numerous studies focus on governance mechanisms that individually affect firm performance (Dalton, Hitt, Certo, & Dalton, 2007; Misangyi & Acharya, 2014), while research on the specific design of governance mechanisms (configurations) is scarce (Aguilera, Desender, & Kabbach de Castro, 2012; Aguilera et al., 2008). Previous governance research has provided important insights by analyzing individual factors for firm performance, but these studies explain only a small part of the effect of governance mechanisms and do not consider configurations, which leads to different results because firm performance depends on the sum of factors (Aguilera, Desender, & Kabbach de Castro, 2012; Aguilera et al., 2008). Strategy

research on the precise mechanism between corporate governance (e. g., shareholder proposal) and firm performance (Cuñat et al., 2012, 2016; Yeh, 2014) is still inconclusive (Aguilera et al., 2015; Goranova & Ryan, 2014) and inconsistent and of particular interest to strategy researchers.

Despite a number of meta-analytic studies that have compiled the state of corporate governance in recent years (Aguilera et al., 2015; Goranova & Ryan, 2014), the understanding of the design, i. e., the configurations of governance mechanisms that lead to a desired goal, e. g., firm performance, is still limited. The influence of shareholders and the design of shareholder proposals, or the influence of executive compensation and its impact on managerial risk-taking behavior (in the form of ex ante severance agreements) is still inconsistent (Aguilera et al., 2015; Cowen et al., 2016; Cuñat et al., 2012, 2016; Yeh, 2014). Studies show mixed results on the influence of governance mechanisms, with some showing positive (Becht et al., 2010; Brav et al., 2008; Ferri & Maber, 2013; Iliev & Vitanovaa, 2019), negative (Cziraki et al., 2010) and inconsistent influence (Larcker, Ormazabal, & Taylor, 2011).

The overarching question I wish to contribute to in this dissertation is: How to design and apply governance mechanisms for strategic decision making? (M&As, CEO contracts, shareholder voting). More precisely I seek to answer the question how the market reacts to specific shareholder proposals (and their bundles in the context of M&As) (chapter 2) and which configuration leads to high or low shareholder return (chapter 3). In a further step, I extend this logic to severance agreements and answer the question of which bundles of contractual elements of CEO severance agreements lead to high (or low) executive risk-taking (chapter 4).

To answer the overarching question and clarify mixed findings, this dissertation elaborates designs of governance mechanisms that shareholders can use to influence management's strategic decision making and thereby manage firm performance. From the multitude of research gaps, this dissertation derives two research areas of particular interest. To this end, this

dissertation addresses three papers, with the first paper dealing with shareholder proposals in the M&A context and the second paper exploring this idea in more depth in a configurational analysis outside the M&A context. The third paper focuses on the contractual design of ex ante CEO severance agreements and their impact on risk-taking behavior and hence on firm performance. The results of this analysis provide evidence for the design of effective corporate governance to improve firm performance in different contexts.

1.4 Overview – Research articles

In sections 1.4.1 through 1.4.3, I present the three research articles. Table 1 provides an overview of the articles in this dissertation. This cumulative dissertation consists of three works, which are independent units. There may be redundancies between the individual parts. All three papers in this dissertation were jointly authored by multiple authors. I am first author on all papers.¹

1.4.1 Bundles of shareholder proposals and their impact on acquirer returns

In chapter 2, we analyze the combination of external governance mechanisms, such as acquirer shareholder proposals in the context of mergers and acquisitions (M&A), and examine the mixed results for acquirer returns in M&A. In particular, we analyze the effects of various shareholder proposals that may occur together and in certain combinations. We use an event study to examine the market's assessment of whether the company can withstand the

¹ All three papers have different databases that were newly collected for each paper. There are no overlaps or connections between the different datasets and analyses. The collection logic of these three different data sets is explained in the respective chapters.

acquisition. We analyze the stock price reactions of 170 acquirers influenced by 722 shareholder proposals in our sample. Our research contributes to the governance literature by answering the question: *"How do the market perceive acquirers' corporate governance setup by submitted shareholder proposals and their bundles at the announcement of a takeover?"*. Our results show that single governance mechanisms affect acquirers' stock price reactions to takeover announcements differently than multiple governance mechanisms in interacting bundles. Our analysis strengthens research on governance mechanisms in the context of M&A activity, which calls for a greater focus of governance research on M&A (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Our results can help shed light on the mixed findings on the effects on acquirers' performance in the governance and M&A literature (King, Dalton, Daily, & Covin, 2004; Moeller, Schlingemann, & Stulz, 2004), as we show the effects of governance proposals and their combination on firm performance in acquisitions. We also strengthen the corporate governance literature on shareholder activism by addressing the research claims of Goranova and Ryan (2014) and analyzing the effects of different types of shareholder proposals on firm performance. We found a stock price response to acquirer shareholder proposals. Our article is under review at Journal of Business Economics (Impact Factor: 1.64, JOURQUAL: B) and was also presented at the European Academy of Management Annual Conference (2017), Glasgow and the Academy of Management Conference (2018), Chicago, Illinois.

Table 1: Overview - Research articles in this dissertation

	(1) Bundles of shareholder proposals and their impact on acquirer returns	(2) Shareholder voting behavior and its impact on firm performance: A configurational approach	(3) The design of ex ante severance agreements and its influences on CEOs' risk-taking behavior: A configurational approach
Research Question	<ul style="list-style-type: none"> How do the market perceive acquirers' corporate governance setup by submitted shareholder proposals and their bundles at the announcement of a takeover? 	<ul style="list-style-type: none"> Which configuration of shareholder proposals leads to high or low shareholder return? 	<ul style="list-style-type: none"> Which bundles of contractual elements of CEO severance agreements lead to high (or low) managerial risk-taking behavior?
Performance	<ul style="list-style-type: none"> Acquirers' share price reaction / Return on assets 	<ul style="list-style-type: none"> Firm performance / Return on Equity 	<ul style="list-style-type: none"> Managerial risk-taking / R&D intensity
Data	<ul style="list-style-type: none"> 369 shareholder proposals (submitted at 170 acquirers, 2005 – 2015) 	<ul style="list-style-type: none"> 125 companies (750 shareholder proposals data, 2017) 	<ul style="list-style-type: none"> 58 Ex-Ante Severance agreements 2006 - 2014
Method	<ul style="list-style-type: none"> Event study methodology Regression analysis 	<ul style="list-style-type: none"> fsQCA 	<ul style="list-style-type: none"> fsQCA
Contribution	<ul style="list-style-type: none"> Analysis of how corporate governance mechanisms influence acquisitions Outline how different types of shareholder activism have different effects on corporate performance Demonstrate that shareholder proposals are perceived by the stock market as specific forms of governance mechanisms 	<ul style="list-style-type: none"> Developing shareholder voting typology Outline how different configurations of shareholder voting strategies have different effects on firm performance Advance strategic management literature in general and shareholder activism literature 	<ul style="list-style-type: none"> Contributing to the literature on executive compensation by deepening the understanding of severance agreements. Contribute to research on the alignment of interests between companies and their CEOs

1.4.2 Shareholder voting behavior and its impact on firm performance: A configurational approach

In chapter 3, I analyze the combination of shareholder proposals, derive a strategy for shareholder voting, and examine the mixed results in terms of the impact of shareholder proposals on firm performance.

I shed light on the effects of shareholder voting strategies and underlying proposals acting together and in certain combinations to analyze the impact of shareholder proposals on firm performance, which I measure with return on equity in an fsQCA analysis. My research contributes to the governance literature by answering the question “which configuration of shareholder proposals leads to high or low shareholder return?” My research contributes to the corporate governance literature as I develop a typology of shareholder voting that identifies shareholder strategies to strategically influence corporate outcomes. I outline how different configurations of shareholder voting strategies have different effects on firm performance. I also advance the literature on strategic management in general and on shareholder activism. I partially explain the mixed results reported on single governance mechanisms in the governance literature (Cowen et al., 2016; Hoskisson et al., 2017) by showing that the effects of shareholder proposals and their combination influence firm performance. In addition, I advance the literature at the intersection of strategy and (positivist) principal-agent theory to resolve conflicts between shareholders and the firm (principal-agent conflicts) and among shareholders (principal-principal conflicts).

1.4.3 The design of ex ante severance agreements and its influences on CEOs' risk-taking behavior: A configurational approach

In chapter 4, we focus on the combination of ex ante severance agreements to trigger managerial risk-taking. We examine the mixed prior results on specific severance components.

We focus on the influence of the design of ex ante severance agreements on managerial risk-taking. Therefore, we analyze different elements of severance agreements that operate jointly and in certain combinations. We apply a fsQCA to analyze severance contract element designs. We analyze managers' risk-taking (operationalized as R&D intensity) in 58 ex ante severance agreements in our sample. Our results show that the design of ex ante severance agreements matters and that certain designs of severance packages promote or inhibit managers' risk-taking. Our research contributes to the governance and compensation literature by answering the question of which bundles of contractual elements of CEO severance agreements lead to high (or low) executive risk-taking. To answer this research question, we use the key conceptual elements of severance agreements proposed by Cowen et al. (2016).

We also contribute to the literature on executive compensation by improving our understanding of severance agreements. We expand the literature on executive compensation and executive behavior by highlighting the importance of severance agreements design as a tool to influence employee risk-taking to align the interests of firms and their executives. We demonstrate the potential of severance agreements to balance interests (e. g., negotiating various benefits and constraints).

This article was presented at the European Academy of Management Annual Conference (2018), Reykjavik, Iceland.

CHAPTER 2: BUNDLES OF SHAREHOLDER PROPOSALS AND THEIR IMPACT ON ACQUIRER RETURNS

Co-authored with: Manuel T. Schwerdtfeger, Christiana Weber

2.1 Introduction

The literature on M&As has long focused on examining variables that affect the performance of the firms involved, with mixed results, especially for acquirers (Haleblian et al., 2009). Results on acquirers' post-acquisition performance are conflicting (Agrawal, Jaffe, & Mandelker, 1992; King et al., 2004; King, Wang, Samimi, & Cortes, 2021), with acquirers' performance being positive (Healy, Palepu, & Ruback, 1992), negative (Eckbo & Thorburn, 2000), or insignificant. The literature shows that facets of corporate governance influence acquisitions (Aktas, Croci, & Simsir, 2016; Chen, 2019; Chen, Li, & Lin, 2015b; Masulis, Wang, & Xie, 2007) through mechanisms such as the market for corporate control (Morck, Shleifer, & Vishny, 1988a) or the influence of different types of shareholder activism on firm performance (Goranova & Ryan, 2014) e. g., share prices (Klein & Zur, 2009). Studies that use the share price as a performance result are mixed and show positive reactions (Greenwood & Schor, 2009), negative reactions (Cai et al., 2011), and insignificant reactions (Agrawal, 2012). These mixed results lead researchers to conclude that the evidence on the effects of individual governance mechanisms is discouraging (Misangyi & Acharya, 2014) and call for studies that address "...the heterogeneity of shareholder activism and the potential interrelations among different types of activism" (Goranova & Ryan, 2014, p. 1257) and their interrelated functions (Hofman, Faems, & Schleimer, 2017). Hence, current research requires a more in-depth study of the combinations of multiple governance mechanisms (Aguilera, Desender, Bednar, & Lee, 2015) in order to develop effective governance practices (Aguilera, Florackis, & Kim, 2016), as the literature has just begun

to analyze the impact of such combinations on company performance (Aguilera, Filatotchev, Gospel, & Jackson, 2008). In this paper, we focus on one particular governance mechanism, namely simultaneously concurrent shareholder proposals and their bundle of functions (e. g. Bell, 2014). "A shareholder proposal is [a] recommendation or requirement that the company and/or its board of directors take action, which [shareholder] intend to present at a meeting of the company's shareholders." (SEC, 2021, p. 1). We focus on the underlying mechanisms of shareholder proposals, such as the incentive function of management (say on pay), employee compensation (employee stock options) and their frequency (say on frequency), and the interaction with the choice of auditors that provides transparency (independent auditors), which are not yet fully understood. For example, to adjust compensation for CEOs (say-on-pay proposal) or employees (employee stock option proposal). Shareholder proposals are becoming increasingly important (Ertimur et al., 2010) and influence various corporate outcomes (Guo et al., 2008). We expect that the inclusion of simultaneous shareholder proposals and their interrelation in the study of M&A performance will help explain and reconcile the mixed results of the previous literature. We contribute to previous research (Aguilera et al., 2015, 2008; Haleblan et al., 2009) by examining how certain combinations of shareholder proposals (Goranova & Ryan, 2014) affect the abnormal returns of acquirers in takeovers. Therefore, we pose the following research question: *How does the market perceive the corporate governance setup of acquirers through filed shareholder proposals and their bundle of functions when an acquisition is announced?* In this way, we link corporate governance research to M&A research. By incorporating potential interactions between heterogeneous governance mechanisms (Aguilera et al., 2015, 2012; Misangyi & Acharya, 2014) into our research, we clarify how these combinations of shareholder proposals affect stock price reactions. Our central assumption is that the stock market will anticipate the corporate governance structures of the acquiring companies at the time of the announcement. The expectation of the financial market will then react either positively or negatively - depending on how it evaluates the

respective governance setup and its underlying function of combining corporate governance functions. Positively perceived bundles of shareholder proposals will better align the interests of shareholders and the management of the company to which they are submitted. Better alignment of shareholder and management interests reduces agency costs and improves corporate governance (Westphal & Zajac, 1998), leading to a better performance (Cai et al., 2011; Ertimur et al., 2011; Ferri & Maber, 2013) and higher shareholder value (Barroso Casado, Burkert, Dávila, & Oyon, 2016; Westphal & Zajac, 1998), as well as more successful management of the new firm after the acquisition (Wang & Xie, 2009). We develop and test six hypotheses by analyzing the share price reactions to the submission of 369 shareholder proposals at 170 acquirers in our sample. We use an event study methodology to analyze the impact of say on pay proposals, employee stock options, and independent auditor proposals. Our results show that certain types of proposals and their underlying governance functions have significant effects - both positive and negative - on acquirers' stock prices around the acquisition announcement.

In particular, certain combinations of proposals - the governance bundles - have implications for acquirers' stock prices. With this study, we contribute to several streams in the literature.

First, we contribute to the M&A literature, which calls for more research on the effects of corporate governance issues on acquisitions (Haleblian et al., 2009). We also partially explain the mixed results for acquirers reported in the literature (King et al., 2004; Moeller et al., 2004) by showing that individually submitted governance proposals and their combinations do indeed affect firm performance in acquisitions.

Second, we advance corporate governance literature in general and shareholder activism literature in particular by responding to Goranova and Ryan's (2014) claim that different types of shareholder activism affect firm performance differently. Our results clearly show that governance bundles have a larger impact on firm performance – particularly on acquirers' stock

price response to acquisitions – than individual governance mechanisms. In addition, we reveal that specific governance mechanisms do not substitute (Dalton, Daily, Certo, & Roengpitya, 2003), but rather complement each other and have different effects when issued individually or in combination (Oh, Chang, & Kim, 2018), amplifying the impact on firm performance.

Third, we add to the corporate governance literature by showing that shareholder proposals are perceived by the market as specific forms of corporate governance mechanisms. By anticipating the future ability of the acquired company's management to govern the acquired company, the market values or penalizes the acquirer's management structure. By demonstrating that shareholder proposals, and thus their inherent governance function, themselves influence acquirers' stock price reactions, our research supports studies demonstrating awareness and likely implementation of these proposals (Ferri & Sandino, 2009). This paper is structured as follows: Section II presents our theoretical argumentation of the market's anticipation of the governance mechanisms at acquiring companies on their abnormal returns at takeover announcements and presents the development of our hypotheses. Section III describes our data set and our method. Section IV reveals the results of our regression analysis. Finally, section V presents our discussion and conclusion.

2.2 Theory

2.2.1 Theoretical underpinning: Agency Theory

In the context of M&As several variables showed mixed effects (Agrawal et al., 1992; Eckbo & Thorburn, 2000; Healy et al., 1992; King et al., 2004) on acquirer performance after acquisition. Similarly, various theoretical approaches have been applied in the context of acquisition (Barkema & Schijven, 2008a; Goranova & Ryan, 2014; Uhlenbruck, Hitt, & Semadeni, 2006). To understand mixed outcomes, we apply the agency perspective (Dalton et al., 2003; Gerum, Mölls, & Shen, 2018) to reconcile mixed acquisition outcomes of governance variables (Aguilera et al., 2015;

Panayi, Bozos, & Veronesi, 2021) like shareholder proposals in the acquisitions context (Panayi et al., 2021) influencing firm performance. Based on the theoretical foundation of agency theory, we respond to the calls of Aguilera et al. (2015, 2008) for an analysis of the bundle of governance mechanisms such as shareholder proposals. By bringing together the acquisition context, our object of study, shareholder proposals, and the research lens of principal-agent theory and its nuances of the market for corporate control, we reconcile current research and explain the impact of shareholder proposals in acquisitions.

By delegating corporate management to executives (agents), the management (Berle & Means, 1932) gains an informational advantage over the shareholder (principals) (Jensen & Meckling, 1976). This situation leads to moral hazards and self-serving actions of the actors due to diverging interests (Harris & Bromiley, 2007). Through the use of various mechanisms, such as increased monitoring by voting for say on frequency proposals, independent auditor proposals (Dao, Raghunandan, & Rama, 2012), incentive alignment mechanisms, such as say on pay proposals (Conyon & Sadler, 2010; Cucari, 2019a; Ferri & Maber, 2013; Jensen & Murphy, 2010; Stathopoulos & Voulgaris, 2016) or employee stock options proposals (Ferri & Sandino, 2009), shareholders are attempting to mitigate these agency problems and reduce agency costs (Artiga González & Calluzzo, 2019; Cai et al., 2011; Renders & Gaeremynck, 2012), caused by self-interested proxies (Daily et al., 2003; Morck et al., 1988a).

Since management looks to shareholder signals like shareholder proposals to guide and legitimize its actions, it is necessary to understand the heterogeneous goals of shareholders (Connelly et al., 2010b) for both management and outsiders. We seek to understand how multiple governance mechanisms work interrelated to achieve alignment of interests by acting as a bundle of governance mechanisms to reduce agency conflicts and increase governance efficiency (Cucari, 2019a; Eisenhardt, 1989b; Rediker & Seth, 1995) and agency costs.

One of the main elements for shareholders is the mechanism of the market for corporate control grounded in the principal agent theory (Pound, 1988).

The market for corporate control is an effect that monitors the behavior of managers and ensures that managers fulfill the interests of shareholders. Shareholders sell their shares in the market if their interests are not met (“exit”, also referred to as the market for corporate control) (Pound, 1988), or to articulate their interests (“use their voice”) by placing shareholder proposals and engage with the management (Hirschman, 1970; Zhengzi Li et al., 2021). We focus on the ex post agency problems expected by the market at the level of the acquiring firm and analyze them for the merged firm.

Shareholder proposals and their various functions (e.g., demanding transparency or setting incentives) serve as a signal of deficits in companies. Each shareholder proposal submitted by shareholders signals a governance deficiency that the shareholder wants to address. Therefore, we analyze how multiple shareholder proposals interact as bundles (Aguilera et al., 2015, 2012; Cuomo, Mallin, & Zattoni, 2016; Rediker & Seth, 1995) with specific functions to reduce principal-agent conflicts and increase governance efficiency (Ayuso, Rodríguez, García-Castro, & Ariño, 2014; Cucari, 2019a; Eisenhardt, 1989b; Rediker & Seth, 1995; Ward, Brown, & Rodriguez, 2009). We expect that a better alignment of shareholders’ and managements’ interests reduces agency costs and improves corporate governance (Westphal & Zajac, 1998), leading to a better performance (Cai et al., 2011; Ertimur et al., 2011; Ferri & Maber, 2013) and higher shareholder value (Barroso Casado, Burkert, Dávila, & Oyon, 2016; Westphal & Zajac, 1998), as well as to enhancements in management after the acquisition (Wang & Xie, 2009).

2.2.2 The impact of shareholder proposals on firm performance in acquisitions

Shareholder do influence firms’ outcomes (Gillan & Starks, 2007; Haleblan et al., 2009; Yeh, 2014). Therefore, an increasing (Greenwood & Schor, 2009) literature stream in corporate governance deals with shareholder activism, which can be understood as: “...actions taken by

shareholders with the explicit intention of influencing corporations' policies and practices" (Goranova & Ryan, 2014, p. 1253).

M&A research is far from understanding the impact of corporate governance mechanisms on acquisition decisions and outcomes (Haleblian et al., 2009; Jog, Zhu, & Dutta, 2010; Van Der Burg & Prinz, 2006). Researchers still have much to learn about how different corporate governance mechanisms and their combinations affecting firm performance (Goranova & Ryan, 2014). Aguilera et al. (2015) and Goranova & Ryan (2014) call for an examination of combinations of multiple governance mechanisms to create better governance practices.

We focus on three specific shareholder proposals that we identified are the most common, as determined through various data collection efforts: In selecting the most important shareholder proposals, we are guided by the study by Demirtas & Weber (2022).

Demirtas & Weber (2022) are the only study in this area that shows the frequency of the most common shareholder proposals. Table 2 shows the frequency of various shareholder proposals in the S&P in 124 companies in 2017.

Conceptually, we focus on internal stakeholders (Johnson, G., & Scholes, 2002) such as employees, directors, and shareholders who influence firm performance (Yoon & Chung, 2018). It is important for successful companies to understand and respond to the needs of internal stakeholders (Freeman, 1984). Shareholder proposals can be a way to address the needs of internal stakeholders (Connelly et al., 2010b; Ferri & Sandino, 2009; Hillman et al., 2011; Sauerwald et al., 2016; Young et al., 2008) to influence firm value and performance (Freeman, 1984). Therefore, we follow Freeman (1984) and Yoon & Chung (2018) in focusing on internal stakeholder groups such as employees, directors, and shareholders.

Based on our dataset, we consider internal stakeholders, as Table 2 shows that shareholder and director proposals are strongly represented. Given the wide prevalence of employee stock options (23.5%) in the datasets of this analysis, we included employee stock options because they are very commonly used as shareholder proposals.

Table 2: Frequency of various shareholder proposals (Source: Demirtas & Weber, 2022)

	Shareholder Proposals	Variables considered	In % cases these shareholder proposals are present
The most frequently occurring shareholder proposals	Shareholder support for say on pay proposal	Incentives directors	97.00%
	Shareholder support for independent auditor proposal	Higher transparency	95.50%
	Say on frequency	Strong monitoring	94.50%
	Shareholder support for employee stock options	Incentives employees	23.50%

We focus on shareholder proposals, such as the incentive function of management (say on pay), employee compensation (employee stock options) and their frequency (say on frequency), as well as the interaction with the choice of auditors, which provides transparency (independent auditors). More precisely, proposals on director compensation - requesting an increase in compensation in the form of salary adjustment proposals (Conyon & Sadler, 2010; Cucari, 2019a; Ferri & Maber, 2013; Stathopoulos & Voulgaris, 2016) and employee stock option proposals (Core & Guay, 2001; Ferri & Sandino, 2009; Guay, Kothari, & Sloan, 2003) that lead to alignment of interests between corporate stakeholders (management and employees) and shareholders (Cucari, 2019a; Eisenhardt, 1989b; Rediker & Seth, 1995).

Independent auditor proposals serve to create transparency through the selection of a new independent auditor (Dao et al., 2012). We focus on the interactions between shareholder proposals and acquisition outcomes and the influence of corporate decisions (Agrawal, 2012; Connelly et al., 2010b; Greenwood & Schor, 2009; Kalodimos & Leavitt, 2020; Renneboog & Szilagyi, 2011). Prior research has generally examined each proposal in isolation (Goranova & Ryan, 2014), although there is heterogeneity in shareholder interests (Benton & You, 2019). We therefore focus on the combination of shareholder proposals and their effects on firms.

2.2.3 Acquisitions and the market for corporate control

The literature on M&As analyzes a variety of variables that affect acquirers' post-acquisition performance.

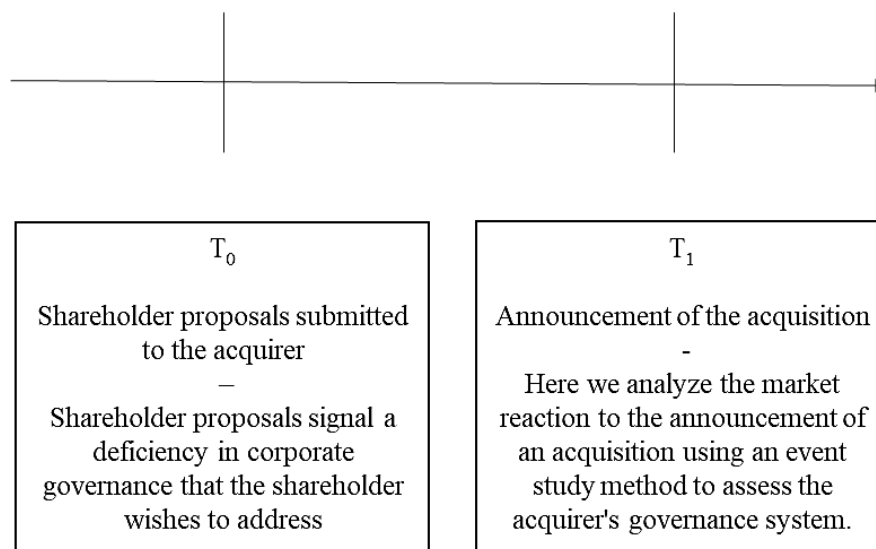
Results regarding acquirers' post-acquisition performance are mixed (Agrawal et al., 1992), showing acquirers to win (Healy et al., 1992), to lose (Eckbo & Thorburn, 2000), or to break even (King et al., 2004).

The antecedents to acquisition success or failure have been identified through various theoretical perspectives applied to the acquisition context, such as social network and social capital theory (Ishii & Xuan, 2014; Rogan & Sorenson, 2014), absorptive capacity, the resource-based view (Uhlenbruck et al., 2006), or behavioral theory (Barkema & Schijven, 2008b) (for a review, see Goranova & Ryan (2014)).

One theory that is frequently applied to the acquisition context is corporate governance theory, whose theoretical foundation can be found in the agency perspective (Dalton et al., 2003; Gerum et al., 2018), and which appears promising for reconciling the mixed acquisition outcomes in the existing literature.

As Panayi, Bozos and Veronesi (2021) note, the M&A framework is an appropriate framework to analyze the role of governance in influencing firm outcomes. We use the M&A event to assess the governance structures of the acquirer. Is management able to manage the size of the acquirer and the size of the target company? At the time of the acquisition, the market reacts. At this time (T1, see Figure 3), we measure the market reaction. In the specific case of an acquisition, the ability of the acquirer's management (to manage the larger size of the company after the acquisition) becomes "visible" to the market.

Figure 3: Focus of the analysis in the context of M&A



Corporate governance research is generally concerned with the separation of ownership and management in companies (Jensen & Meckling, 1976).

The underlying agency perspective assumes that problems arise when management (agents) deviate from the interests of shareholders (principals) (referred to as principal-agent conflict) (Dalton et al., 2007). To ensure that these problems are mitigated, the literature addresses mechanisms for controlling managers' actions (Connelly et al., 2010a; Fos, 2016).

These mechanisms can be divided into internal and external mechanisms. The internal ones contain actions by the board of directors (Aktas et al., 2016; Certo, Covin, Daily, & Dalton, 2001) or executive ownership (Dalton et al., 2003). The external dimension of corporate governance encompasses the market for corporate control (Hitt, Hoskisson, Johnson, & Moesel, 1996), i. e., acquisitions and their disciplinary effects on the management of the respective target companies (Morck et al., 1988a; Shleifer et al., 1997).

The goal of the corporate control market is to prevent managerial misconduct, such as shirking and bribery, and the pursuit of managerial self-interest (Morck et al., 1988b). Replacing a firm's underperforming management with an acquisition has been shown to lead to better performance because the acquirer is better able to manage the stock of the target firm in question (Jensen, 1988).

With respect to the corporate control market, we argue that there would be no takeover attempt if other external corporate governance mechanisms of the target firm were beneficial to its shareholders.

We therefore view the takeover as a kind of last resort for the shareholders of the target company, since their efforts to manage the company were apparently unsuccessful (Jensen, 1993).

The same mechanism applies to the acquiring firm, which may also be exposed to the market for corporate control if the acquirer's management is unable to manage the firm effectively. In this context, we analyze the governance capability of the acquirer's management, which could be assessed based on the acquirer's governance structures (e. g., shareholder proposals) if a takeover attempt is announced.

2.2.4 The impact of shareholder proposals on firm performance

A specific literature stream in corporate governance deals with shareholder activism, which can be understood as: "...actions taken by shareholders with the explicit intention of influencing corporations' policies and practices" (Goranova & Ryan, 2014, p. 1253).

Driven by activist investors (Haleblian et al., 2009; Yeh, 2014), this practice has increased in recent years (Greenwood & Schor, 2009). Research on shareholder activism is divided into financial activism, which is based on agency theory (Gillan & Starks, 2007), and social activism, which focuses on stakeholders (David et al., 2007; Guay, Doh, & Sinclair, 2004; Rebs, Thiel, Brandenburg, & Seuring, 2019).

Studies of shareholder activism have addressed a variety of issues ranging from antecedents (Karpoff et al., 1996; McNulty & Nordberg, 2016; Zajac & Westphal, 1995) to outcomes (Klein & Zur, 2009; Ryan & Schneider, 2002).

Shareholder activism includes actions such as influencing corporate behavior through meetings and negotiations between shareholders and management (David et al., 2007), launching hostile

media campaigns (Connelly et al., 2010a), or direct intervention through shareholder proposals in the form of proxy statements.

These proposals allow shareholders to take certain actions that reflect their governance concerns (Gillan & Starks, 2000) and identify the need to change the acquirer's governance structures to achieve higher performance (Bhagat & Bolton, 2008) and shareholder returns (Filbeck, Zhao, & Knoll, 2017). The effects of various shareholder proposals related to financial activism have been studied on performance outcomes such as stock prices. The influence of varying investor proposals in the financial activism context has been investigated on performance outcomes like share prices (Klein & Zur, 2009) and yielded mixed results with positive and constant (Ashraf et al., 2012; Greenwood & Schor, 2009), as well as negative (Cai et al., 2011) stock price responses.

M&A research is far from understanding the impact of corporate governance mechanisms on acquisition decisions and outcomes (Haleblian et al., 2009; Jog et al., 2010; Van Der Burg & Prinz, 2006). Strategy and finance researchers still have much to learn about how different corporate governance mechanisms and their combinations affect firm performance (Goranova & Ryan, 2014). For example, Aguilera et al. (2015) and Goranova & Ryan (2014) call for an examination of combinations of multiple governance mechanisms to create better governance practices. Based on agency theory, we respond to Aguilera et al.'s (2015, 2008) calls for an analysis of governance bundles by bringing together, on the one hand, acquisitions as the main instrument of the market for corporate control and, on the other hand, the control mechanism of shareholder proposals as a form of investor activism in acquiring firms. More specifically, we analyze the reaction of acquirers' stock price in acquisitions after the announcement of the acquisition as a result of shareholder proposals submitted to acquirers to evaluate the acquirer's governance setup. We focus on three specific shareholder proposals that we believe are the most common, as determined through various data collection efforts: Proposals to elect an independent auditor - creating transparency through the election of a new independent auditor (Dao et al., 2012), proposals on director compensation -

requesting an increase in compensation in the form of salary adjustment proposals (Conyon & Sadler, 2010; Cucari, 2019a; Ferri & Maber, 2013; Stathopoulos & Voulgaris, 2016) and employee stock option proposals (Core & Guay, 2001; Ferri & Sandino, 2009; Guay et al., 2003) that lead to alignment of interests between corporate stakeholders (management and employees) and shareholders (Cucari, 2019a; Eisenhardt, 1989b; Rediker & Seth, 1995) and their interactions, focusing on their interactions on acquisition outcomes and influencing corporate decisions (Agrawal, 2012; Connelly et al., 2010b; Greenwood & Schor, 2009; Kalodimos & Leavitt, 2020; Renneboog & Szilagyi, 2011). Prior research has generally examined each proposal in isolation (Goranova & Ryan, 2014), although there is heterogeneity in shareholder interests (Benton & You, 2019). We therefore focus on the combination of shareholder proposals and their effects on firms.

Better alignment of shareholders' and managements' interests reduces agency costs and improves corporate governance (Westphal & Zajac, 1998), leading to a better performance (Cai et al., 2011; Ertimur et al., 2011; Ferri & Maber, 2013) and higher shareholder value (Barroso Casado, Burkert, Dávila, & Oyon, 2016; Westphal & Zajac, 1998), as well as more successful management of the new firm after the acquisition (Wang & Xie, 2009).

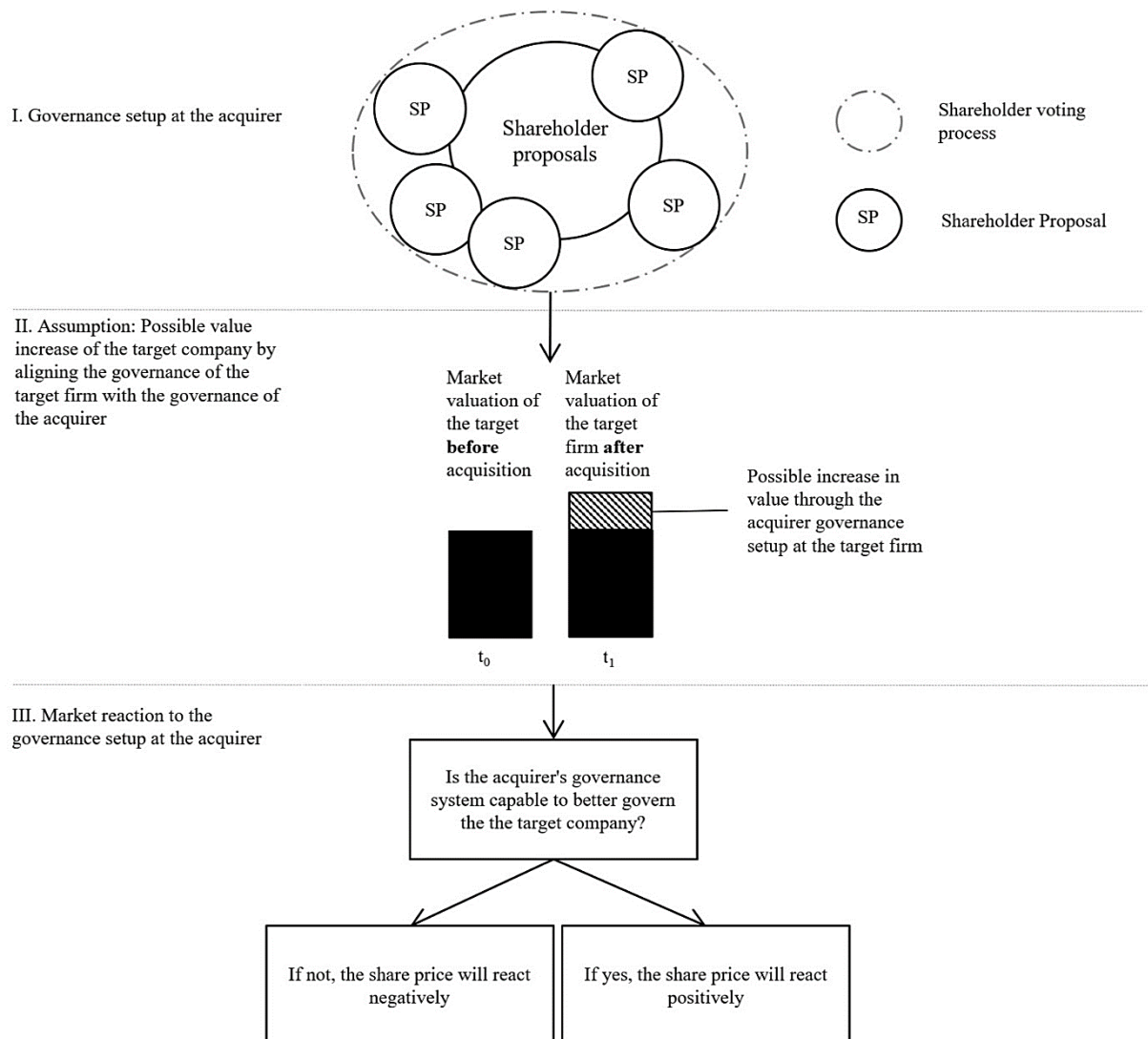
Bundling shareholder proposals is important to effectively achieve a common goal (Aguilera et al., 2015, 2012; Cuomo et al., 2016; Rediker & Seth, 1995) because corporate performance depends on the effectiveness of a range of governance mechanisms (Rediker & Seth, 1995). Each shareholder proposal submitted by shareholders signals a governance deficiency that the shareholder wants to address. Therefore, we analyze how multiple shareholder proposals interact as bundles with specific functions to reduce principal-agent conflicts and increase governance efficiency (Ayuso et al., 2014; Cucari, 2019a; Eisenhardt, 1989b; Rediker & Seth, 1995; Ward et al., 2009).

Studying the share price reaction of acquirers in the context of takeovers is so fruitful because the stock market pays particular attention to the governance structures of the acquirers prevailing at that time. As previous research (El-Khatib, Fogel, & Jandik, 2017) has shown, activist shareholders can express their dissatisfaction with corporate governance by filing shareholder proposal in advance of a takeover. Figure 4 shows the assumed market valuation of corporate governance changes through shareholder proposals. This dynamic can be reinforced by other shareholders supporting the proposal depending on their preferences (I) (Bauer, Moers, & Viehs, 2015; López-Iturriaga & Santana-Martín, 2015; Wang, 2017). The market will perceive the acquisition as a means of disciplining managers (Jarrell, Brickley, & Netter, 1988). The effect also occurs with the acquirers' managers.

Therefore, we argue if acquirers' management is capable to implement acquirers' governance setup to the target firm, it will be able to more efficiently manage the target firm after the takeover than it has been managed before (II) (Jensen, 1988) (see Figure 4). Furthermore, the market reaction shows if acquirer's management is able to handle the increasing size of the company after the acquisition (III). Shareholders should be interested in appointing management of the acquirer that is better able to manage the new, larger size of the acquirer than was the case prior to the acquisition. This reasoning is consistent with the literature suggesting that shareholder proposals are supported by other shareholders because they are adopted by the board with greater regularity (Ertimur et al., 2010; Thomas & Cotter, 2007).

Shareholder proposals will therefore affect various outcomes, such as the adoption of staggered boards (Guo et al., 2008) or the expansion of stock options (Ferri & Sandino, 2009). With this in mind, we posit six hypotheses, which are explained below.

Figure 4: Market evaluation process of acquirers' governance setup



2.3 Hypotheses

2.3.1 Say on pay proposals

Say on pay proposals, a type of shareholder proposal, allow shareholders to influence annual executive compensation, such as bonuses, salary adjustments, stock options, or retirement benefits (Cai et al., 2011; Iliev & Vitanovaa, 2019; Jensen & Murphy, 1990; Obermann, 2020).

From a governance theory perspective, say on pay proposals (Cai et al., 2011; Conyon & Sadler, 2010; Cuñat et al., 2016; Ertimur et al., 2011; Ertimur, Ferri, & Oesch, 2013; Ferri & Maber,

2013; Stathopoulos & Voulgaris, 2016) are typically used to mitigate the principal–agent problem between managers and shareholders (Karpoff et al., 1996; Stathopoulos & Voulgaris, 2016). Their justification lies in requiring the board to negotiate better aligned executive contracts or at least improve communication between shareholders and management (Brunarski, Campbell, & Harman, 2015).

Literature examining the impact of say on pay proposals on the firm value is rather sparse, and there is disagreement about whether or not those compensation related proposals create value to firms (Ferri & Maber, 2013). The respective studies find either no significant (Gillan & Starks, 2000; Thomas & Cotter, 2007), negative (Brunarski et al., 2015; Larcker, Ormazabal & Taylor 2011; Cai & Walkling 2011), or positive market reactions (Cai et al., 2011; Ferri & Maber, 2013) of compensation related proposals on shareholder wealth. The literature examining positive market reactions to changes in executive compensation shows that say on pay proposals lead to such positive market reactions by firms when their CEOs are paid inefficiently. This is the case because agency costs are reduced and the interests of shareholders and managers are better aligned (Cai et al., 2011). Ferri and Maber (2013) confirm this positive effect of say on pay proposals on the response of firm's share price when the CEO is overpaid and the firm under study performs poorly. These results can be attributed to an improvement in monitoring mechanisms that align the interests of the shareholders and the management and lead to an increase in value. Cai and Walkling (2011) argue that the interests of shareholders and the management of a company to which these proposals (e. g. say on pay proposals) are made can be better aligned, reducing agency costs and improving corporate governance. This line of thought can also be applied to the context of M&A. From an agency theory perspective, shareholders who seek to influence executive compensation in advance of a pending acquisition through shareholder proposals should intend to better align the interests of management with their own interests, particularly with respect to the management of the target company after the acquisition. As literature shows, conflicts

between managers and shareholders intensify during M&A situations (Jensen & Meckling, 1976). This is because managers do not always make value-maximizing acquisitions, but rather try to maximize their own benefits at the expense of shareholders (Masulis et al., 2007). It can be assumed that the capital market, which responds to the alignment of shareholders' and managers' interests even in cases that do not involve M&As (Ferri & Maber, 2013), values the information contained in the announcement of a proposed acquisition (MacKinlay, 1997; McWilliams & Siegel, 1997) and positively perceives this alignment of interests and thus the improvement of corporate governance through adjustments (Bhagat & Bolton, 2008) among acquirers. In turn, the market is expected to anticipate the need for an improved and more aligned corporate governance structure between shareholders and management to help the acquirer better manage the new size of the company post-acquisition.

As conflicts of interest between both parties rise in a takeover situation (Jensen & Meckling, 1976), the reaction of the acquirer's share price to an impending takeover attempt should be even stronger and more observable if governance mechanisms are better aligned.

We therefore propose:

Hypothesis 1: The issuance of say on pay shareholder proposals at the acquirer leads to a positive share price reaction of the acquirer.

2.3.2 Independent auditors

Independent auditors are defined as firms that make an unbiased estimate of companies' financial statements based on standard accounting principles (Goldman & Barlev, 1974; Levinthal & Fichman, 1988), with their primary role being to assess the fair value of companies' assets (Griffin, 2014). Auditor independence implies a certain distance between auditor and audited company (Dogui, Boiral, & Heras-Saizarbitoria, 2014) and is of great importance for the audit process, as shareholders' requirements for reliable and trustworthy information are

high (Lopo & Aldecir, 2014). Investigations into the independence of auditors have shown that they are exposed to potential conflicts of interest. On the one hand, they are required by law to make objective fair value measurements of companies (Griffin, 2014). On the other hand, they are hired by the management of the company they are auditing (Levinthal & Fichman, 1988) and are thus economically dependent as they receive their audit fees from these companies (Dogui et al., 2014). Thus, there is a risk that management may attempt to influence the auditor's report in order to present the company in a good light to third parties, e. g., investors, and to impress shareholders who evaluate management's performance based on the auditor's report (Goldman & Barlev, 1974). To mitigate this governance failure, shareholders propose the replacement of the auditor if they believe that management's performance is misrepresented, representing a need for transparency to the market. Applying these agency theory considerations to the M&A setting, the reaction of the financial market to the announcement of an acquisition in which the acquirer's shareholders make proposals for the appointment of a new independent auditor should be positive. These independent auditors, in turn, help acquiring firm managers to develop their ability to analyze target firms and investments during the target selection process.

This argument seems reasonable because outside advisors can reduce demands on managers (Bowers & Miller, 1990), thereby reducing information asymmetries between acquirers' shareholders and managers to facilitate acquisitions (Servaes & Zenner, 1996), which facilitates the evaluation of firm performance (Lopo & Aldecir, 2014). The use of a new independent auditor, whose judgment reflects the management's performance should signal to the market that the acquirer's shareholders will do everything in their power to assess the quality of the firm's management (Levinthal & Fichman, 1988). Since takeovers are considered the main instruments for the market of corporate control, the performance of the acquirer's management

is the decisive factor that leads shareholders to believe that the acquirer will run the new company more successfully after the takeover than before.

Thus, efforts to effectively evaluate the acquirers' management seem particularly important, as literature on auditors in acquisitions shows that managers tend to manipulate their earnings before the acquisition (Gong, Louis, & Sun, 2008). Other arguments supporting this reasoning are that changing an auditor often occurs when firms need a change, which is the case with an acquisition (Levinthal & Fichman, 1988).

We hence hypothesize:

Hypothesis 2: The issuance of shareholder proposals on the appointment of new auditors at the acquirer leads to a positive share price reaction of the acquirer.

2.3.3 Employee stock options

Employee stock options as a compensation component for employees and managers are becoming increasingly popular in companies (Core & Guay, 2001). Those stock options account for the majority of CEO compensation (Yermack, 1995). In addition to studies that address the antecedents of employee stock options, such as market-based incentives (Kato, Lemmon, Luo, & Schallheim, 2005), limited external financing options (Babenko, Lemmon, & Tserlukevich, 2011), or managerial control difficulties (Yermack, 1995), research on employee stock options focuses on their effects. From this research, it appears that such a form of employee stock option compensation leads to a better long-term management orientation (Ferri & Sandino, 2009). In addition, research shows that employee stock options are used to better align the interests of shareholders and employees in firms and to attract, reward and retain employees (Bergstresser & Philippon, 2006; Guay, Kothari, & Sloan, 2003; Kato et al., 2005). In the financial market, employee stock options are widely used (Bodie, Kaplan, & Merton, 2003), lead to profit manipulation by management manipulation (Bergstresser & Philippon,

2006), and result in opportunistic choices of grant dates (Yermack, 1997). This trend has led regulators to introduce rules requiring firms to report stock options in their income statements at fair value on the date options were granted (Ravenscroft & Williams, 2009). We argue from the standpoint of agency theory that the valuation of employee stock option signals should be negative for the stock market reaction of the acquirer's management in M&As by issuing employee stock options. It is argued that shareholders make these proposals to acquirers in order to achieve greater long-term management alignment (Ferri & Sandino, 2009) and an associated better alignment of shareholder and managerial interests (Guay et al., 2003).

We expect the stock market to anticipate in the case of an upcoming acquisition that managers are above-average driven by the temptation to manipulate earnings, as is shown in the common literature (Gong et al., 2008) and to curtail their inferior performance in order to raise share price performance. Thus, if those proposals are submitted at acquirers upfront an M&A announcement, the market will anticipate the camouflage tactic of the acquirer's management in covering their real (bad) performance. More precisely, the market will anticipate that acquirer's management is short term oriented before an acquisition and tries to rise the stock prices, especially when the management gets aware of the shareholder attempt to long-term align their interest by the submission of an employee stock option shareholder proposal, which shows the need for an alignment. The market will thus assume that the management of such companies will be less able to successfully manage the new entity after the acquisition:

Hypothesis 3: The issuance of shareholder proposals to establish employee stock options at the acquirer leads to a negative share price reaction of the acquirer.

2.3.4 Interaction between shareholder proposals

We found several clear associations between specific governance mechanisms reflected in shareholder proposals and the response of acquirers' stock prices. In this section, we assume

that the combination and interaction of different governance mechanisms (referred to as governance bundles) expressed in the form of shareholder proposals provide a partial solution to the mixed results on the effects of governance proposals that have been reported in the literature to date (Dalton et al., 2007, 2003).

2.3.5 Interaction between independent auditor and employee stock options

We have argued that the issuance of employee stock options proposals to acquirers can lead to negative acquirer share price reactions because the market anticipate the possibility that managers will mask their underperformance by manipulating the acquirer's financial data of in advance of the impending acquisition (Gong et al., 2008).

However, our thinking regarding the market reaction to the requirement for new independent auditors through shareholder proposals was that it should be positive because the acquirer will do everything in its power to assess the quality of its management in running the new company after the acquisition (Levinthal & Fichman, 1988).

Regarding perceptions of the interaction between the information on the issuance of employee stock options and the appointment of a new independent auditor, we argue that the impact of this governance bundle on the reaction of the acquirers' stock price will be positive. If the financial market perceives the potential for management manipulation to be high because the acquirers' shareholders vote for a higher share of stock options (Gong et al., 2008), the appointment of a new independent auditor in advance of the pending acquisition should be perceived as positive. The new auditor will reduce information asymmetries between shareholders and the acquirers' management and provide more transparency in the evaluation of the financial performance of the acquirers' management (Lopo & Aldecir, 2014).

It is expected that the financial market will view this governance bundle more positively than a proposal submitted individually, as it provides an even better insight into how management might run the new company after the acquisition:

Hypothesis 4: The issuance of shareholder proposals to establish employee stock options in combination with shareholder proposals to appoint a new independent auditor at the acquirer leads to a positive share price reaction of the acquirer.

2.3.6 Interactions between say on pay and independent auditor

We argued that the stock market responds positively to the takeover announcement by companies where shareholders make say on pay proposal prior to the announcement of the takeover.

The market reaction to takeover announcement by companies which have received advice from their shareholders to appoint new independent auditors is also likely to be positive due to the better improved assessment of management performance and increased transparency between shareholders and management (Lopo & Aldecir, 2014).

If shareholders propose a say on pay proposal and the appointment of a new independent auditor as a governance bundle, we expect a negative market reaction. We argue that the market will reward the efforts of the acquirer's shareholders to propose a new independent auditor with greater transparency and a better assessment of the actual performance of the acquirer's management, leading to a positive market reaction if the acquirer's shareholders simply ask the board to appoint a new independent auditor. However, if the acquirer's shareholders want to change both management compensation (say on pay proposals) and management performance evaluation (independent auditor proposals), we argue that this governance bundle is inefficient because shareholders signal extreme dissatisfaction with management compensation and are very uncertain about the company's performance situation. In particular, in the context of an

acquisition, shareholders need clarity about the actual performance of management in order to assess whether management's performance is good enough to lead the new company after the acquisition (Lopo & Aldecir, 2014). By understanding takeovers as vehicles for corporate control, this dissatisfaction about executives' compensation in combination with the uncertainty about the true management performance should the market let react negatively, as the financial market should perceive the acquirer to be less capable to successfully manage the new company after the acquisition. Hereby the stock market within the acquisition context should react negatively in comparison to other market reaction settings, as the market will even emphasize to ascertain managements' abilities to manage the new company after the acquisition:

Hypothesis 5: The issuance of say on pay shareholder proposals in combination with shareholder proposals to appoint a new independent auditor at the acquirer leads to a negative share price reaction of the acquirer.

2.3.7 Interactions between say on pay and employee stock options

As prior literature assume, incentivizing employees leads to a decrease in CEO compensation (Ferri & Sandino, 2009) disciplining CEOs. However, this effect is related to the literature showing that a decrease in CEO compensation lowers shareholder returns (Balafas & Florackis, 2014) and possibly also acquirer returns.

The literature suggests that proposals for co-determination rights (Cucari, 2019a; Eisenhardt, 1989a; Rediker & Seth, 1995) and employee stock options (Core & Guay, 2001; Ferri & Sandino, 2009; Guay et al., 2003) lead to an alignment of the interests of shareholders and firm participants (management and employees) considered individually (Eisenhardt, 1989a; Pound, 1988). Disadvantaging the CEO by lowering his/her compensation can be detrimental to the entire company.

If shareholders vote in favor of the pay vote proposal and employee stock options at the same time (without penalizing the CEO), we expect that the simultaneous alignment of CEO pay and employee stock options with shareholder interests can lead to positive returns for the acquiring company. We expect that the alignment of shareholders, management and employees will improve the performance of the acquiring company.

Hypothesis 6: The issuance of say on pay shareholder proposals in combination with employee stock options proposals leads to a positive share price reaction of the acquirer.

2.4 Methods

2.4.1 Data and sample

To analyze the interaction between the different bundles of shareholder proposals and their influence on acquisitions we randomly choose data of U. S. firms listed on NYSE and Nasdaq acquiring U. S. listed target firms, in USD. We identified transaction details for acquiring firms between 2005 and 2015 with the Zephyr database. We selected companies from the S&P 500 with shareholder proposals. To do this, we took the most frequent shareholder proposals (based on another data selection from 2017). Companies included in the S&P 500 index play an important role in corporate governance and receive shareholder proposals categorized as "say –on pay," "employee stock options," and "independent auditor" (Dao et al., 2012; Ertimur et al., 2010; Goranova & Ryan, 2014).

Further we hand-collected 369 shareholder proposals submitted to 170 acquirers upfront a transaction by using DEF-14A filings from Securities and Exchange Commission (SEC) database (Gillan & Starks, 2000; SEC, 2016). We focused on the latest proxy report to gather the shareholder proposals, and therefore the only way to grasp shareholder intentions. Accordingly, we gathered three types of proposals, namely “say on pay”, “independent auditor”, and “employee stock options” as literature has been shown that they are the most

important ones in influencing performance outcomes of companies (Cai et al., 2011). We also found in another data collection in 2017 (presented in chapter 3) that these are the most common shareholder proposals. Companies, which had none of the above-mentioned proposals in their DEF 14A reports, were excluded. Further we extracted data from 10-k filings data, also from SEC database, for our control variables (SEC, 2016).

After we had identified the firms, we matched the acquisition year with the right control variable (10-k filings) and the upfront shareholder proposals (DEF 14-A filing). For the dependent variable we gathered stock data from ARIVA.de, OnVista Media GmbH, as shown in the method section.

Measures

Dependent Variables

We further calculated the dependent variable by using the cumulative abnormal returns (CARs) of each acquirer. To receive CARs we calculated the abnormal returns of the acquirers by using event study methodology at the announcement of the takeover. The abnormal returns (ARs) were cumulated over the event windows to receive the CARs for each acquirer.

Independent Variables

Our independent variables are the three types of shareholder proposals derived within our theory section, namely “say on pay”, “independent auditor” and “employee stock options”. Those proposals were gathered from SEC (2016). We selected these independent variables because the literature shows that they have the greatest impact on firm performance outcomes (Cai et al., 2011). Concerning say on pay proposals, we counted the number of those proposals, submitted at each acquirer. The same holds for the number of employee stock option plans at the acquiring firms and non-occurrence of proposals. Each firm in the data sample, whose

shareholders submitted proposals calling for a new independent auditor, received a 1 and 0 otherwise.

Control Variables

As control variables we included size and sector of the companies. Size plays a role because bigger acquirers will be evaluated worse by the financial market, as those companies make bigger acquisitions and thereby receive higher losses, whereas smaller acquirers will be evaluated better by the market (Moeller et al., 2004). The size variable was included as a metric variable comprising the logarithm of the acquirer's total assets in our sample.

We further controlled for the sectors the acquiring companies are based in, as higher acquirer returns in our sample could also be due to a sector or industry effect. Literature shows that accumulations of acquisitions in certain industries, which are the result of industry shocks, can lead to higher acquirer returns in those industries (Andrade, Mitchell, & Stafford, 2001). Every sector was included as a single variable where a company was assigned a 1 if it belonged to a specific sector and 0 otherwise. Table 2 displays all sectors derived from *bloomberg.com*, which we included in our analysis as well as the distribution of the companies within the sectors and their means. Table 3 shows the distribution of companies in our sample across industries (financials, consumer discretionary, consumer staples, basic materials, healthcare, communications, technology, energy, aerospace and defense). The technology industry is the most represented at 25.29% and the aerospace and defense industry is the least represented at 0.58%.

Table 3: Sectors and distribution of the companies within the sample

Company sectors	Distribution of companies	Distribution of companies
	within the sectors	within the sectors (%)
Technology	43	25.29
Financials	27	15.88
Consumer Discretionary	25	14.70
Health Care	22	12.94
Industrials	19	11.17
Materials	13	7.64
Communications	9	5.29
Consumer Staples	8	4.70
Energy	3	1.76
Aerospace & Defense	1	0.58
N	170	
Percentage		100%

2.4.2 Analytical approach

To calculate abnormal acquirer returns as function of the governance proposals submitted at acquirers, we applied event study methodology and used the market model ($R_{i,t} = \alpha_i + \beta_i \cdot R_{m,t} + \varepsilon_{i,t}$) (Brown & Warner, 1985; McWilliams & Siegel, 1997). Event studies analyze influences of economic events like an acquisition on the returns of the companies involved in the event. The underlying assumption is, that the emerging information about the event will be immediately reflected within the share prices of the concerned firms (McWilliams & Siegel, 1997). To trace back the share price reaction to the information of acquirers'

submitted shareholders proposals at takeover announcement, we chose only takeovers in which there was no annual or quarterly report between those two dates.

We chose the market model as other models, which could also be applied to calculate the abnormal returns, assume α as 0 and β as 1, which turns out to be relatively imprecise. Further, we fixed the announcement day 0 of all takeovers in our sample. Afterwards we specified the event window from day [- 5;+5] in which we want to observe the abnormal stock market returns of each acquirer in the sample. Following previous studies like the one by Asquith *et al.* (1983), we chose an event window which is bigger than [- 1;+1] days around the announcement of the acquisition to assure that the information about the governance proposals reaches the market and avoiding the risk of confounding events. Following, we determined a calculation window for the computation of the market parameters α_i and β_i in the market model. Therefore, we took every company in the sample and went 250 trading days backwards in advance of the respective takeover announcement, as it is common in the literature on event studies (Brown & Warner, 1985; McWilliams & Siegel, 1997). The choice of 250 trading days in advance of the event to calculate the parameters of the market model guarantees that there will be no bias in the parameter calculation (Keown & Pinkerton, 1981). The result is an estimation period resulted from [-250;-6] and respectively α_i and β_i . By only including the upstream period of measurement and not integrating the event window period into the estimation of the parameters, we prevent a distortion of those parameters, as otherwise both the normal and the abnormal returns would portray the impact of the event, resulting in biased outcomes (MacKinlay, 1997). For the calculation of acquirers' abnormal stock market returns we chose benchmark indices to compare the daily stock prices of the respective acquiring companies with (Dennis & McConnell, 1986). Therefore, we selected only companies that are either listed at the NYSE or the NASDAQ. Share prices of the acquiring companies as well as

share prices of the benchmark indices NYSE and NASDAQ in our sample were compiled from different independent suppliers of financial data like ARIVA.de AG (ARIVA, 2016), OnVista Media GmbH (OnVista Media GmbH, 2016). Every share price i on day t ($R_{i,t}$) for each acquirer was then regressed against every respective daily value of the benchmark index m on day t ($R_{m,t}$) for both estimation periods mentioned before.

Our regressions resulted in 11 abnormal returns (ARs) for each acquiring company in our sample. Those abnormal returns were cumulated for each event window, resulting in two cumulative abnormal returns (CARs) for each acquirer in the sample for the event window. In a final step, CARs were subsequently deployed as dependent variables in the following main OLS-regressions. We run two regression analyses for each acquiring company with respectively one CAR as dependent variable. As independent variables, we used each time two types of shareholder proposals and their respective interaction. Furthermore, we deployed control variables in each regression. We checked if and affirmed that all requirements for using OLS-regressions were fulfilled. We also run bootstrapping regressions for control reasons, which revealed no differences in our results.

2.5 Results

Table 4 gives an overview of independent and control variables as well as the Pearson correlations between those variables. No significant correlations between our variables can be detected, except two correlations, which are close to 0.5. Those exist between independent auditor and the interaction between independent auditor and say on pay proposals as well as between employee stock options and the interaction between employee stock options and independent auditors. After checking for variance inflation factors (VIF) we can space out multicollinearity, as our highest VIF is 1.65 (VIF maximum: 10). Values near 1 (which almost

all our VIFs exhibit) are indicative of non-existent correlations. Table 4 shows the results of our regression analysis with the dependent variable CAR 1.

First, we turn to the effects of individually submitted governance mechanisms. Our first hypothesis which stated a positive acquirer share price reaction at the announcement of takeovers by companies, in which the shareholder submitted say on pay proposals, cannot be confirmed by our data, at no statistical significance level (see Table 5). Thus, the market does not seem to worship an alignment of interests between shareholders and the management upfront an acquisition. Our results for the acquisition context are in line with studies who report no influence of say on pay proposals on companies' performance (Gillan & Starks, 2000; Thomas & Cotter, 2007).

The second hypothesis which expected a positive acquirer share price reaction to takeover announcements of acquisitions, in which shareholders proposed the appointment of new independent auditors, is highly significant at $p < 0.01$ percent. Acquiring firms' managers develop skills to analyze target firms and investments during target selection, thereby lowering information asymmetries between shareholders and acquirers' managers to facilitate acquisitions (Servaes & Zenner, 1996) by causing transparency. The market will do everything in its power to assess the quality of the acquirers' management (Levinthal & Fichman, 1988), to assure that the new company is successfully managed after the acquisition.

Our third hypotheses about a negative influence of employee stock option shareholder proposals on acquirer's share price reaction can be confirmed at the $p < 0.05$ percent level of significance. This result can be interpreted in line with our argumentation that, although shareholders submit those proposals in the belief of an associated increase in the long-term orientation of the management (Ferri & Sandino, 2009) and an associated improved alignment of the interests of shareholders and executives (Guay et al., 2003), the stock market expects something different.

Table 4: Descriptive statistics and Pearson correlation coefficients

Variable	Mean	Standard deviation	Say on pay	Independent auditor	Employee Stock Options	Employee Stock Options x Independent auditor	Say on pay x Independent auditor	Employee Stock Options x Say on pay	Size
Say on pay	0.06	1.01	1						
Independent auditor	0.06	0.24	-0.17	1					
Employee Stock Options	0.00	0.46	0.04	0.05	1				
Employee Stock Options x Independent auditor	0	0	0.05	-0.23**	0.48**	1			
Say on pay x Independent auditor	0	0	0.03	0.48**	0.03	-0.05	1		
Employee Stock Options x Say on pay	0	0	0.00	0.03	0.04	-0.10	0.11	1	
Size	15.14	12.44	0.11	-0.03	-0.07	-0.02	0.11	-0.05	1

N = 170; **p<0.01; *p<0.05; variable values are rounded to two decimals

Table 5: Regression analysis with acquirers' CAR 1 as dependent variables

	CAR 1
Say on pay	0.00 (0.88)
Independent auditor	0.09** (0.00)
Employee Stock Options	-0.03* (0.02)
Employee Stock Options x Independent auditors	0.24** (0.00)
Say on pay x Independent auditor	-0.05** (0.01)
Employee Stock Options x Say on pay	0.01 (0.59)
Size	0.00 (0.69)
Constant	-0.03* (0.41)
Industry Dummies	Yes
R ²	0.24
Adjusted R ²	0.16

N = 170; **p < .01; *p < .05, based on two-tailed tests, robust standard errors; significance levels in parentheses; variable values are rounded to two decimals.

It should anticipate that – especially in the case of an upcoming acquisition – managers are driven by the temptation to manipulate earnings, curtaining their worse performance and presenting the acquirer in a proper light to raise share price performance (Gong et al., 2008).

As a result, the market will anticipate managements' camouflage tactic, if those proposals are submitted upfront the announcement of a takeover.

In hypothesis four, we stated that if shareholders of acquiring firms submit governance bundles to establish employee stock options in combination with shareholder proposals to appoint new independent auditors, a positive acquirer's share price reaction should appear at takeover announcement. Our results reveal that there is, indeed, a highly significant positive acquirer share price reaction at the $p < 0.01$ percent significance level to the announcement of takeovers including this governance bundle at acquirers. Actually, the information about the potential of acquirers' managers to manipulate the financial numbers should lead the financial market to react negative, if acquirers' shareholders argue in favor of an enhancement of the proportion of stock options in the management compensation. However, the submission of proposals demanding the nomination of new independent auditors upfront the acquisition should let the market react positive, as the new auditor might lower information asymmetries and allow higher transparency in assessing the financial performance of the acquirers' management (Dao et al., 2012).

Hypothesis five stated that there should be a negative relation between the governance bundle consisting of say on pay proposals and proposals suggesting the appointment of new independent auditors submitted by acquirers' shareholders and the acquirers share price reaction at acquisition announcement. This hypothesis can be confirmed by our data at a high significance level of $p < 0.01$ percent. We argued that in the situation in which acquirers' shareholders want to change both the management compensation (say on pay proposals) and its performance evaluation (independent auditor), shareholders seem to be extremely unsatisfied with the payment of the management and are highly unsecure about the performance situation of the company. Especially within the acquisition context, shareholders need clarity about the real performance of the management to estimate if the managements' performance is good

enough to manage the new company after the acquisition. Thus, this dissatisfaction about executives' compensation in combination with the uncertainty about the true management performance will lead to a negative market reaction.

Hypothesis six, which states that the acquirer's stock price responds positively to takeover announcements by firms where the shareholder has filed say on pay proposals and employee stock options proposals to align its interests, cannot be confirmed by our data at any level of statistical significance (see Table 5). Thus, the market does not appear to reward alignment of shareholder, management and employee interests in advance of a takeover. Our results for the acquisition context are consistent with studies that find an inverse relationship between employee incentivization and management incentivization, leading to lower firm performance (Balafas & Florackis, 2014; Ferri & Sandino, 2009).

Robustness of Results

First, we tested several alternative variables for each of our independent variables, leading to consistent empirical results, e. g., on frequency (Ferri & Oesch, 2016) (the frequency with which shareholders can vote on changes in CEO compensation) and re-approval of performance factors (Morgan, Poulsen, & Wolf, 2006) (adjustment of CEO compensation as a function of firm performance). Second, we examined whether a particular industry might have affected our results. Here we excluded the healthcare industry to perform the robustness test. Our results confirmed all of our hypotheses. Table 6 shows a summary of the different robustness tests for our results.

Table 6: Robustness tests with an extended model

	CAR 1	CAR1	CAR1
Say on pay	-0.01 (0.36)	0.00 (0.9)	0.00 (0.7)
Independent auditor	0.1** (0.00)	0.1** (0.00)	0.1** (0.00)
Employee Stock Options	-0.03* (0.02)	-0.03* (0.02)	-0.04* (0.01)
Employee Stock Options x Independent auditors	0.25** (0.00)	0.24** (0.00)	0.24** (0.0)
Say on pay x Independent auditor	-0.05** (0.01)	-0.05** (0.01)	-0.05* (0.02)
Employee Stock Options x Say on pay	0.00 (0.75)	0.01 (0.61)	0.01 (0.39)
Say on frequency	0.02 (0.11)		
Vote for reapproval of performance factors		0.01 (0.65)	
Size	0.00 (0.69)	0.00 (0.95)	0.00 (0.3)
Constant	-0.03* (0.3)	-0.03* (0.3)	-0.56* (0.1)
Industry Dummies	Yes	Yes	YES excluding health care
R ²	0.26	0.24	27
Adjusted R ²	0.17	0.15	18
N	170	170	149

**p< .01; *p< .05, based on two-tailed tests, robust standard errors; significance levels in parentheses; variable values are rounded to two decimals

2.6 Discussion

Our research allows us to show that the effects of bundles of governance mechanisms differ from those of individual governance mechanisms. We therefore argue that the mixed results mentioned in the literature could be reconciled in terms of the effectiveness of governance mechanisms.

Our study contributes to several streams in the literature. First, we add to M&A literature which calls for more research on how corporate governance issues affect acquisitions (Haleblian et al., 2009). By showing that there are effects of governance mechanisms on the stock price performance of firms in takeovers and, more importantly, that these governance mechanisms affect firm performance differently when they occur in bundles (combinations of governance mechanisms) than when they occur individually. We thereby partially explain the mixed acquirer performance results in takeovers reported in the acquisition literature (Agrawal et al., 1992).

In addition, we note that the importance of shareholder proposals in connection with takeovers is increasing as the financial market perceives and responds to these proposals.

Second and most importantly, we contribute to the governance literature in general and the literature on shareholder activism in particular by addressing Goranova and Ryan's (2014) claim that different types of shareholder activism affect firm performance differently. To this end, we show that bundles of shareholder proposals have a larger impact on the stock price reactions of acquiring firms in takeovers than individual shareholder proposals. Our findings help clarify the mixed evidence on the effects of individual governance mechanisms on performance (Dalton et al., 2007; Dalton et al., 2003; Misangyi & Acharya, 2014). Our research is consistent with the findings of Aguilera et al. (2008) and Misangyi and Acharya (2014), who show that corporate governance mechanisms complement, rather than replace, firm performance to mitigate the agency problem, as often assumed in prior research (Dalton et al.,

2003; Zajac & Westphal, 1994). In addition to these studies, we go one step further and show that the impact on firm performance seems to depend on the type of governance mechanisms applied, as some of these mechanisms seem to exert their impact on firm performance individually and others only in their interaction, i. e. in bundles. This bundle can amplify or reverse the individual effects of a governance mechanism. Our study differs from previous governance research, which has also examined the combination and interaction of different governance mechanisms and their effects on firm performance (Aguilera et al., 2012; Greckhamer, Furnari, Fiss, & Aguilera, 2018) by focusing on the specific context of acquisitions (Aguilera, Desender, & Kabbach de Castro, 2012; Aguilera et al., 2008). This specific context allows us to isolate the impact of stock price reactions on the acquirer's performance and thereby monitor it better. When an acquisition is announced, the market pays particular attention to the acquirer's corporate governance and assesses its ability to manage the new company after the acquisition. The market will do so because changes in the target's governance by an acquirer with good governance will lead to better performing acquisitions (Wang & Xie, 2009).

We also contribute to the governance literature by showing a significant effect of shareholder proposals on firm performance in general and, in our case, on the response of acquirer's stock price. In contrast to several studies that report nonsignificant results of such proposals on firm performance (e. g. Agrawal, 2012), our research suggests that the market anticipates the subsequent implementation of these proposals, otherwise it would not respond at all (Ferri & Sandino, 2009). We therefore add to research by showing that shareholder proposals will be supported by other shareholders as they are with increased regularity accepted by the board of directors (Ertimur et al., 2010; Thomas & Cotter, 2007).

Our results could be context-specific, as shareholders attach particular importance to information about the acquirer's governance mechanisms during takeovers. Shareholder evaluation seems to be particularly important in takeovers, as the performance of the acquirer's management is crucial in determining whether shareholders believe that the acquirer is capable of managing the new company better after the takeover.

Our study has several implications for theory and future research as well as practice. First, we encourage further research that analyzes how different corporate governance mechanisms affect acquisitions. Such research would allow us to better understand how different shareholder proposals affect acquirer performance in takeovers and how governance bundles affect acquirer performance differently. Moreover, it is possible that governance mechanisms, and thus shareholder proposals, affect not only acquirers' stock prices or other acquirers' performance outcomes, but also a company's decision to become a target of an acquisition and its subsequent performance. For example, divergent and opportunistic interests of different groups of investors in companies can lead to a misalignment between these different groups of shareholders and certain types of investors, such as hedge funds or activist investors, who may push companies toward acquisitions (Haleblian et al., 2009). Also, conflicting proposals from different parties could have unintended consequences that run counter to the specific proposal of one party.

A second implication arises for the corporate governance literature. This line of research should consider governance mechanisms as governance bundles that complement rather than replace each other, and their influence on different performance outcomes. Our study can probably serve as a starting point for a typology of (functional bundles of) governance mechanisms. This could be similar to the KANO model of customer satisfaction (Kano, Seraku, Takahashi, & Tsuji, 1984), which is used by the financial market to consider the governance mechanisms of firms as promising or not promising for the successful governance of the new firm after the acquisition. For example, certain shareholder proposals may be taken for granted

by acquirers, leading to dissatisfaction and thus a negative reaction from the financial market if they are not present (Kano's "must-be quality factors"). Other propositions, and thus governance mechanisms, may lead to positive market reactions when they are present, but to dissatisfaction when they are not (Kano's "one-dimensional quality factors"). Again, other governance mechanisms may lead to a positive market response if they are present, but not to dissatisfaction if they are not present (Kano's "attractive quality factors").

Limitations

Future studies can build on our findings to contribute to the understanding of the configurational influences of competing shareholder proposals in M&As and clarify the mixed results of previous research (Goranova & Ryan, 2014) by using qualitative comparative analysis to examine corporate governance mechanisms (Aguilera et al., 2015). Fuzzy set considerations (Fiss, 2011) could explain different configurations of shareholder proposals and their interdependence leading to positive stock price reactions in the context of M&As. Research should apply configuration approaches to the effects of shareholder proposals to obtain a complete picture of the configuration and effects of shareholder proposals on takeover outcomes. Previous studies in this area (Campbell et al., 2016; Cucari, 2019a; Cui, Fan, Liu, & Li, 2017; Greckhamer et al., 2018; Misangyi et al., 2017) have given us insight into how improved configurational analysis could broaden our view of the impact of corporate governance on takeovers. This could also give us the opportunity to deal with shareholder dissents in an appropriate manner and to develop practical solutions (Conyon, 2016; Sauerwald et al., 2016).

This study sheds light on the conflict between shareholders and management. Currently, we do not know much about the conflict of interest between shareholders (Wang, 2017) trying to gain corporate control (Thomas & Tricker, 2017) by strategically voting (Marquardt et al., 2018) on

their own or coordinated in groups (Artiga González & Calluzzo, 2019; Charléty, Fagart, & Souam, 2019), which affects the signals shareholders send to management.

Moreover, we do not know much about the power imbalance between management and shareholders. Since there are only initial studies that have found this (Del Guercio & Woidtke, 2019; Hadlock & Schwartz-Ziv, 2019; Heugens, Sauerwald, Turturea, & van Essen, 2020), we do not know how it affects M&A outcomes.

Conclusion

By showing that different outcomes can be expected depending on which governance mechanisms are observed at the acquirer, our study could help reduce information asymmetries between acquirers and the financial market. This would allow investors to structure their bid portfolio according to their interests.

Moreover, our results show that certain combinations of shareholder proposals lead to higher acquirer announcement returns, which allows shareholders to coordinate to achieve their goals. Thus, when shareholders not only collaborate and form alliances to achieve a majority for a particular proposal, but also agree on which proposals to submit in combination, these shareholders or investors can achieve their desired outcome.

CHAPTER 3: SHAREHOLDER VOTING BEHAVIOR AND ITS IMPACT ON FIRM PERFORMANCE: A CONFIGURATIONAL APPROACH

Authored by: Cihan Demirtas

3.1 Introduction

Against the background of liberalized regulatory frameworks (Jensen, 1993) and shareholder empowerment activities in Europe (Enriques & Volpin, 2016) and the U.S. (Bebchuk, 2005), there has been an increasing trend towards shareholder participation in corporate decision making (Agrawal, 2012; Connelly et al., 2010b; Greenwood & Schor, 2009; Kalodimos & Leavitt, 2020; Renneboog & Szilagyi, 2011). Due to the increasing acceptance of shareholder proposals (shareholder proposals = defined as the subject matter on which shareholders can vote at the Annual General Meeting) as well as regulatory adjustments under Rule 14a-8, shareholder proposals have become an important governance tool (Ferri & Sandino, 2009; Gillan & Starks, 2007; Gordon & Pound, 1993; McCahery et al., 2016; Pound, 1991; Thomas & Cotter, 2007). The number of shareholder proposals is continuously increasing (Fos & Tsoutsoura, 2014) thus gaining importance in governance research (Gillan & Starks, 2007). If shareholders are not satisfied with the current governance of the firm, they have the option to sell their shares in the market if their interests are not served (exit), or to articulate their interests ("use their voice" by using their shareholder votes (vote of each shareholder)) and engage with the management (Hirschman, 1970; Zhengzi Li et al., 2021) to ensure governance effectiveness (Aggarwal, Erel, Ferreira, & Matos, 2011; Iliev, Lins, Miller, & Roth, 2015; Renneboog & Szilagyi, 2011; Ward et al., 2009). If they choose to engage with management, shareholders

need to participate in corporate politics to protect their interests (Brandes et al., 2008; Easterbrook & Fischel, 1991),

to gain sufficient power themselves, or to form a coalition to challenge corporate control with the board of directors (simultaneously referred to as board) (Pound, 1988) and influence strategic direction in their favor (e. g. Admati & Pfleiderer, 2009; Netter, Poulsen, & Stegemoller, 2009).

By voting on shareholder proposals, shareholders have the ability to influence a firm's governance structure (Hillman et al., 2011) and the firm's decision making (Agrawal, 2012; Connelly et al., 2010b; Greenwood & Schor, 2009; Kalodimos & Leavitt, 2020; Renneboog & Szilagyi, 2011). Shareholder votes got an "effective mechanism for exercising governance" (Iliev et al., 2015, p. 2167) that is essential for corporate governance (Esposito De Falco, Cucari, & Carbonara, 2018; Iliev et al., 2015; Mallin & Melis, 2012; Yermack, 2010).

Shareholder voting outcomes (Goranova & Ryan, 2014; Sauerwald et al., 2016) define the quality of board governance (Conyon, 2016) and provide a measure of a firm's governance structure that has far-reaching implications for the firm. Effectively managed firms, for example, are less likely to be the target of shareholder votes and divergent shareholder interests (e. g. shareholder dissent) (Gillan & Starks, 2007; Renneboog & Szilagyi, 2011) and use a focus on shareholder interests to improve their governance (La Porta et al., 2000; Roosenboom & Schramade, 2006). Prior research on shareholder voting has focused on the effects of various shareholder proposals like say-on-pay (Conyon & Sadler, 2010; Ferri & Maber, 2013; Stathopoulos & Voulgaris, 2016), say-on-frequency (Ferri & Oesch, 2016), employee stock options (Core & Guay, 2001; Ferri & Sandino, 2009; Guay et al., 2003) and independent auditor proposals (Dao et al., 2012) on outcomes such as governance quality and firm performance. Although this research has provided important insights, it has generally examined each proposal

in isolation (Goranova & Ryan, 2014). As a result, the existing literature does not provide evidence on how the configuration of shareholder proposals affects firm performance. To address this gap in the literature, the research question of this study is: *Which configuration of shareholder proposals leads to high or low firm performance?* Specifically, under what incentive, monitoring, and shareholder support conditions are different shareholder proposals associated with high financial performance?

For this purpose, various terms such as shareholder voting, shareholder voting strategies, and typology of shareholder voting strategies are explained.

Shareholder voting. **Shareholder voting** is the voting of “*shareholders [...] at annual meetings on the election of directors and a variety of other governance topics. These votes provide a channel for communication between shareholders, the board, and management*” (Yermack, 2010:3).

Shareholder voting strategies. “Shareholders use voting as a channel of communication with the board, and protest voting can lead to significant changes in corporate governance and strategy. Some investors have adopted innovative [...] strategies for voting.” (Yermack, 2010:4). Christoffersen (2007) and colleagues (Harris & Raviv, 1988; Hu & Black, 2005; Rock & Kahan, 2008; Yermack, 2010) provide evidence that investors engage in a voting strategy. In the absence of a standard definition, I define shareholder voting strategies as an intentional (Lund, 2018; Ritzberger, 2005) and organized shareholder vote on an annual meeting (Cai, Garner, & Walkling, 2009; Fischer, Gramlich, Miller, & White, 2009) that is used by shareholders as a signal (Conyon & Sadler, 2010) and as a communication channel with the board to achieve significant changes in corporate governance and strategy (Yermack, 2010) and with external stakeholder (Benton, 2017).

Shareholder voting strategy typology. I use typologies to empirically-derive (DeSarbo, Di Benedetto, Jedidi, & Song, 2006) the ideal types of strategies. QCA can be used to derive a typology of shareholder voting strategy by creating an informed typology (Fiss, 2011).

Prior research used typologies to understand specific group or relations (French & Raven, 1960; Mitchell et al., 1997). I define typologies as qualitative conceptual constructs (Lindow, 2012; Meyer, Tsui, & Hinings, 1993) that refer to multiple ways of describing shareholder behavior and represent "a unique combination of the [...] attributes assumed to determine the relevant outcomes" (Doty & Glick, 1994, p. 232). Typologies can be used to describe ideal types, each of which reflects a particular combination of shareholder voting characteristics (Doty & Glick, 1994). Typologies allow to identify structures that I define as a typology of shareholder votes that exhibit different patterns of adaptive shareholder behavior. Drawing on prior research (Gupta, Crilly, & Greckhamer, 2020; Gurkov & Obel, 2012; Miles, Snow, Meyer, & Coleman Jr, 1978), I have examined how shareholders develop engagement strategies. I broaden the perspective of existing studies that focus on stakeholders (Gupta et al., 2020; Gurkov & Obel, 2012) to include shareholder influence on firm outcomes and their strategies. With my approach, I follow Gupta et al. (2020). My starting point is the intersection between shareholder voting strategies and shareholder proposals. I develop a typology of shareholder voting strategies that allows to understand how shareholder and coalitions influence firm performance with different strategies. To investigate this configurational model, I use a fsQCA (Ragin, 2000, 2008). This approach allows me to assess how different shareholder voting strategies on specific shareholder proposals are associated with high firm performance under different levels of shareholder support, incentives and monitoring conditions. Therefore, I measured the affirmative votes (number of shares for or against) on specific shareholder proposals. Using a dataset of 744 shareholder proposals from 124 firms in 2017, I identify four configurations of shareholder and firm level conditions that capture different shareholder

strategies (intentional (Lund, 2018; Ritzberger, 2005) and organized voting (Cai et al., 2009; Fischer et al., 2009)) that are consistently associated with high performance.

Using data from the S&P 500, my results show that: (i) Shareholder proposals related to director incentives and monitoring are associated with high firm performance when the board of directors is supported at the shareholder level. (ii) There are significant differences in the design of shareholder proposal configurations that propose director incentives and monitoring, resulting in high and low firm performance. (iii) There is a fit between shareholder proposed director incentives and monitoring that leads to high firm performance. The absence of incentives without monitoring or vice versa leads to low firm performance.

My typology considers shareholder voting strategies and combines three theoretical premises: (a) Shareholder proposals influence shareholder (Hillman et al., 2011) and firm level (Cucari, 2019b; Goranova & Ryan, 2014) and are thus a multi-level instrument for shareholders to coordinate among themselves (Artiga González & Calluzzo, 2019; Dhillon & Rossetto, 2015) and influence the firm by controlling the management with incentives (Brunarski et al., 2015; Cucari, 2019a; Cuñat et al., 2016; Yeh, 2014) and monitoring (Ward et al., 2009). (b) Minority interest groups create coalitions that shape shareholder voting (Claessens, Djankov, Fan, & Lang, 2002; Cuñat et al., 2016; Dhillon & Rossetto, 2015; Ertimur et al., 2010; Laeven & Levine, 2008; López-Iturriaga & Santana-Martín, 2015; Renneboog & Szilagyi, 2011; Roosenboom & Schramade, 2006; Song & Szewczyk, 2003). (c) Shareholder coalitions influence different voting strategies depending on their interests (Brav et al., 2008; Sauerwald et al., 2019; Young et al., 2008).

To capture the influences of different shareholders, I construct a typology of shareholder votes that represents the strategic use of shareholder votes on shareholder proposals (the subject of the vote).

Accordingly, my typology states that shareholders can focus on four strategy types to achieve high firm performance: (I) minimalist shareholder voting strategy, (II) encompassing shareholder voting strategy, (III) substitutionary shareholder voting strategy, or (IV) complementary shareholder voting strategy, which have an impact at both the shareholder level and the firm level. I develop a typology of shareholder voting on proposals from different firms. In this context, I develop a configurational model that links the different shareholder level and firm level voting signals and shows their influence on firm performance.

I contribute to the strategic management literature on shareholder voting at the intersection of strategy and (positivist) principal-agent theory to resolve conflicts between shareholders and the firm (principal-agent-conflicts) and among shareholders (principal-principal conflicts). I show that different shareholder voting strategies can lead to high financial performance. In particular, I show how various factors within the firm and among shareholders are interrelated and affect firm performance through shareholder voting. In addition, I contribute to existing studies such as Gupta et al. (2020) that identify stakeholder engagement strategies using typologies. I extend the perspective of Gupta et al. (2020) to include the perspective of shareholders and their influence on firm performance.

I contribute to the agency theory perspective of shareholder voting by showing that conflicts among shareholders (principal-principal conflicts) affect the shareholder coordination process, in which multiple shareholders can form coalitions of interests and strategies against the interests of the board of directors. I add to the existing literature by combining a multi-level perspective on principal-agent and principal-principal conflicts between management and shareholders and among shareholders.

My central contribution is to show that shareholders strategically use their voting across the defined perspectives of shareholder activism, pursuing one of several voting strategies.

3.2 Theoretical Modelling

3.2.1 Principal-Agent and Principal-Principal conflicts

Effective corporate governance is seen as the foundation for corporate success, sustainable economic growth and productive stakeholder relations (Aguilera et al., 2015). Shareholder relations in particular has therefore been studied extensively in various fields (Aguilera et al., 2015; Aguilera & Jackson, 2010; Filatotchev & Boyd, 2009) such as finance (e. g. Giroud & Mueller, 2011), management (e. g. Daily, Dalton, & Cannella, 2003; Hambrick, Werder, & Zajac, 2008) and sociology (e. g. Davis, 2005). Variants of the management literature show incentive and monitoring differences between shareholder and firms in two levels: the shareholder – firm (board) level – causing the principal-agent conflict (Eisenhardt, 1989a; Jensen & Meckling, 1976) and the shareholder-shareholder level – causing principal-principal conflicts (Sauerwald et al., 2019; Young et al., 2008).

In the principal-agent model shareholders rely on principal-agent arrangements to coordinate with the board on the strategic direction and financing of firms (Dalton et al., 1998; Shleifer et al., 1997). The shareholder-board (principal-agent) relationship is the dominant view of this perspective (Dalton et al., 2007; Westphal & Zajac, 1998). A large number of studies focus on principal-agent conflicts and configurations of governance mechanisms necessary to run a firm in the interest of the shareholder (Aguilera et al., 2016).

In the principal-principal perspective, shareholders are divided into groups with heterogeneous or homogeneous interests (Artiga González & Calluzzo, 2019; Connelly et al., 2010b) (e. g., interests of controlling and minority shareholders), with competing interests being an important factor influencing the strategic direction of the firm (Morek et al., 2005; Sauerwald et al., 2019; Young et al., 2008). Within these shareholder groups, competing heterogeneous interests (e. g., time horizons, preferences (Hadlock & Schwartz-Ziv, 2019)) can cause

conflicting voices and lead to principal-principal conflicts (Connelly et al., 2010a; Desender, Aguilera, Crespi, & Garcia-Cestona, 2013; Dharwadkar, George, & Brandes, 2000; Hautz, Mayer, & Stadler, 2013; Hoskisson et al., 2002).

The principal-principal perspective provides a more detailed picture of shareholder actions compared to the principal-agent perspective and highlights the importance that shareholder coordination has gained (Sauerwald et al., 2019). For e. g. “agency theory presents a partial view of the world that, although it is valid, also ignores a good bit of the complexity of organizations. Additional perspectives can help capture the greater complexity” (Eisenhardt, 1989a, p. 71). Current research does not encompass the full range of shareholder influences and therefore does not account for the complexity in the management-shareholder relationship (Eisenhardt, 1989a). By reducing the main actors in large firms to two counterparties, managers (agents) and shareholders (principals), a simplification is presented, as it is assumed that the interests of each party are clear and consistent (Daily et al., 2003), although shareholders have heterogeneous interests (Connelly et al., 2010b).

To get a more detailed picture of the coordination between the different levels, I add the principal-principal perspective thoughts to the principal-agent theory. From the point of view of the principal-principal perspective, the shareholders use extensive mechanisms to coordinate their interests, with the goal that a dominant shareholder or a coalition of shareholders gain assertiveness (Artiga González & Calluzzo, 2019; Dhillon & Rossetto, 2015) and obtain private benefits of corporate control (Heugens et al., 2020; Sauerwald et al., 2019). The outcome of the shareholder coordination process depends on how shareholders commit, complement or convince each other to an aligned strong position (Connelly et al., 2010b) to control firm’s management (Del Guercio et al., 2008) which is almost always in opposition to shareholder-supported proposals (Benton, 2017). Management otherwise has greater latitude for governance deviations (Pound, 1988). When the voting process among shareholder fails (Goranova & Ryan,

2014; Hillman et al., 2011; Yermack, 2010) value-destroying and inefficient shareholder dissent can result (Pound, 1988). Whereas the “inefficiency in the system of proxy vote solicitation can give management a vote-getting advantage [...] due to conflict-of-interest pressures, institutional investors may vote with management against their own fiduciary interests” (Pound, 1988, p. 237).

Since management looks to shareholder signals to guide and legitimize its actions, it is necessary to understand the heterogeneous goals of shareholders (Connelly et al., 2010b) for both management and outsiders. As a result, researchers have focused on uncovering corporate governance mechanisms (e. g. Ruth V. Aguilera, Desender, Bednar, & Lee, 2015; Bebchuk & Weisbach, 2010) that provide a set of mechanisms (such as shareholder proposals) to ensure shareholders’ rights in management decisions (Aguilera et al., 2015) and their impact on firm performance (e. g. Acharya, Gottschalg, Hahn, & Kehoe, 2013; Walls, Berrone, & Phan, 2012). The management of shareholder interest groups or individual shareholders “who, dissatisfied with some aspect of a company’s management or operations, try to bring about change within the company without a change in control.” (Gillan & Starks, 2007, p. 44) — is an essential element affecting corporate strategy (Levit & Malenko, 2011) and performance (Cuñat et al., 2016; Yeh, 2014). Research on the exact mechanism between shareholder proposals and firm performance (Cuñat et al., 2012, 2016; Yeh, 2014) is still inconclusive.

To address this research gap, I take up research calls for configurational approaches to examine how corporate governance factors produce different outcomes (Aguilera et al., 2015; Campbell et al., 2016; García-Castro, Aguilera, & Ariño, 2013; Misangyi & Acharya, 2014; Schiehl, Ahmadjian, & Filatotchev, 2014). I seek to understand how multiple governance mechanisms work interrelated to achieve alignment of interests by acting as a bundle of governance mechanisms to reduce agency conflicts and increase governance efficiency (Cucari, 2019a; Eisenhardt, 1989b; Rediker & Seth, 1995). I combine the firm and shareholder level to analyze

a multi-level perspective on firms and their shareholders. I use the principal-agent and principal-principal perspective and their underlying logics (for e. g. shareholder primacy and director primacy logics (Lan & Heracleous, 2010)) to analyze the multilevel influences on firm performance.

My model is shown in Figure 5 and is described in detail below. First, I discuss differences in shareholder proposals that propose director-level incentives and monitoring on the director-level as a background for the shareholder coordination process. Then, I outline a typology of shareholder voting strategies used by shareholders in firms. Finally, I discuss shareholder support factors that encourage a focus on certain types of shareholder voting.

3.2.2 Firm level— Shareholder proposed monitoring and incentives

Studies especially focus on how shareholders, management and employees respond and perceive to various shareholder proposals including say-on-pay proposals (e. g. (Cai et al., 2011; Conyon & Sadler, 2010; Cuñat et al., 2016; Ertimur et al., 2011, 2013; Ferri & Maber, 2013; Stathopoulos & Voulgaris, 2016), board proxy proposals (e. g. Ashraf, Jayaraman, & Ryan, 2012; Campbell, Campbell, Sirmon, Bierman, & Tuggle, 2012) independent auditor proposals (Hermanson, Krishnan, & Ye, 2009; Krishnan & Ye, 2005; Liu, Raghunandan, & Rama, 2009; Mishra, Raghunandan, & Rama, 2005; Raghunandan, 2003; Sainty, Taylor, & Williams, 2002) employee stock options (Ferri & Sandino, 2009), and say-on-frequency proposals (Ferri & Oesch, 2016).

Corporate governance research still suffers from mixed empirical evidence of effectiveness of corporate governance mechanisms (Dalton et al., 2007) showing equivocal impact of shareholder activism (Aguilera et al., 2015; Goranova & Ryan, 2014). Prior research finds positive (Becht et al., 2010; Brav et al., 2008; Ferri & Maber, 2013; Iliev & Vitanova, 2019)

and negative effects (Cziraki et al., 2010) of different shareholder proposals considered in isolation on performance outcomes or no consistent patterns (Larcker et al., 2011). Whereas the assumption is that incentives and monitoring create impact directions that influence boards' selection of strategic directions (Del Guercio et al., 2008; Wu, 2004). Therefore, I see a need in the relatively recent research on shareholder activism (Goranova & Ryan, 2014) to get a complete picture of the influences of shareholder proposals on firm outcomes (Aguilera et al., 2015; Goranova & Ryan, 2014). Firm performance can get partially explained by the result of the alignment process between the levels of shareholders and firms (for e. g. directors) (Fiss, 2007; Misangyi et al., 2017; Sauerwald et al., 2016; Young et al., 2008) that depends on shareholder incentive, monitoring strategies (Ward et al., 2009) and shareholder support (Hillman et al., 2011).

My resulting configurational model is able to examine the interrelated joint effects of incentives and monitoring between the levels of shareholders and firms. For example, I examine the influences of shareholder proposals on corporate directors through incentives (Brunarski et al., 2015; Cucari, 2019a; Cuñat et al., 2016; Yeh, 2014) and monitoring (Ward et al., 2009). Shareholders use their ability to monitor firms to significantly influence firm policy (Fos, 2016). “Active monitoring consists in interfering with management in order to increase the value of the investors' claims.” (Tirole, 2006, p. 27). Differences between shareholder proposed incentives and monitoring have critical implications for shareholder voting, firm strategy (Levit & Malenko, 2011) and to firm's performance. At the firm (director) level, shareholder interests are an important control mechanism with real consequences for management, even if they have a non-binding character (Cuñat et al., 2016; Del Guercio et al., 2008). Shareholder proposals can be a powerful tool for monitoring firm's management and an effective corporate governance tool (Benton & You, 2019; Goranova, Priem, Ndofor, & Trahms, 2017; Hirschman, 1970). I define shareholder proposals that operate at the firm (director) level as director

incentive proposals like say-on-pay proposals (Conyon & Sadler, 2010; Ferri & Maber, 2013; Stathopoulos & Voulgaris, 2016), and monitoring proposals like say-on-frequency (Ferri & Oesch, 2016) and independent auditor proposal (Dao et al., 2012). Further, I identified incentives for employees as employee stock options (Core & Guay, 2001; Ferri & Sandino, 2009; Guay et al., 2003).

3.2.3 Shareholder level – Coordination process

The relationship between the shareholder level and the firm level is that shareholders seek to establish a strong position vis-à-vis management in order to exercise value-enhancing control (Pound, 1988). Whereas the management, on the other hand, aims to limit shareholder power to a certain level, which many high-performing firms try to do (Bebchuk, Cohen, & Ferrell, 2009; Gompers, Ishii, & Metrick, 2003) creating managerial agency problems (Del Guercio & Woidtke, 2019). This tension and striving for corporate control between the shareholder level and the firm level is influenced in particular by the voting at the shareholder level. Prior research focused on the relation among shareholders e. g. the control by a shareholder (Pagano & Röell, 1998) that allows for more effective monitoring of managers.

Understanding shareholder dynamics within the shareholder level is crucial, since shareholders may exploit complementarities between their activities and the dominant shareholder forces by, for example, selling their shares in a coordinated action (Bae, Baek, Kang, & Liu, 2012; Jiang & Peng, 2011). Minority shareholders form interest groups and attempt to gain the majority voting power to enforce their view of good corporate governance (Cuñat et al., 2016; Renneboog & Szilagyi, 2011; Song & Szewczyk, 2003) and to avoid getting expropriated by large shareholders (Shinozaki et al., 2016).² The formation of a dominant coalition of interests

² Current research has mixed results on the impact of expropriation on minority shareholders (Jiang & Peng, 2011; Luo, Wan, & Cai, 2012). E. g. Holderness (2003) noted that minority shareholders can participate even when one

(e. g., Claessens et al., 2002; Dhillon & Rossetto, 2015; Ertimur et al., 2010; Laeven & Levine, 2008; López-Iturriaga & Santana-Martín, 2015; Roosenboom & Schramade, 2006) with minority shareholders and major shareholders can lead to a high degree of effective control (La Porta et al., 1998; Roosenboom & Schramade, 2006) by aligning and considering the interests of major and minority shareholders (La Porta et al., 2000; Roosenboom & Schramade, 2006). Shareholders may prefer to coordinate among themselves to exercise control over corporate decisions with a small investment by influencing other shareholders (Brav et al., 2008; Butz, 1994) to manage their holdings in a cost-effective way, for example, by forming interest groups (Artiga González & Calluzzo, 2019). While divergent shareholder interests (e. g., shareholder dissent) generally do not lead to better performance (Pound, 1988), a misaligned shareholder base exhibits more severe principal-principal conflicts than firms that have an aligned shareholder base because the former can be more easily governed without costly alignment processes (Artiga González & Calluzzo, 2019; Renders & Gaeremynck, 2012). In the context of shareholder votes, shareholder voting strategies affect financial outcomes. However, although shareholders can influence firm's actions through their shareholder coalitions (Sauerwald et al., 2019; Young et al., 2008), management has discretion in the decisions it makes regarding shareholder interests (Levit & Malenko, 2011) using situations of shareholder misalignment for their own interests (Bach & Metzger, 2019).

Shareholders do target areas of poor corporate governance and try to fix them, such as in the board structure (Certo, 2003). For example, by filing board proxy proposals (Hillman et al., 2011) to gain board representation or control (Gordon & Pound, 1993) on their own or with the help of other shareholders (Gantchev, 2013) who share the same interests. Shareholders do

shareholder is dominant. If a minority owner has a dominant position, agency distortions can be reduced if it is a state owned enterprise (Inoue, Lazzarini, & Musacchio, 2013), but at a high cost (Cronqvist & Nilsson, 2003).

show their satisfaction or dissatisfaction about boards' actions (Tanyi, Smith, & Cheng, 2021) and director monitoring (Hillman et al., 2011). By doing so, shareholders use their voice to vote for or against director nominees or the whole board showing their support or discontent to the director level (votes on director nominees) and firm level (e. g. firm performance) (Hillman et al., 2011). Table 7 summarizes the different firm and shareholder level shareholder proposals accompanied by practical application examples.

Table 7: Summary of the relevant types of shareholder proposals

Shareholder Proposal	Short description	Impact level	AMAZON as an example (SEC, 2017)
Board support by shareholder	Mean % of shareholder support for board nominees	Shareholder level focus on board nominees	<p>“ITEM 5.07. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.</p> <p>On May 23, 2017, Amazon.com, Inc. (the “Company”) held its Annual Meeting of Shareholders. The following nominees were elected as directors, each to hold office until the next Annual Meeting of Shareholders or until his or her successor is elected and qualified, by the vote set forth below:</p> <p style="text-align: center;">Jeffrey P. Bezos – FOR 370,791,785 AGAINST 5,825,429”</p>
Monitoring – strong or weak	% of all shares voting for a short say-on-frequency (1 years)	Firm level focus on directors	“An advisory vote on the frequency of future advisory votes on executive compensation received the following votes [...]
	% of all shares voting for a long say-on-frequency (3 years)		
Monitoring by transparency	% of all shares voting in favor of a new independent auditor (independent auditor proposal)	Firm level focus on directors	“The appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending

			December 31, 2017 was ratified by the vote set forth below [...]”
Incentives— management (CEO)	% of all shares voting for an increase in management salary	Firm level focus on directors	“The compensation of our named executive officers as disclosed in the proxy statement was approved in an advisory vote”
Incentives— employees	% of all shares voting in favor of employee stock options	Firm level focus on employee	“The Company’s 1997 Stock Incentive Plan, as amended and restated, was approved [...]”

Prior research found interrelated influences of the conditions summarized in Table 7.

Board support by shareholder: Shareholders can express their satisfaction with board of directors’ monitoring. The satisfaction on shareholder monitoring correlates with the amount of CEO compensation (Hillman et al., 2011). Whereas there are interrelations with conditions concerning the CEO’s compensation.

Monitoring – strong or weak (say-on-frequency): The frequency of shareholder audit is a crucial element of shareholder monitoring (Ferri & Oesch, 2016). Management credibility is high when shareholders waive annual control authority and thus “trust” management, while at the same time providing equal compensation to executives (Ferri & Oesch, 2016). Management credibility is low if shareholders do not waive annual control authority and thus do not trust management. (Ferri & Oesch, 2016)

Monitoring by transparency: From the shareholder perspective, the selection of a new auditor creates transparency. Shareholders view a long tenure of auditors as detrimental to audit quality and transparency (Dao, Mishra, & Raghunandan, 2008).

Incentives for employees or CEOs. CEO incentives create value for the company and provide the shareholder with the opportunity to influence companies. Vote on compensation as a control

mechanism is available to shareholders (between principal and agent) (Hillman et al., 2011). The boundaries between incentivization and monitoring are blurred. Incentives for employees create value for the company. Previous research has shown some relationship between CEO and employee incentives, in particular, it has been found that incentivizing employees leads to a reduction in CEO compensation (Ferri & Sandino, 2009). And a decrease in CEO compensation lowers shareholder returns (Balafas & Florackis, 2014). Incentivizing employees is not included in any configuration that leads to high firm performance. As previous research has shown, there is an inverse relationship between employee compensation and CEO compensation (Ferri & Sandino, 2009).

3.2.4 Multilevel shareholder strategies

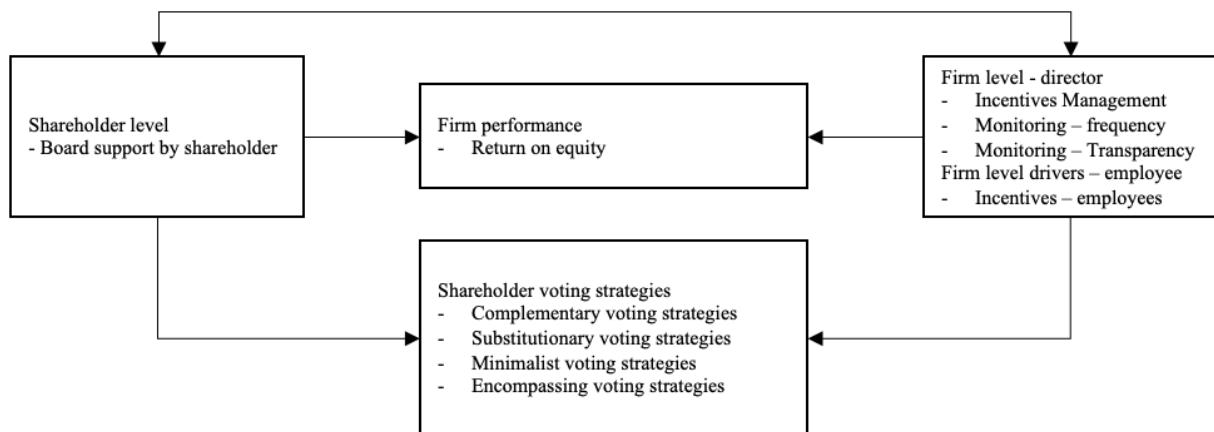
Shareholder proposals are seen as the result of the shareholder alignment process (Fiss, 2007; Misangyi et al., 2017; Sauerwald et al., 2016; Young et al., 2008) “in which various cost advantages and disadvantages are balanced to arrive at an equilibrium organization of the firm” (Demsetz, 1983: 384, similar arguments in Artiga González & Calluzzo (2019)). This leads to the assumption that the structure of shareholder proposals can be strategically designed in a balance between different types of incentives and monitoring.

Following prior research creating typologies in the management field (Feldman, in press; Gupta et al., 2020; Nili, 2014), I generate a typology (Figure 5) for shareholder voting strategies. Different strategies can be used, such as the minimalist, encompassing, substitutionary and complementary shareholder voting strategies (adapted from Gupta et al., 2020).

Following Gupta et al. (2020), I create a model that shows the influences of shareholder-level elements (e.g., shareholder support for the board) and firm-level elements (at the director and employee levels, e.g., incentives and constraints through monitoring). Furthermore, similar to Gupta (2020), I derive a typology (Table 8) based on a theoretical model (Figure 5). However,

I focus on the boundaries of the firm, drawing on earlier research by Gupta et al. (2020) and considering only the actors within the firm. In doing so, I focus on the relationships between shareholders, management, and employees, thus excluding other stakeholders. Moreover, I do not take into account the institutional and cultural context or the context of the country in question, such as Gupta (2020).

Figure 5: Configurational model shows the relationship between shareholder and firm level and firm performance



The tension between the control needs of various shareholders and corporate management presents shareholders the choice of substitute or complement monitoring and incentives when designing shareholder voting strategies. Four typical strategies are shown in table 8, into which possible results from the analysis part are sorted.

First, shareholders can take a minimalist approach by not filing a shareholder proposal. A minimalist shareholder voting strategy results in firms not engaging in activities to which they are not legally obligated (Garcia-Castro & Francoeur, 2016; Gupta et al., 2020; Husted & De Jesus Salazar, 2006). This means that they do not vote, as every no vote also has an effect (Grundfest, 1993).

Secondly, the shareholders can use an encompassing voting strategy to fully exercise their influence on the management of the firm by making use of all monitoring and incentive options. Therefore, the encompassing shareholder voting strategy uses complementing and substituting shareholder monitoring and shareholder proposed incentives simultaneously (Schijven, Kolev, & Haleblian, in press).

Table 8: Typology of shareholder voting strategies

	Low complementary shareholder voting	High complementary shareholder voting
High substitutionary shareholder voting	Substitutionary shareholder voting strategy	Encompassing shareholder voting strategy
Low substitutionary shareholder voting	Minimalist shareholder voting strategy	Complementary shareholder voting strategy

Third and fourth, shareholders can use substitutionary and complementary shareholder voting strategies. In order to understand the impact of shareholders' proposals, it is necessary to understand whether they substitute or complement their functions. Previous research e. g. examined the substitution (Agrawal & Knoeber, 1996; Daily et al., 2003; Demsetz, 1983; Rediker & Seth, 1995; Ward et al., 2009; Zajac & Westphal, 1994) and complementarity (Aguilera et al., 2008; Tosi, 2008; Tosi, Katz, & Gomez-Mejia, 1997) of such governance mechanisms, showing a correlation (Demsetz, 1983) between them by using specific shareholder monitoring and incentives designs leading to high firm performance (Demsetz, 1983; Ward et al., 2009).

Prior research indicated specific designs of shareholder voting (Demichelis & Ritzberger, 2011; Dhillon & Rossetto, 2015; Ghoddusi, 2011; Meirowitz & Pi, 2020; Ritzberger, 2005; Yermack,

2010) leading to state that shareholders do have an economic advantage by voting (Charl  ty et al., 2019; Ghoddusi, 2011).

3.3 Methods and data

My configuration model accounts for the interdependencies between incentives and monitoring in shareholder proposals by examining how their joint effect is related to firm performance. I therefore apply fsQCA (Ragin, 2000, 2008) to find configurations of shareholder voting strategies that lead to high performance. With fsQCA, I can determine causal complexity (Misangyi et al., 2017) in my case, complexity at the shareholder and firm level, including how multiple shareholders can incentivize and monitor as well as support firm management, for example. I identify equivalent pathways leading to high performance. Through fsQCA and the inherent set logic and Boolean algebra, I can find combinations of shareholder characteristics that represent configurations associated with high financial performance. Research in strategy (Bell et al., 2014; Crilly, Zollo, & Hansen, 2012; Garcia-Castro & Francoeur, 2016; Grandori & Furnari, 2008; Misangyi & Acharya, 2014) and corporate governance research (Cucari, 2019a) has utilized this approach to study how governance factors influence organizational outcomes in combination, rather than independently.

3.3.1 Sample and data

To create my sample, I selected the 250 largest S&P 500 firms with the highest market capitalization in 2017 (e. g., (Misangyi & Acharya, 2014). Firms included in the S&P 500 index figure prominently in the governance and receive shareholder proposals categorized as say-on-pay, say-on-frequency, employees stock options, independent auditor proposals (Dao et al., 2012; Ertimur et al., 2010; Goranova & Ryan, 2014), although most of these firms receive combined shareholder proposals of the two or more proposals. For my sample I obtained

financial data for these firms from the Thomson Reuters Datastream database, received shareholder proposals data from SEC 13D Filing (Gantchev, 2013) and the outcome from the shareholder voting process from SEC 8-K Filing (SEC, 2019). Limited data availability reduced my sample to 223 firms. Because the variety of shareholder engagement (Table 8) differs across firms (SEC, 2019), I have reduced my sample to those firms which have information about the most predominant shareholder proposals: board support by shareholder, say-on-pay proposal, independent auditor proposal, say-on-frequency short period (1 year) & long period (3 years), employee stock options. I excluded shareholder proposals concerning environmental, social, governance topics, lobbying and other shareholder proposals. I have selected these shareholder proposals because they were predominantly represented (99 % - 23.5 % of all 223 firms). Additionally, the frequently used shareholder proposals do display incentives and monitoring and are thus a suitable setting for observing agency in firm' shareholder engagement. I use the collected data to operationalize other characteristics such as shareholder support for the board in my configuration model.

Table 9: Logic of shareholder proposal selection in my dataset

	Condition	Variables considered	In % cases these shareholder proposals are present
The most frequently occurring shareholder proposals	Board Support by shareholder	board support	99.00%
	Shareholder support for say on pay proposal	Incentives directors	97.00%
	Shareholder support for independent auditor proposal	Higher transparency	95.50%
	Say on frequency short period (one year)	Strong monitoring	94.50%
	Say on frequency not short not long (two years)	-	94.50%
	Say on frequency long period (three years)	Weak monitoring	94.50%
	Shareholder support for employee stock options	Incentives employees	23.50%
Rare shareholder proposals	Re-approval performance factors shareholder proposals		12.50%
	Social shareholder proposals		9.00%
	Chairman Independence shareholder proposals		8.00%
	Shareholder proposal to adopt a Proxy Access By-law		8.00%
	Shareholder proposals on lobbying disclosure		7.00%
	Certificate of Incorporation of shares		6.50%
	Environmental shareholder proposals		6.50%
	Shareholder proposals to adopt majority votes cast		5.50%
	Shareholder proposals on reporting political contributions		4.00%
	Shareholder proposal seeking shareholder action by written consent		4.00%
	Shareholder proposals on special shareowner meetings		3.50%
	Governmental shareholder proposal - regarding the executive compensation clawback policy		2.00%
	Shareholder proposals - divestiture & division study sessions		2.00%
Governmental shareholder proposal - change Voting possibility		2.00%	

My final sample contains 124 firms in 2017 after adjusting for missing observations and yielded a total of 744 observations of shareholder proposals received.

3.3.2 Calibration

In fsQCA, the outcome (in my case, the set of firms with high firm performance) and the explanatory conditions (in my case, the set of firms with strategies that lead to high firm performance) are defined. Through calibration (Ragin, 2000), the degree of set membership is assigned to each set. I identified three thresholds based on sample-based reasoning (following

(Campbell et al., 2016; Deng, Liang, Fan, & Cui, 2020; Díaz-Fernández, González- Rodríguez, & Simonetti, 2020; Fiss, 2007; Linder, Lechner, & Pelzel, 2020; Misangyi & Acharya, 2014; Ragin & Fiss, 2008; Renko, Yli-Renko, & Denoo, 2020; Rihoux, 2009).

Measures and Calibration

Outcome condition – High financial performance.

I focus on the financial performance of firms. In accordance with previous studies (Bhagat & Black, 1998; Gupta et al., 2020; Judge, Gaur, & Muller-Kahle, 2010), I operationalized return on equity (ROE) as firm performance (Brown & Caylor, 2008; Cuñat et al., 2012; Deakin, 2005; Hadani, Goranova, & Khan, 2011; Judge et al., 2010; Karpoff et al., 1996; Strickland et al., 1996; Surroca, Tribó, & Waddock, 2010; Varaiya & Kerin, 1987) and collected ROE data from Thomson Reuters Datastream (2020). I used sample-based anchors to reason about and calibrate membership in the set of firms with high firm performance (Campbell et al., 2016; Deng et al., 2020; Díaz-Fernández et al., 2020; Linder et al., 2020; Renko et al., 2020). To do this, I used the 75th percentile of anchors for full membership (high performance), and the median of anchors for the crossover point the 25th percentile of anchors for non-membership (for low performance) (e. g., Fiss, 2007; Misangyi & Acharya, 2014).

Shareholder discontent with Director Monitoring – Shareholder support of the board of directors

I collected data on shareholder dissatisfaction with director monitoring from SEC 8-K filings (SEC, 2019). Consistent with my theory, I chose director candidate voting, which reflects support for director nomination, to signal shareholder dissatisfaction with director monitoring (following Hillman et al., 2011), and operationalized shareholder support of the board of directors (board support) by calculating shareholders support to director selection in 2017. For

this purpose, following Hambrick & Jackson (2000), I calculate the dollar value of stock ownership, which is equal to the stock price multiplied by the number of shares at the end of the fiscal year. To grasp the board support by shareholders, I calculated the number of shares at the annual general meeting day and calculated the percentage of shareholders supporting each director. Therefore, I measured the affirmative vote (for or against) of shares in the shareholder voting process at the Annual Meeting. I calculated the arithmetic mean (following Cai, Garner, & Walkling, 2009; Cullinan, Mahoney, & Roush, 2017) of shareholder shares supporting firms' boards of directors to calculate director satisfaction in the board of directors. I consider shareholder support for board monitoring (SEC, 2017) by measuring corporate shareholder' collective satisfaction with board monitoring. A company with high shareholder support would score high if it has strong shareholder support as opposed to other companies. A firm with a low score would not have an aligned shareholder base against board of directors (e. g. Pound, 1988). Thus, shareholder support determines a firm's score by comparing its shareholder support to those of all other firms in the measured S&P 500 firms.³ As described above, I calibrated shareholder discontent using sample-based thresholds corresponding to the 7⁵h percentile for full membership, the median for crossover, and the 2⁵h percentile for zero membership.

Shareholders' incentives— Corporate incentive structures

I captured shareholder proposals concerning the incentive structure for executives and employees through say-on-pay proposals and employee stock options proposals. Shareholder proposals signal the incentive structure toward executives by influencing board of directors' motivation (Brunarski et al., 2015; Cucari, 2019a; Cuñat et al., 2016; Yeh, 2014), interest

³ For instance, in a firm with 10 board members, a score for each board member would be calculated by calculating the amount of yes votes divided by amount of all votes. Then we calculate a mean over all board members.

alignment between shareholders and the board of directors (Eisenhardt, 1989a; Pound, 1988), and corporate performance (Fiss, 2007; Misangyi et al., 2017; Sauerwald et al., 2016; Young et al., 2008). I operationalized the incentive structure using a binary measure with 1 for the occurrence of a shareholder proposal influencing the incentive structure and 0 for non-occurrence, using data from the U.S. Securities and Exchange Commission (SEC, 2017) database for cases in 2017. From the SEC database, I directly adopted the executive incentives and the employee incentives as a set ranging from 0 to 1.

Shareholder's call for transparency – independent auditor proposal

I captured shareholder proposals that specialize in creating transparency, such as independent auditor proposals, by classifying firms as high or low transparent, which influences shareholder voting. High-transparent firms do not require specific shareholder proposals (Miller et al., 2009), whereas the need for transparency can occur in firms with low transparency (Dao et al., 2012; Hermanson et al., 2009; Krishnan & Ye, 2005; Liu et al., 2009; Mishra et al., 2005; Raghunandan, 2003; Sainy et al., 2002). I code firms as 1 if there is a shareholder proposal calling for transparency and 0 if there is not.

Shareholder's call for control— Shareholder monitoring

I captured shareholder proposals that specialized in creating transparency, such as independent auditor proposals, by classifying firms as having a high or low level of monitoring, based on prior findings in the literature that this attribute affects shareholder returns.

Firms with a high level of monitoring reflect firms with shareholder proposals which require special monitoring by shareholders. Therefore, these firms benefit from initiatives to reduce information asymmetries. I calibrated membership in the set of high monitoring firms. Hence,

I coded firms as 1 if there is a shareholder proposal requesting higher or lower monitoring and 0 if there is no shareholder proposal. Table 10 summarizes the calibration thresholds.

Table 10: Data and set calibration

Outcome/Conditions	Full non-membership (0.25)	Crossover point (0.5)	Full membership (0.75)
Firm performance (ROE)	8.51	16.57	25.99
Board support by shareholder	0.844	0.882	0.918
Incentives Employees	0		1
Incentives Management	0		1
Higher Transparency	0		1
Strong Monitoring	0.77	0.828	0.881
Weak Monitoring	0.068	0.084	0.103

3.4 Analysis

Previous research has highlighted the need for a configurational perspective that uses QCA to examine corporate governance mechanisms (Aguilera et al., 2015; Campbell et al., 2016; García-Castro et al., 2013; Misangyi & Acharya, 2014; Schiehl et al., 2014). QCA helps to understand configurational influences of competing shareholder interests and clarify the mixed results of existing research (Goranova & Ryan, 2014). In my analysis, I focused on shareholder proposals filed with publicly traded U.S. firms in 2017. Using a dataset of 124 firms and 744 self-collected observations of received shareholder proposals, I identified combinations of shareholder voting strategies that are associated with high firm performance. I use a specific set-theoretical technique, called fsQCA that helps me to identify causally complex paths (e. g. configurations of shareholder proposals) leading to the outcome firm performance (Ragin, 1987). fsQCA offers the ability to diagnose the relationship between all possible configurations

of shareholder proposals contributed by existing research (Goranova & Ryan, 2014), thus conditions that impact firms' performance, and unveil explicit configurations of variables leading to an impact in firms' performance. fsQCA examines different settings in form of configurations resulting in equal outcome, called equifinality (Ragin, 1987). I performed the fsQCA using the QCApro package in R (Thiem, 2016). By identifying configurations, I get a richer understanding of the interdependence of the shareholder relations and their competing interests causing interventions expressed by proposals. I perform a necessity analysis to determine if a condition of the model is necessary to achieve high financial performance. If a condition must be present for high financial performance to occur, it is a necessary condition (Ragin, 2008). For necessity analysis, the consistency threshold is set from the value of 0.90 (Greckhamer et al., 2018; Schneider & Wagemann, 2012). Using the fsQCA truth table approach (Ragin, 2008), a sufficiency analysis was performed using a data matrix (truth table with 2k rows). In the data matrix, logically possible combinations of conditions associated with firm performance are represented and reduced using Boolean algebra (Ragin, 2008). There, I define two criteria: a consistency threshold, which defines combinations that are reliably associated with firm performance, and the frequency threshold, which defines the minimum number of cases that must belong to a combination to be included in my analysis. Following previous studies, I use Ragin's (2008) recommended threshold of 0.85 for raw consistency (Ragin, 2008), 0.65 for (PRI) (Greckhamer, 2016), and a frequency cut-off of 2 cases for my small sample (Ragin, 2008). I also performed the analysis with different variations. The recourse to the cases of the configurations was to be conducted like the previous research to understand the meaning of the different configurations (Greckhamer et al., 2018). I collected data for my configurations that resulted in high performance to qualitatively support my results. Table 11 shows the descriptive statistics of the uncalibrated values.

Table 11: Descriptive statistics and correlations

<i>Var. #</i>	Condition	Mean	S.D.	1	2	3	4	5	6	7
1	Return on equity	23.88	13.64	1.00						
2	Board support	0.87	0.07	0.17	1.00					
3	Incentives Employees	0.26	0.44	-0.25	-0.18	1.00				
4	Incentives Director	0.98	0.13	0.14	-0.03	-0.21	1.00			
5	Higher Transparency	0.96	0.20	0.05	-0.17	0.12	-0.03	1.00		
6	Strong Monitoring	0.79	0.16	-0.03	0.16	0.08	-0.01	0.29	1.00	
7	Weak Monitoring	0.12	0.15	0.06	0.15	-0.07	0.01	-0.37	-0.88	1.00

Note: Descriptive statistics and correlations are based on uncalibrated values

3.5 Results

The necessity analysis shows that there is complex causality. The presence or absence of one of the conditions in my model is not necessary for high performance. According to Ragin and Fiss (2008), I can discover the combination of parsimonious and intermediate solutions through the configuration diagram (Ragin & Fiss, 2008). I show core conditions as an element of the intermediate and parsimonious solution, while peripheral conditions are present in the intermediate solution but not in the parsimonious solution. The presence of a causal condition is represented by the black filled circles. The absence is indicated by the crossed circles. The size of the circles also plays a role. Large circles are core conditions and small circles are boundary conditions. I interpret the results in table 12 as a basis for my discussion. Table 12 shows that four configurations of shareholder board support, shareholder incentives and shareholder monitoring are linked to high financial performance and two are not.

Configurations leading to a high firm performance include substitutionary (Configurations 1, 2 and 3) and encompassing (Configuration 4) shareholder voting strategies. None of the proposed complementary configurations is associated with high company performance.

Table 12: Configurations for achieving high and not high performance

Variables	Solution for achieving high firm performance				Solution for not achieving high firm performance	
	1	2	3	4	1	2
Shareholder level						
Board support by shareholder		⊗	⊗	●		
Firm level						
Incentives Employees			⊗	⊗	●	
Incentives Management	●	●	●	●	⊗	●
Higher Transparency	●	⊗	●	●	●	⊗
Strong Monitoring		●	⊗	●		⊗
Weak Monitoring	●					⊗
Consistency	0.87	1	0.89	0.85	0.95	0.71
Raw Coverage	0.13	0.01	0.19	0.38	0.05	0.04
Unique Coverage	0.5	0.01	0.16	0.33	0.05	0.01
Overall Solution Consistency	0.85				0.83	
Overall Solution Coverage	0.63				0.1	

Presence of core condition	●	Absence of core condition	⊗
Presence of peripheral condition	●	Absence of peripheral condition	⊗

In particular, configurations 1, 2 and 3 demonstrate partially a substitutionary shareholder monitoring that is consistently associated with high firm performance characterized by management incentives. These configurations are characterized by the absence of board support and stock options for employees, leading to the observation that these setups balance different types of monitoring and incentives between management and shareholders. Configuration 4 represents an encompassing shareholder voting strategy with strong shareholder support for the board and both types of monitoring (strong monitoring in the form of high frequency of

shareholder monitoring and monitoring with shareholder proposals calling for a new independent auditor leading to greater transparency).

Configurations not leading to a high firm performance do not include substitutionary shareholder voting strategies. In configuration 1, however, I can see a lack of shareholder monitoring and management incentives but existing employee incentives. So, there is no incentive for the management to align with the interests of the shareholders leading to a low firm performance. In configuration 2, a lack of any management control by shareholders leads to low firm performance (indicating potentials agency conflicts). Both configurations leading to low firm performance do not contain board support votes.

Following Gupta et al. (2020), I classify QCA configurations according to my proposed ideal typologies. The configurations do not necessarily match the ideal types.

The strategic ideal types and their assignment to the configurations: As described, I assume 4 strategic ideal types. Trust-based shareholder management, control-based shareholder management, autonomy-based management and holistic shareholder management. The solutions that come closest to the configurations I found could be assigned to the four strategy types.

Reasons why certain types of strategies are assigned to a particular configuration:

Configuration 1: In Appendix 1, I see this type of approach in various companies. Configuration 1 describes companies such as Deere & Company, Dish Network, Franklin Resources, and IBM. This strategy is characterized by a low frequency of direct monitoring and transparent monitoring, which I also see in the trust-based shareholder engagement strategy. This configuration is consistent with the substitution choice strategy. Therefore, I label configuration 1 as a trust-based approach to shareholder management.

Configuration 2: Appendix 1 describes Configuration 2, which is observed at Alaska Air Group. This strategy type is characterized by a strong focus on frequent monitoring, showing strong interaction between shareholder and management, and a low focus on transparency-based monitoring, meaning that there is little demand for an independent auditor to provide transparency.

This configuration is consistent with the substitutionary voting strategy. The strategy relies on a high frequency of direct monitoring, while management does not rely on transparency-based monitoring. Configuration 2, I label as monitoring-based shareholder management approach. Contrary to my assumption that this type of classic shareholder influence is strongly represented, I was only able to identify one case (Alaska Air Group).

Configuration 3: Appendix 1 describes Configuration 3, which includes companies such as Apple, NVIDIA, 3M, and General Mills. This type of strategy is characterized by a focus on independent auditors who provide transparency without the shareholder exercising any form of direct control, such as frequent monitoring of management actions. I refer to Configuration 3 as a substitutionary strategy and I label Configuration 3 as an autonomy-based management approach.

Configuration 4: Appendix 1 describes configuration 4 with companies such as Ecolab, Humana, Biogen, and Ametek. This strategy type is characterized by a strategy with a mix of several monitoring elements such as strong, frequent monitoring of the board by the company's shareholders and demands for monitoring in the form of transparency by requiring an independent auditor to bring transparency to the company. This strategy is characterized by shareholder support for the board and the lack of incentives for employees. It also focuses on a low frequency of direct monitoring and transparency-based monitoring. This configuration is consistent with the comprehensive voting strategy, and I label this strategy as a holistic approach to shareholder management.

In summary, across all configurations, the presence of greater monitoring (annual frequency of shareholder monitoring) or greater transparency (the selection of a new independent auditor) leads to high firm performance. A lack of monitoring or director incentives leads to low firm performance. High financial performance can be achieved depending on the shareholder voting design with shareholder support (configuration 4) or without employee incentives (configurations 3 and 4).

My findings are consistent with the idea that high incentives can align interests between shareholder and director level.

Additional analyses. In the sensitivity analyses, I applied different calibration thresholds in deviation from my main analysis. The frequency threshold was set from 1 to 2. The configurations are similar to those in my main analysis. Just as in my main analysis, no complementary strategy is associated with high performance. Similarly, in the absence of high performance, as in my main analysis, I cannot discover a strategy that has the lowest solution coverage.

3.6 Discussion

The main contribution of this study is to develop a configurational perspective on shareholder engagement. Prior research documents the effects of a mix of incentives for management ((say-on-pay proposal), employees (employee-stock-option proposal)), shareholder monitoring (say-on-frequency and say-on-independent auditor) and shareholder support (board proxy proposal) on financial performance. Previous studies have considered these factors in isolation and often only in a specific context. These studies cannot take into account the signals that shareholders send with their voting behavior, nor the underlying voting strategy of multiple shareholders or

groups of shareholders with the same interest (for e. g. using cost advantages by aligned shareholder interest group Artiga González et al. (2019)). In this study, I develop a typology that identifies different approaches that can be used to deploy shareholder voting strategies to achieve financial performance through shareholder incentives and monitoring with varying degrees of shareholder support.

I contribute with my typology. My typology suggests that shareholders may adopt trust-based, monitoring-based, autonomy-based as substitutionary voting strategies or holistic shareholder voting strategies, depending on the degree of shareholder support and the mix of incentives and monitoring (see table 8). Using this typology, my analysis shows the complexity between performance and shareholder engagement. Crucially, I have found that high returns are associated with different shareholder voting strategies. My typology shows that in contexts characterized by both, the extremes of monitoring and autonomy-based strategies are consistently associated with high performance under different conditions. In addition, my analysis found that no configuration consistently associated with high performance contained employee stock options or even incentives without control (see Table 12). It is shown that a lack of monitoring or incentives for directors leads to low firm performance. Thus, there is no configuration leading to high firm performance that follows a minimalist shareholder voting strategy.

I contribute to the strategic management perspective of shareholder voting, which emphasizes the need for firms to align shareholder and management interests, which may lead to different firm performance in different contexts (Eisenhardt, 1989a; Eisenhardt & Bourgeois, 1988; Pound, 1988). My results show that each strategy can produce different firm performance, depending on a combination of incentives and shareholder monitoring and support. Hence, the theoretical and empirical links I establish between shareholder support, shareholder engagement and financial performance enrich research at the interface between strategy and

principal-principal (within the principal-agent theory). My configurational model helps uncover the various forms of shareholder engagement and support associated with firms' financial performance. I show how various factors within the firm and among shareholders can work together to create a high firm performance from shareholder voting. The patterns captured in the analysis between incentives and monitoring with support from shareholder stakeholders, represent new research findings at the intersection of strategy and PP. In general, firms' strategies to manage tensions between different shareholder interests have implications for firms' efforts to address the need for alignment at the firm (director) level and alignment of shareholder interests at the shareholder level. Each voting strategy in my typology corresponds to a different approach to deal with tensions at multiple levels among shareholders and between shareholders and management. Aligning shareholder interests ensures a stronger position for shareholders and more effective corporate governance, by improving bargaining power against management and increasing the likelihood of real consequences for directors in the event of non-compliance with shareholder interests. Firms have corporate governance advantages when they take into account the various concerns of shareholders (Renders & Gaeremynck, 2012). For example, previous research has shown that an optimal balance of interrelated incentives and monitoring increases the effectiveness of corporate governance by reducing agency conflicts and achieving higher corporate performance through external shareholder monitoring (Demsetz, 1983; Ward et al., 2009). My typology shows that the balance between incentives and monitoring varies across firms and shareholder support according on their characteristics. I can support Marquardt et al.'s idea of strategic shareholder voting, and "[...] find empirical support for strategic voting by [...] shareholders" (Marquardt et al., 2018, p. 50). Shareholders pool their proposals (Thomas & Tricker, 2017, p. 73) to strategically vote to increase value (Maug & Rydqvist, 2009) or achieve cost benefits while securing their interests (Artiga González & Calluzzo, 2019).

I also contribute to the refinement of Gupta et al.'s (2020) existing stakeholder engagement strategies by building on modeling considerations and typological assumptions to incorporate the specific shareholder perspective and refine the picture that Gupta and colleagues (2020) showed. To this end, similar to Gupta et al. (2020), I use a configurational approach to identify strategies used by shareholders to achieve high firm performance. I match these configurational insights with typical existing perspectives in management research so that I arrive at the different strategies that shareholders use to influence different levels (directors, employees, etc.) to act in their best interest. Therefore, I extend the existing model of Gupta et al. (2020) by applying and deepening the model to the specific group of corporate stakeholders (see Table 8). I focus on the key stakeholders - shareholders, management, and employees - and thus have a different perspective than Gupta et al. (2020). I contribute to the agency-theoretic perspective. Most of the literature on shareholder voting differs from my configurational perspective, particularly as I include firm (director)- and shareholder level factors such as shareholder monitoring and incentives, as well as shareholder support and its impact on firm performance. I could confirm that incentives and monitoring can substitute for each other (Beatty & Zajac, 1994; Rediker & Seth, 1995; Zajac & Westphal, 1994). For example, an increase in employee incentives at the same time occurring monitoring in form of transparency leads to high firm performance (Demirtas, Schwerdtfeger, & Weber, 2018). The co-occurrence of governance mechanisms increases the effectiveness of each governance mechanism (e. g. Aguilera et al., 2008; Tosi, 2008; Tosi et al., 1997), such as incentives and monitoring (Castañer & Kavadis, 2013; Hoskisson, Castleton, & Withers, 2009), as the presence of performance incentives is more effective than monitoring types (e. g. (Aguilera et al., 2008) and thus has a complementary function. Previous research (e. g., Tosi et al., 1997) describes that the co-occurrence of incentives and monitoring must take place to ensure effective governance (and diminish agency conflicts).

Variants of the principal-principal literature emphasize the shareholder coordination process as the key determinant of how shareholders address coordination problems and balance their interests against the interests of the board (Eisenhardt, 1989b; Sauerwald et al., 2019; Young et al., 2008). My typology allows to understand how shareholder and coalitions influence firm performance with different strategies. I add to the existing principal-agent and principal-principal literature by combining perspectives from the shareholder primacy and director primacy literatures (Lan & Heracleous, 2010) in my study.

Directions for future research and limitations

My results show that shareholder voting strategies are associated with high performance. By extending the logic of shareholder coordination to the good governance practices in my study, I highlight that governance systems evolve in ways that favor certain dominant investors or interest groups, providing answers to the question "Who has influence over the strategic direction of firms and what matters?". A question for future research is how dynamics among minority shareholders, whose interests are not served, affect strategic challenges and opportunities, especially when small shareholders form coalitions of interests against blockholders (Brav et al., 2008). My study is limited due to the constraints factor number in the fsQCA (Marx & Dusa, 2011) and due to the temporal perspective of my data set.

Further theoretical work needs to be done as current research focuses on the behavior of shareholders in each company. In particular, how shareholders allocate resources across firms and intervene in companies through investment and divestment and how this affects behavior between shareholders still needs to be better understood.

I see a need for an additional perspective on the heterogenous complex relations between shareholders since previous research on ownership concentration and performance has failed to create consistent findings (Dalton et al., 2003) and do provide little evidence to explain the

complex shareholder-oriented perspective (Boyd & Solarino, 2016). Further, results show that some assumptions of the agency theory may be inadequate and too narrow (Aguilera & Jackson, 2003; Davis, Schoorman, & Donaldson, 1997; Roberts, McNulty, & Stiles, 2005). Thus, there are emerging calls for alternative theories and models (Daily et al., 2003).

Future research could build on my typology study by considering additional contingencies with a focus on minority group dynamics to explain the relationship between shareholder engagement and other types of financial performance (Phillips & Zuckerman, 2001). Shareholders may have their value elsewhere in the portfolio and are therefore diversified compared to managers (Ward et al., 2009).

Future research could focus on the broader portfolio of shareholders, who may thus have greater latitude to pursue a strategy. Given that returns from shareholder engagement differ by individual shareholders, future research should further explore the portfolio level that affects shareholder's ability to extract value from their shareholder engagement strategies. For example, the shareholder portfolio could lead a shareholder to pursue poor governance at the expense of a minority shareholder in order to create wealth with other competing firms/investments/competitors.

Shareholder structures are themselves constellations of shareholders that can change over time and be shaped by firms. My analysis looks at a snapshot in the shareholder structure over a relatively limited period of time. I see potential value in focusing on a longer study period to see how shareholder-management trust evolves and what factors influence firm performance over time to advance research in this area.

In this study I have used a configurational theoretical approach because it has the ability to address strategy patterns across a variety of interest groups and their interest and voting practices. To study complex phenomena, e. g. how configurations of shareholder and firm (managerial) level are related with superior performance, fsQCA as a superior method is well

suited. It is also useful for identifying multiple shareholder engagement strategies associated with high performance. Considering complexity and equifinality, I used fsQCA to examine how shareholder- and firm level factors combine with corporate shareholder support to discover patterns associated with high performance outcomes. It is also useful for identifying multiple shareholder engagement strategies associated with high performance. QCA is not without limitations (e. g., reverse causality and omitted variable bias). Future research could complement my findings of shareholder engagement strategies with further qualitative analyses (Schneider & Rohlfing, 2013, 2016).

Further, I did not consider cumulative voting (Chen et al., 2015b) and thus ownership concentration in my study. Excessive levels of shareholder voting power are negatively associated with firm value (Roosenboom & Schramade, 2006; Wang, 2017). Future research could examine whether there is a U-shaped relationship between shareholder voting outcomes and ownership concentration.

CHAPTER 4: THE DESIGN OF EX ANTE SEVERANCE AGREEMENTS AND ITS INFLUENCES ON CEOS' RISK-TAKING BEHAVIOR: A CONFIGURATIONAL APPROACH

Co-authored with: Deniz P. Kruse, Christiana Weber

4.1 Introduction

Severance agreements are important yet little researched components of the relationship between a firm and its chief executive officer (CEO). Depending on what the two parties agree ex ante, in case of termination the CEO receives different kinds of payments or benefits (e. g., equity awards or idiosyncratic benefits) (Cadman et al., 2016; Graziano & Luporini, 2017; Kalfen, 2012, 2015). 75 % of U.S. companies conclude ex ante severance agreements with their incoming CEOs to have an arrangement for the event that the executive leaves the firm (Cowen et al., 2016). This reflects a high level of practical interest and surprisingly contrasts with scarce research on CEO severance agreements (Cowen et al., 2016; Rau et al., 2013).

The general relevance of severance agreements is also displayed (and sometimes criticized) by popular scientific articles considering severance rewards as pay for failure, which is often associated with the discussion about compensation gaps between executives and workers (Joshi, 2013; Reh, 2019; Stewart, 2011; Tuttle, 2015). In this regard, benefits from severance contracts to outgoing executives can be seen critically; however, the relevance and adoption is growing (Cadman et al., 2016; Huang, 2012; Rau et al., 2013).

CEO severance agreements represent an important contracting mechanism. They are both a significant component of CEO compensation and an important governance instrument influencing managerial behavior (Beck, Friedl, & Schäfer, 2020; Cadman et al., 2016; Cowen et al., 2016; Hoskisson et al., 2017; Huang, 2012; Rapp, Schaller, & Wolff, 2012). Focusing on

a behavioral perspective in compensation and severance research is obvious because the benefits and restrictions contracted in severance agreements are usually not directly linked to firm performance measures (Bebchuk & Fried, 2004; Cowen et al., 2016; Graziano & Luporini, 2017; Rapp & Wolff, 2010).

CEO risk-taking behavior is a salient characteristic in management research (Benischke, Martin, & Glaser, 2019; Cadman et al., 2016; Cummings & Knott, 2018; Gomez-Mejia, Neacsu, & Martin, 2019; Hoskisson et al., 2017; Pablo, Sitkin, & Jemison, 1996). CEO severance agreements, or, more precisely, “incentive structures—ones tied to multiple forms of compensation, performance metrics, and time horizons—are essential for producing optimal managerial behavior” (Cowen et al., 2016, p. 164).

Prior studies enriched our understanding that severance agreements and CEO risk-taking behavior are highly related. For example, Cadman et al. (2016) empirically demonstrate that severance contracts have great potential to trigger CEO risk-taking: “If firms provide CEOs with more contracted severance pay to encourage them to take risk, they do so to increase the likelihood that a CEO invests in riskier projects [...]” (Cadman et al., 2016, p. 740)

What is not known is how different designs of severance contracts influence the behavior of the respective executive. There is a need for a more nuanced understanding of the interplay between benefits and restrictions in executive compensation contracts and its influence on managerial behavior (Benischke et al., 2019; Cowen et al., 2016; Martin, Wiseman, & Gomez-Mejia, 2019). In line with Cowen et al. (Cowen et al., 2016), we argue that it is an important research gap to analyze the interplay between the key elements of severance agreements and its relationship to behavioral outcomes.

This paper addresses this gap and ventures the research question which bundles of contractual elements of CEO severance agreements lead to high (or low) managerial risk-taking behavior. In order to tackle this research question we make use of the conceptualized key elements of

severance agreements proposed by Cowen et al. (Cowen et al., 2016). We elaborate on these theoretically identified contract elements in the following section. Based on this elaboration, we derive the conditions for the configurational analysis conducted in this paper.

The configurational character of severance agreements highly connects with our research intent and our configurational approach. Taking a configurational perspective on contractual agreements helps to “obtain a richer understanding of the interplay between different contractual functions and its implications.” (Hofman et al., 2017, p. 743). In so doing, we follow the need for more configurational perspectives in management research in general (e. g. Douglas, Shepherd, & Prentice, 2020; Greckhamer, 2016; Greckhamer et al., 2018; Misangyi & Acharya, 2014), and on contract design in particular (Cowen et al., 2016; Hofman et al., 2017). We also follow the need for more nuance in the understanding of governance schemes rather than looking on single mechanisms (Cowen et al., 2016; Hoskisson et al., 2017). Taken together, this study addresses key priorities in advancing our understanding in severance research. This is “testing and further refining the ideas related to severance agreement structure [and] further theoretical development regarding other aspects of CEO severance and their implications.” (Cowen et al., 2016, p. 162) .

Our paper makes three primary contributions:

First, we contribute to literature on CEO compensation and severance agreements. While previous work has investigated single factors of severance agreements in isolation, this study examines bundles of conditions contained in severance agreements, a research design that has so far only been considered conceptually. By analyzing different bundles of severance agreements, we empirically demonstrate both the relevance of a configurational approach in this field and the importance of such a specific (tailored) design of severance agreements as it provides a more nuanced understanding of the impact that specific designs of contractual key elements have on CEO behavior. More precisely, we reveal three equifinal configurations of

severance contracts leading to high CEO risk-taking behavior and four configurational paths leading to its absence. By this, we add to the conceptual framework of severance contract key elements proposed by Cowen et al. (Cowen et al., 2016) as we showcase interrelatedness of severance contract key elements and empirically test the configurational idea of bundles of conditions in severance agreements for the first time.

Second, we contribute to literature at the interface between executive compensation and managerial behavior by highlighting the relevance of severance agreements as a governance mechanism influencing managerial behavior. Doing so, we relate severance agreements closer to "the broader literature on executive incentives and compensation design" (Cowen et al., 2016: 164; see also Devers, Cannella, Reilly, & Yoder, 2007; W. M. G. Sanders & Hambrick, 2007) and complement the debate on severance contracts and their influence on managerial risk-taking (Benischke et al., 2019; Hoskisson et al., 2017; Rau et al., 2013). Furthermore, we empirically demonstrate that severance agreements can function as a useful tool to better achieve governance objectives of the firm such as influencing managerial risk aversion or affinity.

Third, by demonstrating the potential of severance agreements serving as governance bundles for the firm, we contribute to research on interest alignment between firms and their executives. We complement extant studies on governance bundles (e. g. Chen, Zhang, & Zhou, 2018; Gomez-Mejia et al., 2019) and contract design (e. g. Hofman et al., 2017) by highlighting the importance to balance benefits and restrictions contained in severance contracts. Doing so, we promote a more nuanced dialogue in the literature on the interplay between benefits and restrictions being complementary elements formalized in severance contracts.

This article is structured as follows: In the next section, we seize literature on severance agreements and introduce the key elements of severance contracts. In addition, we elaborate on the important relation between severance agreements and managerial risk-taking behavior.

Thereafter, we present our sample, data and methodology. We then describe and discuss our results in the light of extant literature on severance agreements, governance bundles and risk-taking behavior. We finish with a conclusion, derive practical implications and highlight limitations and avenues for future research.

4.2 Body of literature

4.2.1 Functions of severance agreements

There are three overriding functions of severance agreements: First, for the CEO, severance agreements are a kind of insurance against opportunistic firms' board behavior and for his or her professional capital, and, respectively, for resulting termination costs (Bebchuk & Fried, 2003; Cowen et al., 2016; Gillan, Hartzell, & Parrino, 2009). The quality of severance agreements from the viewpoint of the CEO depends on the benefits agreed upon, which should reflect, in particular, loss of reputation and, at least, short-term unemployment (Cowen et al., 2016). Second, for the respective firm, severance agreements can serve as an attractive hiring tool using them as performance incentive (Almazan & Suarez, 2003). Third, severance agreements can serve as a governance tool and influence CEOs' risk-taking behavior (Cadman et al., 2016; Cowen et al., 2016; Huang, 2012).

4.2.2 Key elements of severance agreements

Cowen et al. (Cowen et al., 2016) introduced CEO severance agreements to the broader management research and conceptualized four key elements of ex ante severance contracts – termination benefits, post-termination covenants (restrictions), contract duration and a triggering condition:

Termination benefits. Termination benefits are different types of (1) standard and (2) non-standard benefit awards the CEO receives when leaving the firm and an agreement is in place (Cowen et al., 2016; Goldman & Huang, 2011). For (1) standard awards, there are (a) cash awards such as bonus or continued salary payments, but also (b) benefit awards (e. g. life or health insurance persistence). These two contract elements are likely to appear in combination and represent “60 percent of the average estimated value of severance benefits” (Cowen et al., 2016, p. 158). Furthermore, (c) equity awards (e. g. stock options, performance shares) are considered as standard awards (Arnold & Gillenkirch, 2007). Less common termination benefits are called (2) non-standard awards or idiosyncratic perquisites (e. g. outplacement service, country club memberships).

Post-termination covenants (restrictions). With post-termination covenants severance contracts can be designed more contingent. Contract elements covered in this dimension are different types of restrictions after an executive leaves the firm covered by two categories: (1) conventional covenants and (2) less common covenants. (1) Conventional covenants can be represented by different clauses, most prominently there are behavioral restrictions focusing on (a) non-solicitation (i. e. clauses to avoid hiring employees of the focal firm), (b) non-compete (i. e. competition clauses) and (c) non-disparagement (i. e. clauses to avoid negative statements) (Cowen et al., 2016; Kalfen, 2012). (2) Less common covenants “are mitigation and clawback clauses, which adjust severance payments based on information that may emerge after an executive’s departure.” (Cowen et al., 2016, p. 160). This type of restriction can be implemented in severance contracts in order to secure the firm’s right to adjust or claim back benefits in the event a misconduct occurs after termination of the CEO (Dehaan, Hodge, & Shevlin, 2013). Thus, less common covenants potentially reduce agreed termination benefits.

Contract duration. This contractual element defines the period the severance agreement is in place. In most cases, the agreed time is between 36 and 60 months (Cowen et al., 2016; Schwab

& Thomas, 2006). The severance contract is very likely to accompany the individual over several years (Cowen et al., 2016; Goldman & Huang, 2011; Kalfen, 2012). This, again, underlines the importance of severance agreements and its duration.

Triggering condition. This element defines the circumstances from which the contract is triggered. The most prominent trigger-categories are CEO sendoffs (1) for-cause (i. e. after a legal misconduct) and (2) without-cause (representing all other terminations, e. g. undesirable behavior, low performance). Terminations (1) for-cause mean that the respective executive disqualifies to receive severance benefits at all. In practice, the vast majority of terminations are considered as (2) without-cause because the agreements “typically deem *all other* firings and forced resignations as without-cause terminations that trigger the severance agreement. As a result, almost all recalled CEOs are entitled to severance payments after their departure (Kalfen, 2012; Yermack, 2006).” (Cowen et al., 2016, p. 156). This goes in line with Cadman et al. (2016) as they state that “[for] almost all firms with severance pay contracts, the amount the CEO receives if he is terminated “without cause” and the amount he receives if he resigns for “good reason” is identical.” (Cadman et al., 2016, p. 743). There is strong reason to believe that conventional severance agreements naturally contain the definition of the triggering condition. We later exclude this element from our configurational analysis for mainly two reasons: First, in contrast to the elements described above, the triggering condition does not represent a factor influencing the other components of the contract, but rather details the circumstances for which the contracts will be effective. Second, this element does not represent an active part for designing, detailing or differentiating the contract.

In table 13, we provide an overview of the four key elements of severance agreements based on the conceptual idea from Cowen et al. (Cowen et al., 2016).

Table 13: Overview of key elements of severance agreements

Key element	Short description	Category / variation	Example
Termination benefits	Standard awards	Cash awards	Continuation of salary (e. g. as a lump sum), partial bonus payments
		Equity awards	Stock options, performance shares
		Benefit awards	Insurance continuation (e. g. health, life)
	Unconventional awards	Non-standard awards	Idiosyncratic perquisites (e. g. club memberships)
Post-Termination covenants	Behavioral restrictions	Conventional covenants	Non-compete, non-solicitation, non-disparagement
	Potential benefit reductions	Less common covenants	Mitigation, clawback clauses
Contract duration	Contracted period	Duration	36 months, 60 months
Triggering condition	Details the conditions under which reason the executive receive the agreed rewards	For-cause	Legal misconduct
		Without-cause	Firing (e. g. low performance, undesirable behavior)

4.2.3 Research on severance agreements

Research on CEO severance agreements is located in corporate governance, respectively in CEO compensation literature. CEO compensation literature plays an important role for a better understanding of effective governance mechanisms such as incentive and restriction schemes and its influence on managerial risk-taking behavior (Benischke et al., 2019; Rau et al., 2013). For example, Rau and Xu (2013) demonstrate that severance contracts are an important tool for balancing incentive mechanisms for executives (i. e. via equity benefits). Cadman et al. (2016) empirically show that severance agreements are related to effective contracting because “severance pay contracts are offered [...] as protection against downside risk and to encourage investment in risky projects.” (Cadman et al., 2016, p. 737). Accordingly, the authors

demonstrate that severance agreements are “positively associated with proxies for a CEO’s risk of dismissal and costs the CEO would incur from dismissal.” (Cadman et al., 2016, p. 737).

This study benefits from three main developments in the field of severance agreements:

First, most extant studies rely on data from earlier than 2006. In 2006 “the SEC mandated that firms fully quantify and disclose all ex ante contracted severance pay amounts that a dismissed CEO would receive” (Cadman et al., 2016, p. 742). Only since these regulatory changes it is possible to analyze severance agreements in a more nuanced way. Following this observation, earlier studies rather considered the existence of severance agreements (Cadman et al., 2016). Neither the actual content nor various configurations of severance packages could be investigated because firms have not been encouraged to disclose relevant information.

Second, severance contracts have not yet been studied as configurations. Cowen et al. (Cowen et al., 2016) criticize that “scholars have overlooked the implications of how CEO severance agreements are structured.” (Cowen et al., 2016, p. 151). This study considers severance contracts as configurations of contractual elements that “[reflect] bundles of different contractual functions.” (Hofman et al., 2017, p. 744). To date, we are able to depict not only the amount of severance cash (e. g. Cadman et al., 2016), but also to analyze severance packages’ specific configurations. This configurational perspective has not yet been considered.

Third, a theoretically grounded framework representing key elements of severance agreements and a structured research agenda has just been proposed a few years ago (Cowen et al., 2016). Hence, the field is still in a discovery phase and it needs more research to complement extant studies.

4.2.4 Severance agreements and managerial risk-taking behavior

Managerial risk-taking behavior is a salient characteristic in management research because it influences structures and processes, which, in turn, can influence firm performance (Hoskisson et al., 2017). Severance agreements and managerial risk-taking behavior are highly related. Extant research has broadly shown that agreements between the firm and the CEO that include compensation mechanisms (schemes of benefits and restrictions) influence managerial risk-taking behavior (e. g. (Cadman et al., 2016; Coles, Daniel, & Naveen, 2006; Cummings & Knott, 2018; Dittmann et al., 2017). “The most direct way to affect CEO behavior, of course, is through incentive compensation [...]” (Cummings & Knott, 2018, p. 5)

Severance agreements can be a powerful tool to align risk preferences between the firm and the CEO. The firms' executives “cannot diversify their employment risk and are thus more risk averse. If corporate managers are made to bear significant residual risks, they will seek much higher monetary rewards or will make less risky decisions” (Hoskisson et al., 2017, p. 140). Cadman et al. (2016) empirically demonstrate that severance contracts have the potential to trigger CEO risk-taking behavior (i. e. R&D investments with high NPV). This suits well to other studies considering severance agreements as a helpful tool for firms in order to influence CEO risk-taking behavior, and thus stimulate fundamental corporate decisions like R&D investments (Barker & Mueller, 2002; Hoskisson et al., 2017).

Cowen et al. (2016) indicate interrelatedness between severance contract elements and its influence on managerial behavior: “The larger the severance benefits [for the CEO], the less “lucrative” continued employment appears relative to termination. This weakens CEOs' incentives to engage in behaviors that create value for shareholders and help them to retain their executive positions (Inderst & Mueller, 2010). [...] Ex ante severance agreements can be structured to make awards contingent on a variety of post-termination covenants. Some of these covenants place restrictions on a CEO's behavior following his or her departure.” (Cowen et

al., 2016, p. 161). Exactly such examples of severance structure and its influence on CEO risk-taking behavior is what we want to uncover in this study.

4.3 Sample and methodology

In this section, we describe our sample and data collection. Thereafter we introduce the methodology and explain the conditions and calibrations. Subsequently, we describe the procedure of the configurational analysis.

4.3.1 Sample and data

We randomly collected 164 ex ante severance agreements of the present CEOs of U.S. firms that are part of the Russell 3000 Index via the Securities and Exchange Commission (SEC). We use the Russell 3000 Index to not limit our findings to only small, medium or large firms (following the argument from Misangyi et al., 2014). The Russell 3000 Index is an equity market index similar to the S&P 500. Because of the regulatory changes in 2006 (see chapter 4.2.3) and the absence of relevant information before this year, we were only able to include firms with a CEO hiring date from 2006 onwards.

We collected the data as follows: After we had identified the current CEO of the respective firm (in August 2017), we looked for the hiring date in order to detect the right ex ante severance contract. We manually identified the CEO hiring dates and subsequent severance data from the DEF-14A filings from SEC database (SEC, 2016). Based on the hiring date of the CEO, we manually searched for the relevant proxy report (DEF-14A filings from SEC) to gather the elements of the respective ex ante severance agreement. Companies without severance agreements in their DEF-14A reports were excluded. Because of the non-standardized structure of severance reports, this manual procedure is the only way to grasp the specific contractual elements (Rau et al., 2013).

We note that there is a database (ExecuComp) that reports “ex ante contracted amount of severance pay” from 2006 onwards, however, Cadman et al. (2016) reveal “a number of important coding errors on the part of ExecuComp” (Cadman et al., 2016, p. 765). In addition to this fact, this variable would only represent one element of the severance contracts (termination benefits). Hence, the data collection process described above is necessary to capture the relevant key elements of severance agreements (see examples in table 13).

We excluded data regarding severance payments in the very special event of a change in control (i. e. for the event of an acquisition) and data about payments connected with sudden incapacity for work (i. e. disability) (Kalfen, 2012, 2015).

As a result of this thorough procedure and due to missing values (we also excluded cases with a missing value), we ended with a sample of 58 ex ante CEO severance agreements. Compared to other studies, this sample represents a legitimate number of representative cases in order to perform a promising configurational analysis (see e. g. Backes-Gellner, Kluike, Pull, Schneider, & Teuber, 2016; Gilbert & Campbell, 2015; Greckhamer, 2016; Judge et al., 2015; Kraus, Ribeiro-Soriano, & Schüssler, 2018).

We started the data collection with the aim to grasp and measure the conceptual dimensions of severance contracts. Accordingly, we clustered the severance data in the categories (a) termination benefits, (b) restrictions (post-termination covenants) and (c) contract duration (see also key elements of severance contracts in section 4.2.2).

For the outcome of this study, we used R&D intensity to operationalize CEO risk-taking behavior as proposed by Cowen et al. (Cowen et al., 2016). We extracted the relevant data on the corresponding companies from Thomson Reuters Datastream. R&D intensity is defined as the ratio of R&D investments and sales (Baysinger & Hoskisson, 1989; Gentry & Shen, 2013) and has already been used successfully in previous studies to display managerial risk-taking (e. g. Cadman et al., 2016; Chen & Hsu, 2009; Chen & Miller, 2007; Chrisman & Patel, 2012;

Kraiczy, Hack, & Kellermanns, 2015). The R&D intensity also controls for the size of the companies in our sample (Bromiley, Rau, & Zhang, 2017) and can show whether investments in R&D are relatively high/low. By using this ratio, we also follow other empirical studies demonstrating that severance contracts influence risk-taking behavior (e. g. Cadman et al., 2016; Huang, 2012). In this regard, we explicitly highlight the work from Cadman et al. (2016) as the authors already brought severance agreements and R&D intensity together and show that the amount of payments agreed in severance agreements (termination benefits) “is positively associated with CEO risk taking and the extent to which a CEO invests in projects that have a positive NPV.” (Cadman et al., 2016, p. 737). R&D investments are a legitimate measure to display managerial risk-taking: investments in R&D reflect “one of the most fundamental” (Barker & Mueller, 2002, p. 782) decisions made by the corporate elite that reflect managerial risk-taking behavior being a “strategic choice with uncertain consequences” (Hoskisson et al., 2017: 138; similar statement from Chen & Hsu, 2009). CEOs as the most important members of the corporate elite have the greatest influence on firm R&D investment decisions in, for example, “developing new products, processes, or technologies [that are] driver of future competitive advantage and productivity.” (Barker & Mueller, 2002, p. 782). Investments in R&D “[involve] a great likelihood of failure” (Chen & Hsu, 2009, p. 349), “are usually viewed as riskier investments than others” (Huang, 2012, p. 6), “generally do not yield payoffs immediately” (Chrisman & Patel, 2012, p. 983) and “reflect a risk-taking propensity” (Chen & Hsu, 2009, p. 349).

4.3.2 Analytical approach

We apply fsQCA. This set-theoretical method offers a step towards a neo-configurational perspective (Misangyi et al., 2017) and becomes increasingly popular in business and management research (Backes-Gellner et al., 2016; Díaz-Fernández et al., 2020; Douglas et al.,

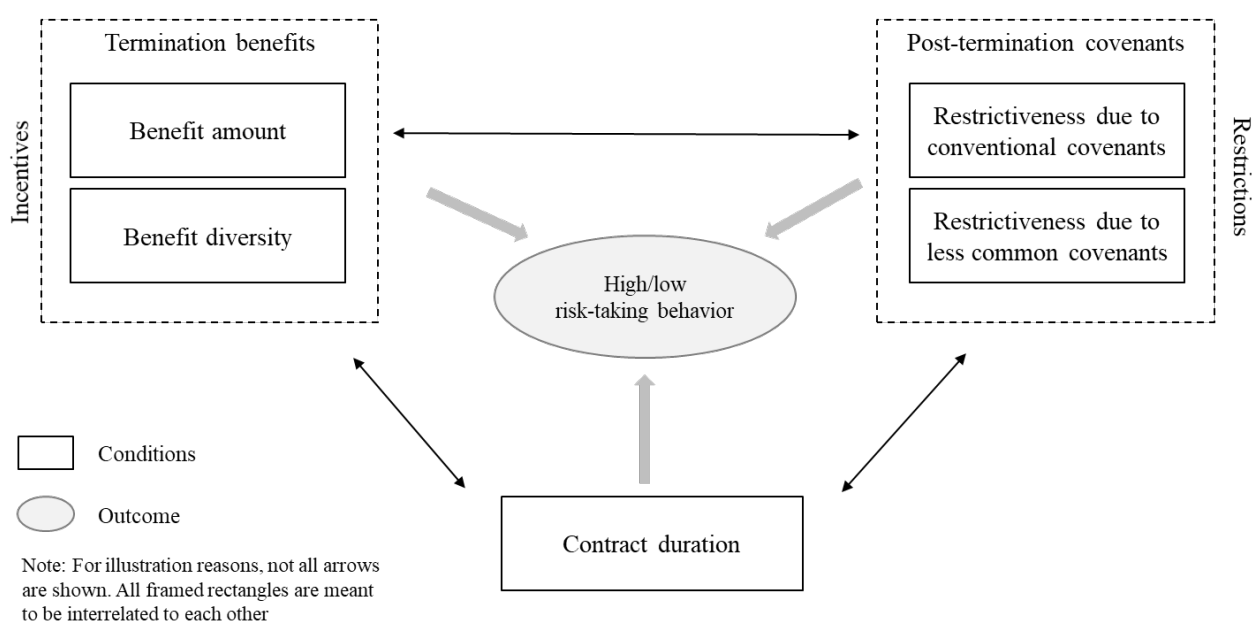
2020; Fischer et al., 2019; Greckhamer et al., 2018; Hildebrandt, Oehmichen, Pidun, & Wolff, 2018; Kraus et al., 2018; Wagemann, Buche, & Siewert, 2016; Werani, Freiseisen, Martinek-Kuchinka, & Schauburger, 2016). With fsQCA and its Boolean minimization, we can identify different causally complex paths leading to our outcome (Fiss, 2011; Greckhamer et al., 2018). Hence, QCA suits perfectly to better understand how different configurations of contract elements influence managerial risk-taking behavior. This method allows to unveil equifinal configurations of variables (so-called conditions) of severance agreements that cause high CEO risk-taking (and its absence). QCA builds on set theory conceptualizing conditions and the outcome of interest as sets (Greckhamer et al., 2018). Hence, key is that the interplay between variables is better explained with set theory (and not via correlations) (Douglas et al., 2020; Fiss, 2011). This is exactly what we do: with fsQCA and its conjunctural causation, we make use of the potential and advantages of a configurational approach “which visualizes the conceptual framing of contracts as bundles of different contractual governance functions” (Hofman et al., 2017, p. 740). In so doing, we aim to expand the perspective in researching severance agreements and CEO compensation respectively.

4.3.3 Conditions and calibrations

In this section, we explain our calibration procedure for each of the conditions and the outcome. To perform the QCA properly, for each membership score the threshold must be justified (Rihoux & Ragin, 2008). These thresholds qualitatively define the differences between our cases and act as calibration anchors (Schneider & Makszin, 2014). „While there are different ways of using theory to identify conditions [...], key is the articulation of a *configurational rationale* for including conditions and theorizing their joint (rather than net) effects on the outcome.“ (Greckhamer et al., 2018, p. 487). This study builds on the theoretical idea that

severance contracts are configurations of contractual elements that jointly influence managerial behavior (e. g. Cadman et al., 2016; Cowen et al., 2016). This also goes in line with Hofman et al. (2017) as they conceptualize contracts "as bundles of contractual functions that can be combined in different ways" (Hofman et al., 2017, p. 743) that are perfectly suitable for a configurational analysis. Relatedly, we derive the conditions of this study from the dimensions of severance contracts. Based on this, we measure the key elements of severance contracts in the following categories (see also Figure 6): For *termination benefits*, we measure the benefit amount (high benefit awards in relation to remuneration) and benefit diversity (variation in contracted severance pay). For *post-termination covenants (restrictions)* we measure conventional restrictions (restrictiveness due to conventional covenants) and less common restrictions (restrictiveness due to less common covenants), and for *contract duration* we measure the duration of the severance contract. We further detail the measurement and calibration of the used conditions in the following paragraphs.

Figure 6: Bundles of contractual key elements jointly influence managerial risk-taking behavior



Termination benefits. The *benefit amount* reflects the relative benefit awards (in relation to remuneration), this is the relation between the CEO's annual compensation and his/her contracted severance pay. Hence, this condition measures the size of severance agreements compared to the remuneration of the CEO. We follow prior studies (e. g., Hildebrandt et al., 2018; Linder et al., 2020; Renko et al., 2020) and use quartile data for calibration. Based on Cadman et al. (2016) we coded the qualitative threshold as follows: we set ≤ 0.73 (first quartile) for fully out of the set of high benefit amount; 1.02 (second quartile) for neither in nor out of the set of high benefit amount, and ≥ 1.19 (third quartile) for fully in the set of high benefit amount as qualitative anchors thresholds for high benefit awards.

The *benefit diversity* reflects the contracted variation in contracted severance pay. Prior research investigated the variation of benefit types in severance contracts (Cadman et al., 2016). Cadman (2016) and his colleagues used a binary indicator variable (dummy variable) to analyze the heterogeneity of the benefit types. We build on this approach but we apply a more nuanced view on benefit categories we find in our data: cash awards, equity awards, benefit awards and non-standard awards (see table 13). By this, we respect the true range of potential benefit categories. Severance contracts that consist of at least three of these elements are considered to be agreements with high diversity. Hence, we set the thresholds at ≥ 3 for fully in the set of high variation in contracted severance pay, 2.5 for ambiguity, and ≤ 1.5 for fully out of the set of high variation in contracted severance pay.

Post-termination covenants. Restrictions via conventional covenants (see table 13) are measured with the condition *restrictiveness due to conventional covenants* and are meant to reflect the number of conventional restriction types that are part of the severance contract. There are conventional restrictions in severance contracts: non-compete, non-solicitation and non-disparagement clauses (Babenko, Bennett, Bizjak, & Coles, 2017; Chen et al., 2018; Cowen et al., 2016). By analyzing the number of conventional covenants that are part of the severance

contract, we grasp the number and variation of restrictive clauses. We rated severance contracts to be fully in the set of high restrictiveness due to conventional covenants if at least two conventional restrictions are in place (≥ 2). We set the threshold 1.5 for ambiguity and at ≤ 0.5 for fully out of the set of restrictiveness due to conventional covenants.

The restrictions via less common covenants are measured with the condition *restrictiveness due to less common covenants* and are meant to reflect restrictiveness due to post-termination covenants that are less common, but still important contract elements to potentially reduce agreed termination benefits (Cowen et al., 2016; Dehaan et al., 2013). We measured whether a less common covenant as a restrictive element is present or not (i. e. presence of clawback clauses and/or mitigation clauses). This binary measure does not need to be recalibrated for QCA. The presence of less common covenants is coded as 1 and the absence is coded as 0.

Contract duration. This condition reflects the contracted term of the severance agreement. The majority of CEO contracts is contracted between 36 and 60 months being a standard duration (Cowen et al., 2016; Schwab & Thomas, 2006). Based on this, we define a high contract duration to be at 60 months or higher. We set the value ≥ 59.9 for fully in the set of high severance contract duration; 36.1 for ambiguity, and ≤ 12.1 for fully out of the set of high severance contract duration.

High/low risk-taking behavior (outcome). The outcome measures CEO risk-taking behavior reflected by R&D intensity. R&D intensity is defined as the R&D investments of a firm divided by its total sales (Baysinger & Hoskisson, 1989; Gentry & Shen, 2013; Kraiczy et al., 2015) and has been used in previous studies to display managerial risk-taking behavior (Cadman et al., 2016; Chen & Hsu, 2009; Chen & Miller, 2007). To calibrate the set memberships in fsQCA we follow previous studies using statistical information (see e. g. Campbell et al., 2016; Díaz-Fernández et al., 2020; Fiss, 2011; Linder et al., 2020; Renko et al., 2020). We used quartile information on the R&D intensity of the Russel 3000 Index. Based on this, we set ≤ 0.88 (first

quartile) for fully out of the set of high managerial risk-taking; 1.04 (second quartile) for neither in nor out of the set, and ≥ 1.26 (third quartile) for fully in the set of high managerial risk-taking.

Table 14 shows descriptive statistics and correlations for all conditions before performing the analysis.

Table 14: Descriptive statistics and correlations

<i>Conditions</i>	Mean	S.D.	1	2	3	4	5	6
1 CEO risk-taking behavior (R&D intensity)	1.02	0.23	1.00					
2 Benefit amount: benefit awards	1.23	1.21	-0.02	1.00				
3 Benefit diversity (variation in sev. pay)	2.33	1.03	0.05	0.27*	1.00			
4 Restrictiveness (conventional covenants)	1.41	1.14	-0.12	0.37**	0.14	1.00		
5 Restrictiveness (less common covenants)	0.60	0.49	-0.03	0.13	0.16	0.17	1.00	
6 Contract duration	26.76	11.83	-0.07	-0.12	-0.06	-0.10	-0.11	1.00

Note: Descriptive statistics and correlations are based on uncalibrated values, *p < 0.5; **p < 0.01; ***p < 0.001.

4.3.4 Analyses

In the next step, we describe the analytical procedure. Before starting the QCA analysis, we calculated the truth table displaying all possible configurations (sets) of conditions associated with the outcome (Fiss, 2007; Hofman et al., 2017). A truth table is a matrix with 2^k rows (k=number of conditions) representing every configuration that is logically possible (Rihoux & Ragin, 2008).

QCA requires then to detail (a) frequency and (b) consistency benchmarks to avoid including subsets below these defined thresholds (Greckhamer et al., 2018). The (a) frequency threshold defines the minimum number of cases per configuration (row in the truth table) that are accepted. In line with other small and mid-sized N studies and following good QCA good practice, we applied a frequency threshold of one (Greckhamer et al., 2018; Hildebrandt et al., 2018). The (b) consistency threshold details the minimum value of consistency that leads to the outcome. For consistency, we selected to produce solutions with consistencies ≥ 0.8 . There is no general convention about consistency thresholds; however, the value we selected is a widely and frequently accepted (Campbell et al., 2016; Hofman et al., 2017; Schneider & Wagemann,

2012). In addition, we report the PRI score (proportional reduction in inconsistency score) and follow the widely accepted benchmark (≥ 0.65) (e. g. (Douglas et al., 2020; Greckhamer, 2016). We do so, “to avoid simultaneous subset relations of configurations in both the outcome and its absence. [...] [Configurations] with PRI scores below 0.5 indicate significant inconsistency.” (Greckhamer et al., 2018, p. 489).

We performed the QCA analysis using a QCA package in R (QCApro) (Thiem, 2016). In line with QCA good practices, we carried out two separate analysis: One for configurations leading to the presence of our outcome, and one leading to the absence (Greckhamer et al., 2018). This procedure is important because “[being] based on Boolean rather than Linear Algebra [...], the occurrence and the non-occurrence of an outcome may constitute two qualitatively different phenomena, and it is good practice to provide separate explanations for them“ (Greckhamer et al., 2018, p. 490).

4.4 Results and discussion

In this section, we first describe the solutions. Thereafter, we discuss and explain our findings in the light of previous literature including the conceptual framework from Cowen et al. (Cowen et al., 2016).

In table 15 and 16, we present the results of our analysis. Following Fiss (2011), our solution is represented by black circles (condition is present), crossed circles (condition is absent) and blank spaces (condition is not relevant). Large circles show core conditions while small circles represent peripheral conditions.

4.4.1 Results

Presence of high risk-taking behavior as an outcome

The analysis reveals three configurations of severance contracts that are consistently leading to high risk-taking (table 15). The consistency (0.81) and coverage (0.50) are in a respectable range and in line with other QCA studies (e. g. Campbell et al., 2016; Fiss, 2011; Greckhamer, 2016; Hildebrandt et al., 2018; Hofman et al., 2017).

Table 15: Configurations leading to presence of high risk-taking

	Solution		
	1	2	3
Benefit amount: High benefit awards	●	⊗	⊗
Benefit diversity: High variation in severance pay	⊗	-	●
Restrictiveness due to conventional covenants	⊗	⊗	⊗
Restrictiveness due to less common covenants	●	⊗	●
High contract duration	●	⊗	●
Consistency	0.96	0.90	0.80
PRI	0.81	0.87	0.57
Raw Coverage	0.02	0.20	0.36
Unique Coverage	0.01	0.13	0.19
Overall Solution Consistency	0.81		
Overall PRI	0.67		
Overall Solution Coverage	0.50		

Solution 1 represents severance agreements with a relatively high contract duration that contain relatively high overall termination benefits (compared to the standard salary), but these benefits are not distributed across many different benefit types. At the same time, this configuration involves little restriction by standard post-termination covenants, but there are less common covenants present such as clawback clauses. Solution 3 is similar to solution 1, but in this configuration, the amount of the termination benefits is rather low, yet distributed across

different types of benefits (e. g. cash awards in combination with equity benefits and an insurance package).

Thus, both solutions 1 and 3 represent types of severance contracts with a high contract duration (> 36 months) combined with the presence of less common restrictions (e. g. clawback clauses) and the absence of conventional post-termination covenants. A closer look at configurations 1 and 3 suggests that a nuanced design of the termination benefits seems to play an important role in triggering risk-taking behavior. The presence of high benefit payments that is not distributed across many benefit types (absence of benefit diversity) further characterizes configuration 1, while in solution 3 the opposite is also consistent with risk-taking (rather low termination benefits, but benefits are distributed across types).

Solution 2 shows a configuration of severance contracts that is represented by the absence of high benefit payments (no matter how the total amount is distributed across benefit types) combined with the absence of a high contract duration (rather short term contracts). In addition, this configuration of severance contracts (solution 2) comes without high restrictiveness due to post-termination covenants. Hence, this solution demonstrates that a less restrictive approach for severance contracts can also lead to high risk-taking behavior if the agreement is combined with the absence of high benefit awards and a rather short contract duration. In all three configurations (solution 1, 2, 3) leading to high risk-taking, high restrictiveness due to conventional covenants is absent.

Absence of high risk-taking behavior as an outcome

QCA reveals four different configurations of severance contracts leading to the absence of high risk-taking behavior (table 16). The solutions have sufficient values of consistency (0.82) and coverage (0.53), also compared to other recognized QCA studies (e. g. Campbell et al., 2016; Fiss, 2011; Greckhamer, 2016; Hildebrandt et al., 2018; Hofman et al., 2017).

Table 16: Configurations leading to the absence of high risk-taking

	Solution			
	1	2	3	4
Benefit amount: High benefit awards	●	⊗	●	⊗
Benefit diversity: High variation in severance pay	⊗	⊗	●	-
Restrictiveness due to conventional covenants	●	⊗	⊗	●
Restrictiveness due to less common covenants	-	●	●	●
High contract duration	-	⊗	⊗	●
Consistency	0.82	0.83	0.88	0.83
PRI	0.60	0.76	0.83	0.65
Raw Coverage	0.13	0.14	0.10	0.26
Unique Coverage	0.06	0.09	0.10	0.10
Overall Solution Consistency	0.82			
Overall PRI	0.70			
Overall Solution Coverage	0.53			

Solution 1 represents severance contracts with a relatively high amount of termination benefits combined with the absence of benefit diversity (total benefits are not distributed across many benefit types). Solution 1 is further combined with high restrictiveness due conventional post-termination covenants (e. g. non-solicitation and non-compete clauses).

Configuration 2 and 3 both represent rather short term severance contracts combined with the absence of a high restrictiveness due to conventional covenants, but with the presence of less common covenants (e. g. clawback clauses). In severance contracts that are part of solution 2, the aforementioned elements are combined with the absence of both high benefit payments and diversity. Agreements that are part of solution 3 contain relatively high benefit payments for the CEO that are spread over different benefit types.

Solution 4 is consistent with the absence of CEO risk-taking and demonstrates a rather restrictive type of severance contracts (presence of both high restrictions due to conventional

covenants and less common covenants) with a high contract duration combined with the absence of high termination benefits.

4.4.2 Discussion

In the following, we embed our findings into scholarly discussions on executive compensation, severance agreements as governance tools and managerial risk-taking behavior.

Severance agreements benefit from a configurational perspective

The conditions analyzed in this paper are based on the key elements of severance agreements. We demonstrate that the configurational idea of the conceptual dimensions is valid, answering the call for testing it empirically (Cowen et al., 2016). Following the configurational idea, our results empirically mirror the conceptual assumption that the severance elements are highly interrelated. For example, solution 1 (table 15) represents a severance agreement with relatively large termination benefits combined with a long contract duration and the presence of post-termination covenants allowing the firm to reduce the benefits agreed (i. e. clawback clauses) after departure of the CEO. Interestingly, if the relative amount of severance benefits is rather low, the variety of benefits seems to be an important matter of negotiation (see solution 3, table 15). Hence, not only the total benefits play a key role, but also *how* these benefits are distributed (e. g. across cash payments or equity benefits). In fact, the option for accelerated vesting of equity shares after termination is a well-known and important mechanism in severance packages (Kalfen, 2012) with potential to trigger CEO risk-taking behavior (i. e. spendings with high portion of uncertainty such as R&D) (Sanders & Hambrick, 2007). However, our results suggest that this perspective needs to be considered in interaction with the other contract elements. We therefore agree with the conceptual argument made by Cowen et al. (2016) that severance contracts can be effectively designed to make termination benefits “contingent on a

variety of post-termination covenants.” (Cowen et al., 2016, p. 160). Following this argument, balancing benefits and restrictions seems to be a crucial mechanism for designing CEO severance agreements. This view is also supported in the literature as the relationship between CEO risk-taking behavior and incentives is appropriate “to examine how constraints deriving from incentive alignment and monitoring can work together.” (Gomez-Mejia et al., 2019, p. 1723). In addition, the variety within post-termination covenants seems to play an important role as we see that different types of post-termination covenants can influence the outcome differently (see the interplay between conventional and less common covenants in tables 15 and 16). We highlight this interplay also for another reason: based on our data and in contrast to prior studies, we have no reason to assume that clawback and mitigation clauses are rarely implemented or even an exception in severance agreements (Bebchuk & Fried, 2004; Cowen et al., 2016). We not only identify the presence of “less common covenants” (in 60.34% of our cases), but also their potential to influence CEO risk-taking behavior. Hence, we agree with extant literature considering the presence of less common covenants (i. e. mitigation and clawback clauses) as an important means to lower severance benefits after termination and influence managerial behavior (Babenko et al., 2017; Dehaan et al., 2013).

Our results confirm conceptual assumptions made by Cowen et al. (2016) about the interrelatedness of severance contract elements: Our results suggest that (1) *termination benefits* are effective if the benefits are tailored for both the interests of the firm and the executive. Put differently, we agree that balancing the amount of severance benefits are an important mechanism to motivate executives acting in line with the interest of the firm (Cowen et al., 2016; Nyberg, Fulmer, Gerhart, & Carpenter, 2010). “The larger the severance benefits, the less “lucrative” continued employment appears relative to termination. This weakens CEOs’ incentives to engage in behaviors that create value for shareholders and help them to retain their executive positions (Inderst & Mueller, 2010). [...] Termination risk may continue to pose an

obstacle to CEO hiring and to appropriate risk taking once an executive is on the job.” (Cowen et al., 2016, p. 159). Our results demonstrate that these severance benefits can be dependent on clauses for the time after the executives' departure due to the presence of (2) *post-termination covenants* and thus reduce uncertainty for the firm after termination (e. g. reduce contracted payments). This is an important interdependency as contingencies in form of post-termination covenants can prevent “double dips”; this is when a departed executive receive both severance benefits *and* payments from a new employer (Bebchuk & Fried, 2004; Cowen et al., 2016). Moreover, the presence of a long (3) *contract duration* limits the flexibility to adjust the interplay between the termination benefits and restrictions due to post-termination covenants over time (e. g. to new circumstances), which in turn could violate firms' interests (i. e. in the case of high termination benefits) “by exacerbating the previously identified concerns regarding the size of termination benefits.” (Cowen et al., 2016, p. 161). Hence, we support the suggestion made by Cowen et al. (Cowen et al., 2016) to limit ex ante severance contracts to a maximum length of three years (absence of high contract duration) in order to allow cycles of reevaluation. Severance agreements are a useful ground for balancing incentives and restrictions, thereby fostering more consistent CEO risk-taking behavior with firms' interests. Considering severance agreements as bundles of conditions adds an important perspective to existing severance research since this view paves the way to a more nuanced debate for better understanding governance bundles and mechanisms influencing desired CEO behavior (i. e. risk-taking behavior).

Severance contracts as a tool for aligning interests and influencing risk-taking behavior

The results of this study underline that severance agreements and managerial risk-taking behavior are highly related. We therefore agree with prior literature that considers compensation agreements between the firm and the CEO as influential on managerial risk-taking (Cummings & Knott, 2018; Dittmann et al., 2017). “Indeed, empirical evidence suggests

that risk-taking incentives matter for CEOs' actual risk-taking (see, e. g., Acharya, Amihud, & Litov, 2011; Coles et al., 2006; Hermanson et al., 2009; Knopf, Nah, & Thornton, 2002).” (Dittmann et al., 2017, p. 1806).

We agree because our results are consistent with prior literature that considers the alignment of incentives and restrictions as an essential contract mechanism with influence on managerial risk-taking and potential to avoid undesirable managerial behavior (e. g. Dittmann et al., 2017; Jensen & Meckling, 1976; Nyberg et al., 2010; Tosi et al., 1997). For example, Tosi et al. (1997) state that risky managerial decisions about “research and development investments, new venture start-ups, acquisitions, and so forth are influenced by how these choices affect their pay” (Tosi et al., 1997, p. 588). These payments are also defined by severance agreements making severance a useful tool for the firm balancing its risk preferences with the respective CEO's risk affinity or aversion (Cowen et al., 2016; Tosi et al., 1997). The alignment of interests influences the risk preferences of the executives, “causing them to make either riskier or less risky decisions than is optimal from the shareholders' perspective.” (Nyberg et al., 2010, p. 1029).

The configurations revealed in this study mirror this process of balancing interests for the context of CEO severance agreements: from the perspective of the CEO, we agree with Tosi et al. (1997) that managerial risk-taking behavior and thus risky investments in, for example, R&D are affected by this alignment process (i. e. negotiation of contract elements). More recently, Dittmann et al. (2017) amplify the importance of risk-taking incentives in CEO compensation contracts: „Risk-averse CEOs will want to reduce the firm risk, even if this destroys value. Therefore, we need risk-taking incentives to induce the CEO to take risks that benefit well-diversified shareholders (Haugen & Senbet, 1981; Smith & Stulz, 1985).” (Dittmann et al., 2017, p. 1806). However, adding to Dittmann et al. (2017), we demonstrate that for the CEO's

severance not only the alignment of incentives and restrictions play an important role for CEO risk-taking, but also the contract duration is an important factor.

This view is supported by solutions 1 and 3 (table 15) which suggest to complement a high contract duration with the absence of conventional post-termination covenants (and the other elements of the respective solution) to trigger risk-taking behavior. One reason why executives might be encouraged for high risk-taking behavior via a high contract duration might be because the risk of termination is particularly high in the first few years (Allgood & Farrell, 2003; Cowen et al., 2016; Zhang, 2008). This would suggest, from the CEO's point of view, a stronger interest for a high contract duration. According to Chen et al. (2015a) the duration defines the time of "contractual protection ...[with] lower pressure to maintain high short-term performance and [the CEO is] thus less likely to engage in myopic behavior compared to those without contractual protection" (Chen et al., 2015a, p. 1872). This prediction suggests that a high contract duration is related to rather long-term orientation of the CEO and results in the presence of rather risky behavior (e. g. long-term investments in R&D) (Chen et al., 2015a; Rau et al., 2013).

Also other elements of solutions 1 and 3 (table 15) for the presence of high risk-taking behavior are consistent with Chen et al. (Chen et al., 2015a): both solutions (1 and 3) are complemented with a high amount of severance benefits or a high diversity of severance benefits. According to the authors, the presence of high severance benefits (i. e. equity awards) encourages CEOs to take riskier decisions and opens an "upside potential so that CEOs enjoy the benefits of successful long-term investments" (Chen et al., 2015a, p. 6).

The results of this study showcase different types of severance contracts influencing CEOs' risk-taking behavior. If we understand severance agreements as more than just a tool that is either applied or not, we find mechanisms of incentivization (i. e. termination benefits) and restrictions (i. e. post-termination covenants). Based on our analysis, we agree with Cowen et

al., (Cowen et al., 2016) “that complex incentive structures — ones tied to multiple forms of compensation, performance metrics, and time horizons — are essential for producing optimal managerial behavior.” (Cowen et al., 2016, p. 164).

Towards understanding severance contracts as a set of complementary elements

This research supports the assumption made by Ward et al. (2009) that governance elements (e. g. incentive alignments between firms and managers) do not necessarily substitute each other but rather “act as complements to one another, where the presence or addition of one mechanism strengthens the other and leads to more effective governance” (Ward et al., 2009, p. 648). We agree for the context of CEO severance agreements: considering severance contracts as sets of complementary elements rather than single factors in isolation is crucial to understand their effectiveness.

For example, referring to solution 1 leading to the presence of managerial risk-taking behavior (table 15) and solution 1 leading to its absence (table 16): in both configurations high termination benefit awards are present. This illustrates that CEO risk-taking behavior is better explained in a configurational view because there is need to consider other influencing complementary components of the contract such as the presence of behavioral restrictions. This finding underlines the relevance to specifically tailor benefit packages with respect to the individual characteristics and preferences of the executive to favor desired behavior (Cowen et al., 2016). From a practical view, this is relevant because different CEOs will have different (risk) preferences. The existence of different configurations of severance contracts can reflect this variety of executives and their preferences. We therefore follow the conceptual argument that tailoring the bundle of benefits and restrictions contained in severance agreements have potential to mitigate “future agency costs associated with executive risk aversion” (Cowen et al., 2016, p. 152).

One-size-fits-all towards specific design of severance agreements

To date, executive compensation schemes such as severance agreements are often applied as an “one-size-fits-all” approach instead of considering the specific customization of the agreement to the specific firm-executive relationship (Hou, Priem, & Goranova, 2017). Our findings suggest a finer grained view at the structure of severance agreements: from a general perspective, we observe that there are indeed differences between the key elements of severance contracts (see tables 15 and 16). This differentness can be helpful to better understand the effectiveness of design decisions regarding the configuration of severance agreements and its influence on CEO risk-taking behavior. Unsurprisingly, severance contracts have sometimes been described as questionable in terms of their effectiveness (Bebchuk & Fried, 2003; Cadman et al., 2016). We agree with Cowen et al. (2016) that realizing differences in the structure of severance contracts offers “better inferences regarding how severance supports, or fails to support, governance objectives.” (Cowen et al., 2016, p. 163) Prior severance research is dominantly focusing on the size and relevance of termination benefits (Cowen et al., 2016; Rusticus, 2006; Yermack, 2006).

Our findings complement this somehow limited perspective and empirically back the conceptual argument that “a closer examination of severance agreements reveals more nuance in their structure than these debates suggest” (Cowen et al., 2016, p. 156). Following this argument, we have reason to question the widespread assumption that there is a lack of variety in the structure of severance agreements *across* firms (e. g. driven by compensation consultants) (Bebchuk & Fried, 2003; Cowen et al., 2016). In contrast, our results demonstrate variety between severance contracts. For example, solution 4 (table 16) represents rather restrictive contracts driven by post-termination covenants whereas solution 2 (table 15) shows a contract type without post-termination covenants but complemented with absence of high termination benefits.

One reason why the variance of severance contracts across firms have been overlooked might be that relevant data is only present from 2006 onwards (Cadman et al., 2016) or that a manual and effortful data collection is necessary to grasp the relevant contract elements due to the non-standardized nature of severance reports (Rau et al., 2013). Moreover, a conceptual framework representing key elements of severance agreements and thus allowing a more fine grained understanding of different severance dimensions has just been introduced a few years ago (Cowen et al., 2016).

4.5 Conclusion

With our study we set out to increase the understanding about CEO severance agreements and their relationship with managerial risk-taking behavior. We used a configurational perspective and conceptualize severance contracts as bundles of different contract elements (e. g. benefits, restrictions) that influence managerial risk-taking behavior. By analyzing severance agreements as configurations of contract elements we add to the few configurational studies analyzing contracts as governance configurations (Hofman et al., 2017). Our analysis not only demonstrates that the configurational idea of severance contracts is valid, but also that research on severance agreements benefits from a configurational perspective.

The analysis conducted in this paper addresses important priorities in advancing severance research: empirically investigating existing ideas regarding the design of severance contracts and pushing forward discussions on further conceptual and theoretical developments of CEO severance and its implications (Cowen et al., 2016).

This study contributes to the literature as follows:

First, we contribute to the body of literature on CEO compensation by advancing our understanding of severance agreements: we highlight the interrelatedness of bundles of

conditions contained in severance contracts and thus show the importance of its specific (tailored) design that has so far only been considered conceptually. Doing so, we transcend previous studies that investigate single factors in isolation or focus dominantly on the size and relevance of termination benefits (Cowen et al., 2016; Rusticus, 2006; Yermack, 2006). We reveal three equifinal configurations of severance contracts leading to high CEO risk-taking behavior and four configurational paths leading to its absence. We therewith demonstrate the relevance of a configurational approach in this field and promote that a finer grained analysis of specific designs of severance contract key elements helps to better understand its influence on CEO risk-taking behavior. By demonstrating interrelatedness of severance contract key elements and by empirically testing the configurational idea of bundles of conditions in severance agreements for the first time, we also expand the conceptual work by Cowen et al. (2016).

Second, this study complements literature on executive compensation and managerial behavior by demonstrating the relevance of severance agreements as a tool to influence managerial risk-taking. We thus “allow better inferences regarding how severance supports, or fails to support, governance objectives” (Cowen et al., 2016, p. 163) and add to the debate on severance contracts and their governance function to trigger managerial risk-taking behavior (i. e. risk aversion or affinity) (Benischke et al., 2019; Rau et al., 2013; Shi, Zhang, & Hoskisson, 2017). By this we also relate severance agreements closer to "the broader literature on executive incentives and compensation design" (Cowen et al., 2016, p. 164); see also Devers et al., 2007; Sanders & Hambrick, 2007). Doing so, we add to limited knowledge on how “CEOs differ in their responses to compensation arrangements [...].” (Benischke et al., 2019, p. 154).

Third, this study contributes to research on interest alignment between firms and their CEOs as we demonstrate the potential that severance contracts have for balancing interests (e. g. negotiating different benefits and restrictions). We show that balancing benefits and restrictions

is an important mechanism also for the case of severance contracts. We thereby add to research on governance bundles (e. g. Chen et al., 2018; Gomez-Mejia et al., 2019) and contract design (Hofman et al., 2017). In so doing, we add to the few configurational studies on contract elements and pave the way for a more nuanced debate on severance agreements and the interplay of their complementary key elements.

Limitations and future research. This study has limitations that may open fruitful avenues for future research. First, our results are not easily generalizable for different contexts because the sample exclusively contains severance agreements from the United States. Hence, future studies could complement this perspective analyzing e. g. European firms. This is important because scholars notice that there are differences between S&P 500 firms and companies from the United Kingdom (Cowen et al., 2016). It might be promising research to carve out differences between different contexts.

Second, this study is somewhat limited because we excluded personal characteristics (e. g. CEO age) that might have influenced the results (Benischke et al., 2019). We decided to build our analysis on the proposed framework for severance agreements (Cowen et al., 2016) and thus focused on contractual elements. Future studies could add to this perspective by taking e. g. personality traits, CEO tenure or other characteristics (e. g. age, experience) into consideration.

Third, we note that while we use R&D intensity as a legitimate proxy for managerial risk-taking (Cadman et al., 2016; Chen & Hsu, 2009; Chen & Miller, 2007; Chrisman & Patel, 2012; Hoskisson et al., 2017), this study does not cover all conceivable measures that can be associated with risky decisions. Future research could, for example, incorporate other risk measures such as decisions on acquisitions, venturing activities, diversification and new market entry (Hoskisson et al., 2017).

Fourth, future studies may also investigate to what extent severance agreements undermine the pay-for-performance principle and how this can be reduced. In so doing, researchers could add

on extant studies looking at “golden handshakes” (Bebchuk & Fried, 2004; Graziano & Luporini, 2017; Rusticus, 2006; Yermack, 2006). Linking severance payments to even more contingencies and a continuous reevaluation (as suggested also by Cowen et al., (2016) and Graziano & Luporini, (2017)) might be one direction to identify mechanisms to increase the value for the firm.

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APPENDIX
Appendix 1: Exemplary companies of the configurations

Configuration	Firm
1	IBM
1	DEERE & COMPANY
1	DISH NETWORK
1	FRANKLIN RESOURCES
2	ALASKA AIR GROUP
3	APPLE
3	CENTURYLINK
3	CHURCH & DWIGHT CO.
3	TARGET
3	WALT DISNEY
3	EMERSON ELECTRIC
3	NEXTERA ENERGY
3	MACY'S
3	GENERAL MILLS
3	NVIDIA
3	CENTERPOINT EN.
3	INTERNATIONAL PAPER
3	LEGGETT&PLATT
3	MCCORMICK & COMPANY NV.
3	3M
3	FORD MOTOR
4	APACHE
4	COMCAST 'A'
4	APARTMENT INV.& MAN.'A'
4	AUTOMATIC DATA PROC.
4	AMETEK
4	BEST BUY
4	ROBERT HALF INTL.
4	METTLER TOLEDO INTL.
4	AFFILIATED MANAGERS
4	UNITED RENTALS
4	APPLIED MATS.
4	CAMPBELL SOUP
4	CARDINAL HEALTH
4	REPUBLIC SVS.'A'
4	DOLLAR TREE
4	DOVER
4	OMNICOM GROUP
4	DUKE REALTY
4	CADENCE DESIGN SYS.
4	ECOLAB
4	PERKINELMER
4	ELECTRONIC ARTS
4	EQUIFAX
4	ESTEE LAUDER COS.'A'
4	WW GRAINGER
4	HARRIS
4	HENRY SCHEIN
4	HOLOGIC
4	HORMEL FOODS
4	HUMANA
4	RED HAT
4	BIOGEN
4	INTL.FLAVORS & FRAG.
4	INTERPUBLIC GROUP
4	MGM RESORTS INTL.
4	MARSH & MCLENNAN

Appendix 2: Robustness check

We check our results by performing a robustness check with varying frequency and consistency thresholds, which we used in our main analysis. We show the impact of changing the frequency threshold. We change the threshold from 2 cases to 1 case, which must be present in our analysis. The results of our analysis (Table 7), that proxy and comprehensive shareholder voting strategies have an impact on firm performance, remain. By changing the frequency threshold from 1 to 2, we lose the previous configuration 2 (Table 7), as this configuration had only one case.

Variables	Solution for achieving high firm performance			Solution for not achieving high firm performance
	1	2	3	1
Shareholder level				
Board support by shareholder		⊗	●	
Firm level				
Incentives Employees		⊗	⊗	
Incentives Management	●	●	●	●
Higher Transparency	●	●	●	⊗
Strong Monitoring		⊗	●	
Weak Monitoring	●			⊗
Consistency	0.87	0.89	0.84	0.6
Raw Coverage	0.13	0.19	0.39	0.05
Unique Coverage	0.05	0.16	0.34	0.02
Overall Solution Consistency	0.85			0.6
Overall Solution Coverage	0.63			0.05
<hr/>				
Presence of core condition	●	Absence of core condition		⊗
Presence of peripheral condition	●	Absence of peripheral condition		⊗

Configurations for a frequency threshold of n=2

Our results for the absence of high performance continue to point to the assumption that there can be no alignment of interest leading to high firm performance in the absence of board monitoring.