New study shows federal proxy rule benefited shareholders

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Joanna T. Campbell

(Phys.org)—A federal regulation established in the wake of the 2008 financial crisis improved shareholder value before a federal appeals court struck it down, according to a study by Joanna T. Campbell, a management professor at the University of Arkansas, and her colleagues.

The so-called proxy access rule, implemented by the federal Securities and Exchange Commission in the summer of 2010, would have empowered shareholders to more directly affect the composition of a company's board. The measure stemmed from the Dodd-Frank Act, the intended financial regulatory overhaul of Wall Street that aimed to improve the current corporate governance system.

In July 2011, the U.S. Court of Appeals for the District of Columbia

Circuit rejected the commission's proxy access rule, calling it "arbitrary" and "capricious." The commission subsequently announced that it would not challenge the court's ruling.

"Our findings consistently show that the rule benefited shareholders, especially for firms with lower board independence or greater CEO control," Campbell said. "The exciting aspect of this study is that it has significant public policy implications. The appeals court said the commission did not conduct a sufficient economic analysis to show shareholder value creation as a result of this rule. That is exactly what our paper does. The results speak for themselves."

The study results appear in the in the December issue of Strategic Management Journal. Campbell is the lead author.

The rule would have allowed shareholders who have held at least 3 percent of the firm's stock for at least three years to nominate their own candidates to the board. Their nominees would be limited to a quarter of the total membership of the board. For example, if the board is comprised of eight members, a large long-term shareholder could nominate up to two candidates.

"This would only guarantee their inclusion on the ballot, and they would be subject to the same election process," Campbell said.

The study examined the market's reaction to the original passage of the rule in August 2010. The authors found a large financial upswing in the stock price for firms with multiple shareholders who would benefit from the rule.

"Shareholders seem to be concerned about managerial power over the board," she said.

The U.S. Chamber of Commerce and the Business Roundtable, an association of chief executive officers, challenged the proxy rule in a federal lawsuit. The ruling by the three-judge federal appeals panel was considered a victory for corporate America. In light of the study's findings, it may be a loss for shareholders, said Campbell, who hopes to share the findings with the commission.

Campbell had four co-authors on the paper: Colin Campbell of Miami University in Ohio, David Sirmon of the University of Washington, Leonard Bierman of Texas A&M University and Christopher Tuggle of the University of Nebraska.

Provided by University of Arkansas

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