Traveling Governance Effect of Shareholder Activism: Evidence from Clawback Provision Adoption

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Outline

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Research question

>Does governance practices travel across firms held by the same institutional activist blockholders (IABs) with respect to the adoption of clawback provision?

- Is adoption of clawback provision by a focal firm associated with the clawback adoption by its IAB peer firms?

Background of clawback

> Clawback provisions enable firms to recover incentive compensation paid to top executives, based on misstated financial reports

> The SEC proposed Rule 10D-1 on July 1, 2015, to implement section 954 of the Dodd-Frank Act, which requires all listed companies to mandatorily adopt the clawback provision when implemented.

- the ultimate form and effective date of the rule remain uncertain

Background of clawback (cont.)

>Recent trends of clawback adoption

- The percentage of firms in the Russell 3000 Index voluntarily adopting clawback provisions has increased from 17 percent in 2009 to 53 percent in 2014.

>Common ownership and institutional activists also increase through years

Literature

> Consequences of voluntary adoption of clawback provisions: **the adoption has positive effects**

> Chan, Chen, Chen, and Yu (2012)

- accounting restatements decline, ERC increase, less material internal control weaknesses, lower audit fees, and timelier audit reports

> Dehaan, Hodge, and Shevlin (2013)

- both actual and perceived financial reporting quality improve, pay-for-performance sensitivity increases

> Iskandar-Datta and Jia (2013)

- significant positive stock-valuation consequences, especial for firms with previous financial restatements.

> Babenko, Bennett, Bizjak, and Coles (2017)

- Positive market responses to the news of clawback adoption

Literature (cont.)

- Determinants of voluntary adoption of clawback provisions: **better governance leads to adoption**
- Addy, Chu, and Yoder (2014)
  - Less entrenched management is more likely to adopt a clawback provision,
- Babenko, Bennett, Bizjak, and Coles (2017)
  - firms with better governance and likely reasons for management to misbehave.
- Huang, Lim, and Ng (2018)
  - firms with less co-opted boards (directors appointed after the CEO assumed office) have a higher probability of adopting clawback provisions.

Literature (cont.)

- Effects of large institutional blockholders: **large IB provide effective governance**
- Gillan and Starks (2000), Brav, Jiang, Partnoy, and Thomas (2008):
  - when activists invest in a target firm substantially, their activism is more effective.
- Cronqvist and Fahlenbrach (2009):
  - find strong fixed effects of blockholders in investment, financial, and executive compensation policies; blockholders with a larger block size (in addition to board membership and direct management involvement), are associated with larger effects on corporate policies and firm performance.

Literature (cont.)

> Role of common ownership or common institutional blockholders (CIBs): **rivalries become peers in the same industry through CIBs**

> He and Huang, 2017:

- cross-held firms in *the same industry* experience significantly higher market share growth than do non-cross-held firms.

> Azar, Schmalz, and Tecu, 2018:

- study the effect of common ownership on product market outcomes in the U.S. airline industry → competition is reduced

> Matvos and Ostrovsky, 2008:

- In mergers with negative acquirer announcement returns, institutions holding both target and acquirer are significantly more likely to vote for the merger.

Literature (cont.)

> Governing multiple firms by common ownership: **Indirect governance can be effective**

> Almazan, Hartzell, and Starks (2005):

- Unlikely that activists would go to every firm in their portfolios

> Bharath, Jayaraman, and Nagar (2013):

- blockholders can exert influence on firms even *without direct intervention*.

> Edmans, Levit and Reilly (2016):

- manager's incentives to work are stronger since the price impact of investor '*exit*' is high

> Jung (2013):

- spread of intra-industry voluntary disclosure between firms sharing common ownership with the first-mover

Anecdotal evidence (I)

Institutional activists promote clawback adoption:

> The Council of Institutional Investors recommended to the SEC in 2006 that the Compensation Discussion and Analysis of the proxy statement should include:

> > *"The company's policy for recapturing incentive pay following specific events such as a restatement in which the 'performance' measures affecting a plan are adjusted (clawback provisions). If the company has no such policy, it should be required to state this fact and explain the reason"*

Anecdotal evidence (II)

Clawback provision can have consequences:

>In November 2012, Diamond Foods announced that its former CEO Michael Mendes had resigned and would pay a $2.74 million cash clawback, which were his bonuses in 2010 and 2011, and return 6,665 shares to the company, which were awarded to Mendes after 2010.

Hypothesis

> Studies show that adoption of **clawback has positive consequence** (e.g. Chan et al., 2012; Kroos, etc 2018)
  - -> institutional investors demand the clawback adoption;

> Clawback provision brings the negative economic consequences for managerment misporting
  - -> magement would not prefer the adoption;

> Studies show that **better governance leads to adoption** (e.g. Addy, et al. 2014; Huang, et al., 2018)

→ Will IAB contribute to this governance effects?

Hypothesis (cont.)

- Studies show that **large IB provide effective governance (e.g,** Gillan and Starks, 2000, Crongvist and Falenbrach, 2009), especially the activists.
- Studies suggest/show that **Common Ownership can have (Indirect) governance effect (e.g.** Bharath, et al., 2013; Edmans, et al. 2016)
- **Hypothesis.** *Firms' likelihood of adopting clawback provisions increases as more (or a greater fraction) of other firms held by the same institutional* ***activist*** *blockholder (IAB) have adopted clawback provisions*

Main findings

- A (focal) firm is more likely to adopt clawback provisions when more of other firms held by the same IABs have adopted clawback — an effect we call ***traveling governance effect***.
- This effect is stronger when internal governance (such as board independence) is low and when firms have restated earnings, implying that clawback can perform a governance role as desired by IAB
- Additional Analysis and Robustness Checks show that this effect is likely due to the (traveling) governance.

Main findings (cont.): the effect is

- >stronger when the level and duration of common ownership by IABs are higher, and when IABs have more past activism experiences.
- >distinct from peer-effects stemming from common industry, common location, or board interlocks.
- >absent for firms commonly held by passive blockholders and firms that share common IABs only in the past.
- >not fully explained by endogenous selection of investees by IABs.

However, the adoption of clawback cannot be fulling explained by these increased governance factors .

- >also extended to other governance practices such as writing explicit CEO contracts, board independence and board size; suggesting the existence of traveling governance

An IAB held blocks (>=5% shares outstanding) in both firms (A and B) in year *t*-1

Firm A has adopted a good governance practice in year t-1

Prediction:

Firm B is more likely to adopt the same practice in subsequent year, t

Data

Data	Sources
Annual clawback provision adoption data	MSCI (formerly GMI)
Institutional investors' holdings	Thomson Reuters 13F filings
Institutional investors' activism records	AuditAnalytics - Shareholder activism
Firm restatement data	AuditAnalytics
Executive information and board information	MSCI (formerly GMI)
Financial accounting information	Compustat
Stock price information	CRSP
Information about TARP recipients	US Treasury Department's website

Sample

> Sample period: 2009-2014

> Final sample:

	Num. of Obs.
Firm-year observations with valid clawback data from MSCI(GMI)	16,039
Exclude:	
Firm-year observations without IAB peers	-3,440
Firm-year observations without financial information	-415
Firm-year observations without corporate governance and executive information	-1,488
Firms that are TARP recipients	-395
Firm-year observations used in main analyses	10,301

Identify Common IAB Peers

> Institutional holding information
  - Thomson Financial Spectrum database (13-F filings)

> Institutional blockholder
  - Institutions which hold at least 5% of a firms' shares outstanding in any quarter in year t-1

> Institutional blockholders' activism records
  - 13D filings

> IAB peers
  - Firms that share the same IAB in year t-1

Construction of main explanatory variables

> *Log(pclawback_num)*
  - Natural logarithm of the number of IAB peers that have adopted clawback provisions.

> *Pclawback*
  - Fraction of IAB peers that have adopted clawback provisions.

> Both explanatory variables are measured in the year t-1 (the dependent variables are in year t).

Descriptive statistics (N=10,301)

	Mean	Q1	Median	Q3	Std. Dev.
Clawback	0.329	0.000	0.000	1.000	0.470
Pclawback_num	244	44	161	385	224
Pclawback_pct	0.256	0.175	0.258	0.328	0.128
MTB	2.618	1.186	1.838	3.069	2.249
LEV	0.220	0.032	0.181	0.347	0.203
ROA	0.011	0.001	0.031	0.068	0.135
Size (in billions)	4.531	0.448	1.345	4.087	9.205
Restatement	0.343	0.000	0.000	1.000	0.475
Institutional Ownership	0.335	0.215	0.318	0.437	0.164
Activist Ownership	0.082	0.000	0.065	0.119	0.084

Descriptive statistics (cont.)

	Mean	Q1	Median	Q3	Std. Dev.
Total Accruals	-0.064	-0.089	-0.048	-0.017	0.110
CEO Comp. (in millions)	2.158	0.818	1.376	2.522	2.516
CEO Tenure	8.599	3.000	7.000	12.000	7.218
Board Size	8.686	7.000	8.000	10.000	2.137
Independence	0.701	0.600	0.727	0.833	0.168
Insider	0.119	0.025	0.053	0.130	0.169
CEO Duality	0.470	0.000	0.000	1.000	0.499

Clawback adopters (N=3386) vs non-adopters (N=6915)

	Clawback=1		*Clawback*=0		Dif (1-0)
	Mean	Median	Mean	Median	
Pclawback_num	304.36	282.000	215.550	139.000	88.8***
Pclawback_pct	0.305	0.322	0.233	0.213	0.072***
MTB	2.582	1.844	2.636	1.836	-0.054
LEV	0.237	0.209	0.211	0.163	0.026***
ROA	0.029	0.033	0.003	0.029	0.027***
Size (in billions)	7.411	2.695	3.122	0.913	4.289***
Restatement	0.345	0.000	0.342	0.000	0.002
Institutional Ownership	0.320	0.304	0.343	0.326	-0.022***
Activist Ownership	0.074	0.061	0.086	0.066	-0.012***

Clawback adopters (N=3386) vs non-adopters (N=6915)

	Clawback=1		*Clawback*=0		Dif (1-0)
	Mean	Median	Mean	Median	
Total Accruals	-0.053	-0.043	-0.069	-0.050	0.016***
CEO Comp.(mil)	2.534	1.767	1.973	1.207	0.561 ***
CEO Tenure	7.764	6.000	9.008	7.000	-1.24 ***
Board Size	9.416	9.000	8.329	8.000	1.086 ***
Independence	0.723	0.750	0.691	0.714	0.032***
Insider	0.079	0.035	0.139	0.067	-0.060***
CEO Duality	0.471	0.000	0.470	0.000	0.001

- Fraction of a firm's IAB peers that also share common same industry affiliation, headquarter location, or directors with the focal firm

	Mean	Q1	Median	Q3	SD
# of IAB peers	1,010	409	1,250	1,583	672
Mem_SameInd	0.065	0.011	0.040	0.082	0.111
Mem_SameHQ	0.083	0.015	0.037	0.133	0.120
Mem_BoardInterlock	0.005	0.000	0.001	0.002	0.050

- Statistics of clawback adoption by year

Year	# of firms	# clawback adopters	# non-adopters	Fraction of clawback adopters
2009	1,824	311	1,513	17.05%
2010	1,929	448	1,481	23.22%
2011	1,390	417	973	30.00%
2012	1,664	536	1,128	32.21%
2013	1,764	754	1,010	42.74%
2014	1,730	920	810	53.18%
2009-2014	10,301	3,386	6,915	32.87%

Table 3: Main Analysis

- A lead-lag regression specification:
- Dependent variable: $Clawback_{i,t}$, an indicator variable that equals one if firm *i* has clawback provisions in year *t*, and zero otherwise.
- Independent variables: we use IABs' portfolio holdings in year *t-1* to identify firm *i*'s peer firms to construct:
  - $Log(Pclawback\_num)_{i,t-1}$: natural logarithm of the number of firm *i*'s peer firms that have adopted clawback provisions in year *t-1;*
  - $Pclawback_{i,t-1}$: the fraction of firm *i*'s peer firms that have adopted clawback provisions in year *t-1*.

Table 3: Clawback provision adoption and traveling governance effect (cont.)

> Regression specification:

$$Clawback_{i,t} = a_0 + b_1 Log(Pclawback\_num)_{i,t-1} \text{ (or } Pclawback_{i,t-1}\text{)} + b_2 MTB_{i,t-1} + b_3 LEV_{i,t-1} + b_4 ROA_{i,t-1} + b_5 Size_{i,t-1} + b_6 Total\ Accruals_{i,t-1} + b_7 Restatement_{i,t-1} + b_8 Institutional\ Ownership_{i,t-1} + b_9 Activist\ Ownership_{i,t-1} + b_{10} CEO\ Compensation_{i,t-1} + b_{11} CEO\ Tenure_{i,t-1} + b_{12} Board\ Size_{i,t-1} + b_{13} Independence_{i,t-1} + b_{13} Insider_{i,t-1} + b_{14} CEO\ Duality_{i,t-1} + e_{i,t-1}$$

Table 3

	Dependent variable: $Clawback_{i,t}$			
	Coefficients	Marginal effect	Coefficients	Marginal effect
Log(Pclawback_num)	0.074***	0.015		
	(3.52)			
Pclawback			1.262***	0.254
			(3.17)	
Constant	-8.161***		-8.122***	
	(-9.39)		(-9.67)	
Observations	10,301		10,301	
Pseudo-R^2	0.189		0.189	

Control variables: MTB, LEV, ROA (+), Size (+), Total Accruals(-), Restatement, Institutional Ownership (+), Activist Ownership, CEO Compensation(+), CEO Tenure(-), Board Size(+), Independence(+), Insider(-), and *CEO Duality*.

Year and industry fixed effects are controlled

Table 4: Value-weighted fraction

Weighted by: (1) common activist shareholder ownership, (2) the number of years two peer firms are connected, (3) prior activism frequency by common IABs.

	(1)		(2)		(3)	
	Coefficients	Marginal effect	Coefficients	Marginal effect	Coefficients	Marginal effect
Pclawback_vw1	1.733***	0.349				
	(4.30)					
Pclawback_vw2			1.569***	0.316		
			(3.68)			
Pclawback_vw3					1.570***	0.316
					(3.78)	
Pseudo-R^2	0.190		0.190		0.190	

Additional Analyses and Robustness tests

- Robust to controlling for the average clawback adoption of other firms
  - operating in the same industry;
  - having board interlock with the focal firm;
  - locating in the same state as the focal firm;
- Remain strong after control for
  - firm fixed effects and year fixed effects;
  - average of fundamentals of IAB peers:
    - 14 additional controls include equal-weighted average of following variables of IAB peers: *MTB*, *LEV*, *ROA*, *Size*, *Total Accruals*, *Restatement*, *Institutional Ownership*, *Activist Ownership*, *CEO Compensation*, *CEO Tenure*, *Board Size*, *Independence*, *Insider*, and *CEO Duality*.

Table 5: Controlling for other channels of propagation effect

Panel A: Controlling for industry peer effect

Log(*Pclawback_num_Ind)* is natural log of the number of industry (two-digit SIC code) peers that adopt clawback provisions in the prior year. *Pclawback_Ind* is the fraction of industry peers that adopted clawback provisions in the prior year.

	(1)	(2)	(3)	(4)
Log(Pclawback_num)	0.074***	0.075***		
	(3.52)	(3.52)		
Pclawback			1.254***	1.262***
			(3.15)	(3.16)
Log(Pclawback_num_Ind)	0.158		0.150	
	(1.50)		(1.43)	
Pclawback_Ind		1.424**		1.417**
		(2.38)		(2.37)
Pseudo-R^2	0.189	0.190	0.189	0.189

Table 5: Controlling for other channels of propagation effect

Panel B: Controlling for board interlock effect

Log(Pclawback_num_Board) is natural log of the number of board interlock peers that adopt clawback provisions in the prior year. *Pclawback_Board* is the fraction of board interlock peers that adopt clawback provisions in the prior year.

	(1)	(2)	(3)	(4)
Log(Pclawback_num)	0.073***	0.070***		
	(3.45)	(3.31)		
Pclawback			1.250***	1.204***
			(3.14)	(3.04)
Log(Pclawback_num_Board)	0.357***		0.358***	
	(5.67)		(5.70)	
Pclawback_Board		0.808***		0.814***
		(6.34)		(6.41)
Pseudo-R^2	0.194	0.195	0.194	0.194

Table 5: Controlling for other channels of propagation effect

Panel C: Controlling for geographic peer effect

Log(Pclawback_num_State) is natural log of the number of geographic peers that adopt clawback provisions in the prior year. *Pclawback_State* is the fraction of geographic peers that adopt clawback provisions in the prior year

	(1)	(2)	(3)	(4)
Log(Pclawback_num)	0.076***	0.072***		
	(3.62)	(3.38)		
Pclawback			1.279***	1.235***
			(3.21)	(3.06)
Log(Pclawback_num_State)	0.048		0.044	
	(1.24)		(1.14)	
Pclawback_State		2.271***		2.290***
		(4.69)		(4.74)
Pseudo-R^2	0.190	0.193	0.189	0.193

Table 6: Clawback provision adoption and traveling governance effect – Two Placebo Tests

> Two placebo tests:

- whether a firm's clawback adoption is affected by clawback of other firms sharing *common non-activist* blockholders (e.g., passive funds);
- whether a firm's clawback adoption is affected by clawback adoption of firms that were connected through common IABs but *such connections have already been terminated*.

> We find that traveling governance is absent for:

- firms in non-activist blockholders' portfolios;
- firms that were once connected three years ago (but not connected now) through common IABs.

Table 6, Panel A: non-activist blockholders

	(1)		(2)	
	Coefficents	Marginal effect	Coefficents	Marginal effect
Log(Pclawback_num)	0.072***	0.015		
	(3.43)			
Log(Pclawback_num_Non-Activist)	0.027	0.005		
	(1.37)			
Pclawback			1.263***	0.255
			(3.17)	
Pclawback_Non-Activist			0.145	0.029
			(0.32)	
Pseudo-R^2	0.189		0.189	

Table 6 Panel B: Impact from current peers vs. past peers

	(1)		(2)	
	Coefficients	Marginal effect	Coefficients	Marginal effect
Log(Pclawback_num)	0.069***	0.014		
	(3.00)			
Log(Pclawback_num_Past)	-0.031	-0.006		
	(-1.31)			
Pclawback			1.182**	0.244
			(2.48)	
Pclawback_Past			-0.327*	-0.068
			(-1.73)	
Observations	7,975		7,975	
Pseudo-R^2	0.179		0.179	

Past peer firms refer to peers that share common IABs with the focal firm in year *t-3*, but the relation had been discontinued since year *t-2*.

"Influence" or "Selection"

- An alternative explanation: IABs invest in firms with similar ex ante clawback adoption status, leading to a positive relation between a firm's clawback adoption and that of other firms held by the same IAB.
- We present three analyses to mitigate this concern.

"Influence" or "Selection" (cont.)

1. We conduct an analysis by relating a firm's adoption to changes in pressure from IAB peers (Table 7):

$$Clawback_{i,t} = a_0 + b_1 \Delta Log(Pclawback\_num_{i,t-1}) + b_2 Log(Pclawback\_num_{i,t-2}) + b_3 MTB_{i,t-1} + b_4 LEV_{i,t-1} + b_5 ROA_{i,t-1} + b_6 Size_{i,t-1} + b_7 Total\ Accruals_{i,t-1} + b_8 Restatement_{i,t-1} + b_9 Institutional\ Ownership_{i,t-1} + b_{10} Activist\ Ownership_{i,t-1} + b_{11} CEO\ Compensation_{i,t-1} + b_{12} CEO\ Tenure_{i,t-1} + b_{13} Board\ Size_{i,t-1} + b_{14} Independence_{i,t-1} + b_{15} Insider_{i,t-1} + b_{16} CEO\ Duality_{i,t-1} + e_{i,t-1}, \quad (3$$

- If results in Table 3 are driven by the selection explanation, we should expect b_1 to be insignificant.

"Influence" or "Selection" (cont.)

2. We implement a two-step approach:

> First step: obtain residual of peers' adoption orthogonal to IAB peers' board governance and other fundamental characteristics.

> Second step: examine whether lagged residual of peers' adoption has explanatory power for subsequent clawback adoption by the focal firm (Table 8):

"Influence" or "Selection" (cont.)

3. We analyze how a focal firm responds to connected firms' clawback adoptions, in prior year, that are mandated and hence exogenous to investors' holdings decision (Table 9):

- Firms that joined the Troubled Asset Relief Program (TARP) in 2008 were required to implement mandatory clawback provisions by the Secretary of the Treasury.
- We examine how a non-TARP firm's peer connection to TARP participants influences its own adoption decision.

Table 7: Clawback provision adoption and changes in traveling governance effect

Dependent variable is focal firm's clawback adoption in year t.We report the change, from year t-2 to t-1, in clawback provision adoption by peer firms using changes in $Log(Pclawback\_num_{t-1})$ and in *Pclawback*.

	(1)	(2)
$\Delta Log(Pclawback\_num_{t-1})$	0.067***	
	(3.33)	
$Log(Pclawback\_num_{t-2})$	0.084***	
	(3.43)	
$\Delta Pclawback_{t-1}$		1.140***
		(2.96)
$Pclawback_{t-2}$		1.560***
		(3.22)
Pseudo-R^2	0.189	0.189

Table 8: Clawback provision adoption and traveling governance effect – A two-step approach

Result of the second step regression: explain focal the firm's clawback with lagged residual of peer pressure. *Log(Pclawback_num)_Residual* and *Pclawback* are residual value of *Log(Pclawback_num)* and *Pclawback_Residual*, respectively, obtained from the first step.

	(1)		(2)	
	Coefficients	Marginal effect	Coefficients	Marginal effect
Log(Pclawback_num)_Residual	0.073***	0.015		
	(2.70)			
Pclawback_Residual			1.005**	0.203
			(2.31)	
	(-9.23)		(-9.47)	
Observations	10,260		10,260	
R-squared (Pseudo-R^2)	0.189		0.189	

Table 9: Traveling governance effect – Connecting to peers in TARP

	(1)	(2)
Log(Pclawback_num_TARP)	0.086***	
	(3.24)	
Pclawback_TARP		0.322***
		(2.69)
Control variables	Yes	Yes
Observations	10,185	10,185
Pseudo-R^2	0.189	0.189
Year FE	Yes	Yes
Industry FE	Yes	Yes

Log(Pclawback_TARP) is the natural log number of TARP peers that adopt clawback provisions in prior year.
Pclawback_TARP is the fraction of TARP peers with clawback provisions in prior year.

Table 10: Traveling governance effect and internal governance
Panel A: By Board independence

	(1)	(2)	(3)	(4)
	Board independence: Low	Board independence: High	Board independence: Low	Board independence: High
Log(Pclawback_num)	0.109***	0.027		
	(3.87)	(0.93)		
Pclawback			1.465***	0.977
			(3.34)	(1.40)
Observations	5,070	5,181	5,070	5,181
Pseudo-R^2	0.197	0.193	0.196	0.193
Marginal effect of independent variable	0.019	0.006	0.255	0.220

Table 10: Traveling governance effect and internal governance - Panel B: By whether a firm has restated earnings or not in the past three years

	(1)	(2)	(3)	(4)
	Firms that have restated earnings	Firms that have NOT restated earnings	Firms that have restated earnings	Firms that have NOT restated earnings
Log(Pclawback_num)	0.112***	0.054**		
	(3.10)	(2.03)		
Pclawback			1.832***	0.897*
			(2.82)	(1.71)
Observations	3,498	6,761	3,498	6,761
Pseudo-R^2	0.216	0.196	0.214	0.196
Marginal effect of independent variable	0.022	0.011	0.370	0.179

Consequences of clawback provision adoption

> First stage to find predicted likelihood to adopt clawback:

$$Clawback_{i,t} = a_0 + b_1 Pclawback_{i,t-1} + b_2 MTB_{i,t-1} + b_2 MTB_{i,t-1} + b_3 LEV_{i,t-1} + b_4 ROA_{i,t-1} + b_5 Size_{i,t-1} + b_6 Total\ Accruals_{i,t-1} + b_7 Restatement_{i,t-1} + b_8 Institutional\ Ownership_{i,t-1} + b_9 CEO\ Compensation_{i,t-1} + b_{10} Board\ Size_{i,t-1} + b_{11} Independence_{i,t-1} + e_{i,t-1}.$$

> Second stage (use predicted value as explanatory var.):

$$|DA|_{i,t} = a_0 + b_1 Predict\_Clawback_{i,t-1} + b_i\ Control\ variables + e_{i,t-1},$$

$$Tobin's\ Q_{i,t} = a_0 + b_1 Predict\_Clawback_{i,t-1} + b_i\ Control\ variables + e_{i,t-1},$$

$$R\&D_{i,t} = a_0 + b_1 Predict\_Clawback_{i,t-1} + b_i\ Control\ variables + e_{i,t-1}.$$

We find that clawback adoption induced by this traveling governance effect leads to lower accrual-based earnings management, higher valuation (Tobin's Q), and R&D spending.

Table 12: Other corporate governance practices

	(1)	(2)	(3)	(4)	(5)	(6)
	CEO Contract	*CEO Contract*	*Independence*	*Independence*	*Board Size*	*Board Size*
PCEO_Contract	1.162**	1.050**				
	(2.18)	(2.03)				
PIndependence			0.198***	0.200***		
			(3.30)	(3.34)		
PBoard_Size					0.095**	0.095**
					(2.05)	(2.08)
Board Size		0.644**		-0.020		
		(2.08)		(-1.63)		
Independence		1.497***				-0.031
		(4.68)				(-1.57)
Observations	10,385	10,385	10,574	10,574	10,574	10,574
R-squared /Pseudo-R^2	0.182	0.182	0.335	0.335	0.401	0.401

CEO Contract is an indicator variable that equals one if a firm has an explicit contract with the current CEO and zero otherwise.

Conclusion

> We document that a firm is more likely to adopt clawback provisions when more of other firms held by the same IABs have adopted clawback — an effect we call traveling governance effect.

> This effect is

- stronger when the level and duration of common ownership by IABs are higher, and when IABs have more past activism experiences.
- distinct from peer-effects stemming from common industry, common location, or board interlocks.
- absent for firms commonly held by passive blockholders and firms that share common IABs only in the past.
- not fully explained by endogenous selection of investees by IABs.
- stronger for firms with lower board independence, and firms that have restated earnings.

> Our travel governance finding also apply to other governance variables

Conclusions

>Direct monitoring of firms by activism can be very costly to activists.

- Shareholders sometimes have to go through costly litigations in order to achieve their ultimate activism goal (Cheng, Huang, Li, and Lobo, 2010)

>We uncover corporate governance practices diffusion among economically (seemingly) **unrelated** peer firms

>We introduce a new and important peer: IAB peers that do not depend on industry, geogragraphical relations etc.

Thank you!