# Why Do Shareholder Votes Matter?

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**Abstract**

Shareholder voting has been argued to be of little value since it generally does not compel management to respond to the message sent by voters. We show that large voting support for a proposal is effective even if management refuses to implement demanded changes. Using a regression discontinuity design, we find that management's failure to comply triggers campaigns against unresponsive boards by shareholder organizations, causing notably more votes against incumbent CEOs and directors subsequently. This defiance is valued positively by the market. However, there are also some unintended consequences as those shareholder campaigns lead valuable CEOs to leave more often.

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# 1 Introduction

Voting in general assemblies of shareholders has gradually become a central mechanism to settle conflicts over corporate governance. Since 2001, the number of S&P 1500 firms in which a shareholder proposal wins a majority of votes cast has more than doubled and is now close to a hundred every year. Meanwhile, several legislative bodies all around the world have imposed regular say-on-pay votes and pushed shareholder voting as an effective way of monitoring executive pay. Those high-stakes votes have already led to meaningful change within US firms; research (e.g., Ertimur, Ferri and Stubben, 2010; Cuñat, Giné, and Guadalupe, 2012) has shown that many value-decreasing anti-takeover provisions have been removed as a result of a shareholder vote. Yet, it remains unclear whether the voting system can effectively address a range of issues beyond simple amendments to corporate charters. For instance, Bebchuk (2007) considers that the shareholder franchise still is just a myth since the scope of issues that outsiders can put up for a vote is very limited due to legal obstacles and because insiders do not have any obligation to implement the content of a largely supported proposal. This line of reasoning assumes, however, that the impact of a vote is restricted to the actual content of what is being voted upon.

In this paper we propose, and find empirical support for, an alternative mechanism for how shareholder support for a proposal affects firm value: majority support for a shareholder proposal essentially forces management to decide whether to follow shareholders' will by implementing the proposal. When management refuses to implement a majority-supported proposal, the explicit disregard for shareholders' preferences is intensely publicized by shareholder organizations, undermining the confidence that passive investors had previously put into management. Yet such defiance from shareholders is good for firm value because it reduces the entrenchment of insiders of the firm who are no longer viewed by default as stewards of shareowners. We refer to this channel from voting to firm value as the "Shareholder defiance" channel hereafter.

Shareholder defiance towards executives is an elusive concept that is challenging to identify in the data. We are able to do so because the Council of Institutional Investors (CII), a shareholder organization representing a large portion of American pension funds, asks CEOs what actions they took after a shareholder proposal has obtained "majority support", i.e., more than 50% of

votes cast "for" and "against" it. Answers (or non-answers) from CEOs are then disseminated to member organizations.[2] In parallel with this correspondence role, CII edits a list of best governance practices for corporate boards which serves as a blueprint for proxy voting guidelines used by pension funds at director elections. If, according to this organization, a board decides not to implement a proposal that has reached "majority support" at a previous meeting, it is deemed not to comply with CII policies and is likely to become an object of private discussions between pension funds, generally at the instigation of CII itself. Boards singled out by CII may then be the target of coordinated "vote-no" campaigns in the next director elections. Yet, because the organization holds CEOs responsible for the implementation of proposals, it is the CEO who is the main target during those campaigns.[3]

We test this "Shareholder defiance" channel using a large sample of shareholder proposals voted upon in the US between 1997 and 2011. We show that majority-supported proposals have substantial effects on the level of entrenchment of directors. If support for a proposal barely passes 50% of votes cast "for" and "against" (the CII threshold) and yet management does not implement the proposal, then the number of votes against incumbent directors in the next election increases significantly; in particular, when the incumbent CEO is a nominee she receives twice as many votes against her. Since director elections are rarely contested in the US (Becker and Subramanian, 2013), the impact of a majority-approved shareholder proposal on future director elections may bear very little consequences for the board and, ultimately, for firm value. On the other hand, an unusually large number of votes withheld from a director may be enough to damage her reputation and lead her to take corrective action (Grundfest, 1993). For instance, in our data many of the CEOs who choose not to implement a winning shareholder proposal receive more than 15% of withheld votes in director elections in the following year. For this reason, it is not surprising that we observe strong effects of a majority-supported proposal as defined by CII beyond director elections. As soon as the vote share for a proposal crosses the CII threshold there is a positive abnormal return of about 1% on the day of the meeting, which suggests that market participants have a positive perception of the expected increase in defiance towards the CEO and the other directors. Yet there are also unintended consequences as it becomes more likely that

[2] See Section 5.1 in the Web Appendix for general principles of CII.
[3] See Section 5.3. in the Web Appendix for an example of such a vote-no campaign..

some CEOs subsequently leave the firm to the detriment of shareholder value, i.e., with a significant stock price decline upon announcement of the CEO departure.

Our interpretation of those seemingly contradictory effects is as follows. If a majority of votes "for" and "against" a proposal is reached and the board does not respond, CII members will penalize incumbent directors in general and the CEO in particular, irrespective of their individual performance. An indirect effect of those penalties may be that some CEOs have to leave despite having a good track record. Yet shareholders do not seem to waive their punishment in those cases, probably because CII members are dispersed and may not be able to collect enough information on who really is a valuable CEO. Fortunately, this punishment is also a strong disciplining tool: in order to counteract such defiance and save their reputation as well as their job, management has to take extra actions benefiting shareholder value.

An alternative hypothesis for our findings is that approval of a shareholder proposal according to CII triggers its implementation by management and, hence, improves formal governance (the "Implementation channel" hereafter). Previous research has indeed shown that the implementation of shareholder and management-sponsored proposals matters (Cuñat, Giné, and Guadalupe (2012, 2013, and 2014), Cheng, Hong, and Shue (2014), Ertimur, Ferri, and Oesch (2014), and Popadak (2013)). In particular, Cuñat, Giné, and Guadalupe (2012) identify a positive stock market reaction to shareholder proposals closely reaching the threshold of approval according to the corporate bylaws (henceforth the Management threshold).[4] They also find that such events are followed by a general erosion of takeover defenses. From this they conclude that it is this expected formal governance improvement which is positively perceived by the market.

If the majority concepts used by CII and management were identical, this governance explanation of our results would be impossible to reject. However, collecting data on the voting rule in the corporate charter, we are the first to document that in about 60% of the cases, the Management threshold of approval is higher than the CII threshold because abstentions, broker non-votes or shares absent from the meeting count as votes against the proposal according to the bylaws while those voting choices are not tallied by CII. As a result, proposals regularly pass according to CII

[4] This Management threshold is set by the voting rule (e.g., treatment of abstentions or non-votes) defined in the corporate charter and may vary across firms (and even firm-years).

but not according to management[5]. Those disagreements are very informative: we show that as long as a proposal has not received majority approval according to the bylaws (i.e., it has not crossed the Management threshold), it is rarely implemented, even when the proposal has passed according to CII; on the other hand, when a proposal has reached the majority threshold defined by CII, and even if it has not been approved according to the firm's bylaws, there is a positive impact on stock returns on the day of the meeting, defiance votes in future director elections, and higher CEO turnover. Hence, boards feel so strongly against the proposal content that they are willing to risk being punished by investors in order not to implement it. This means that punishments from CII are valuable per se (in line with the "Shareholder defiance" channel) but do not provide incentives to implement popular proposals.

This ultimately begs the question of why corporate insiders refuse to implement winning proposals and accept the severe punishment from CII. One thing we show is that sanctions from CII fall disproportionately on the CEO, yet the decision to implement a proposal is taken by the board as a whole. As a result, the CEO may be sacrificed in order to avoid the implementation of a proposal the rest of the board does not like. Corroborating this point, we also find strong evidence consistent with the hypothesis that boards influence voting outcomes close to the management threshold. We document an abnormally high density of official vote shares just below 50% suggesting that the board is trying to make sure a proposal is not considered adopted by the corporate charter, which would force them more directly to implement the proposal. On the other hand, we find no evidence that managers take actions to make sure that a proposal does not win according to CII. This is consistent with insiders caring more about the costs of the implementation of proposals than about the cost of defying shareholders' will.

While a large part of the earlier empirical literature on activism has dismissed the importance of voting as a monitoring tool (Black, 1998; Romano, 2001; Gillan and Starks, 2007), our paper takes place in an emerging literature documenting the effectiveness of voting activism, surveyed in Yermack (2010) and Ferri (2012). For instance, Ertimur, Ferri, and Stubben (2010) document the negative impact of the lack of board responsiveness to approved shareholder proposals on directors' reputations. Cai, Garner, and Walkling (2009) find strong effects of withheld votes in

[5] See Section 5.2 in the Web Appendix for an explicit example of such a disagreement.

director elections on CEO turnover, while Del Guercio, Seery and Woidtke (2008) show that "vote-no" campaigns, which are often triggered by the absence of a response to majority-approved shareholder proposals, increase the likelihood of a forced CEO turnover. Those papers show that director elections can serve to punish unresponsive directors and CEOs. They do not however discuss the mechanic of those campaigns in detail, given that there is a myriad of ways in which firms' misbehavior can trigger a wave of discontent in the next elections. In contrast, we document a particular sanctions mechanism triggered by a well-defined board decision, the refusal to implement majority-supported proposals, and ignited by a visible entity, the Council of Institutional Investors. This punishment follows a very precise timeline, which allows us to uncover a key trade-off in voting activism: the punishment of insiders at director elections may lead to the departures of good CEOs because shareholders' voting guidelines are often very crude, yet this punishment is overall beneficial because it erodes the entrenchment of management and increases pressure to act for the benefit of shareholders. Importantly, the setup of those campaigns also allows us to provide quasi-experimental evidence of their impact, as opposed to the prior literature cited above. This matters because "vote no" campaigns are not randomly triggered and may specifically target firms that are in such stark restructuring need that important changes would have taken place even in the absence of an activist campaign.

Because we investigate how a non-binding vote can have real consequences, our contribution is related to the theory of non-binding shareholder votes articulated by Levit and Malenko (2011). In their view, non-binding votes are less efficient than binding votes but large voting support for non-binding proposals may still force management to implement them if there is a shareholder activist who can seize the voting outcome as an opportunity to replace current management. Our results provide a different view: shareholder votes may matter not in spite of but *because* they are non-binding as this forces management to signal, through the decision to implement the proposal or not, whether it is aligned with shareholders or not.

We also contribute to the debate on whether the scope of shareholder proposals is too narrow or not. According to Bebchuk (2007), the content of shareholder proposals is too restricted under the current SEC rules to touch upon wide-ranging issues of interest to shareholders. For Kahan and Rock (2014), the content of shareholder proposals is disproportionately dealing with a few

symbolic issues (such as anti-takeover defenses and pay levels) that have little true impact on firm value. What we show is that the impact of shareholder proposals is not restricted to their actual content. What truly matters is that the proposal content comes strongly against the will of insiders; in this case only may the voting result force management to go against shareholder views and make shareholders less benevolent towards them.

Our analysis is also among the first to document the impact of shareholder organizations on firm value. Previous literature has investigated the impact of "focus lists" edited by CII, which used to target a few underperforming companies every year (Opler and Sokobin, 1996; Song and Szewczyk, 2003). The results were generally inconclusive and by 2010 CII had decided to abandon this practice of "naming and shaming" companies. We focus on a more diffuse strategy used by CII which consists in advertising general guidelines for proxy voting to their members and the general public. We show that such guidelines have a significant impact on voting results and firm outcomes, which demonstrates their ability to form a coordination device for scattered shareholders. In particular, this strategy requires little, if any, private communication with corporate insiders in order to be effective, in contrast to other well-documented forms of behind-closed-doors institutional investor activism (Carleton et al., 1998; Becht et al., 2010, McCahery et al., 2015).

Finally, we compare the role of shareholder organizations to the one played by proxy advisors (Institutional Shareholder Services (ISS), in particular). ISS also has a policy of recommending its clients to vote against incumbent directors if firms fail to implement a proposal, but only if this proposal has received the support of a majority of outstanding shares, which is very distinct from the threshold used by CII. This threshold provides exogenous variation in the recommendations made by ISS for director elections held the following year.[6] This allows us to estimate that a recommendation to vote against a director translates into an additional 25 percent of votes being withheld, arguably a sizeable effect testifying to the power of proxy advisory firms. Yet, the big difference between ISS and CII is that ISS issues nominee-specific recommendations based on

[6] Previous literature on proxy advisors (Cai et al., 2009; Choi et al., 2010; Li, 2013) could only estimate naïve correlations between ISS recommendations and actual voting results for director elections. A notable exception is contemporaneous work by Malenko and Shen (2015) who use a different RDD strategy based on a total shareholder return cutoff rule.

detailed individual data on nominees. Contrary to the effect of sanctions from CII, the anticipation by the market of sanctions from ISS seems to have no detectable impact on stock prices. This suggests that refining the way in which boards are assessed by passive investors and their representatives is altogether not beneficial to shareholder value. If anything, our evidence on the effect of CII policies shows that if ever proxy advisors' voting guidelines became less flexible, it would also provide a valuable way of disciplining management.

The remainder of the paper is as follows. Section 2 describes the institutional details of voting on shareholder proposals in the US. Section 3 presents the data used in the analysis. Section 4 discusses the empirical strategy. Section 5 presents the results. Section 6 concludes.

## 2 Institutional Background

Our empirical analysis and the interpretation of our results regarding the impact of shareholder votes rely heavily on a few specific features of shareholder voting in the US. Therefore, a detailed explanation of the voting process and its repercussions is essential. We focus on institutional features, that have not been discussed in great detail in the literature before and that are crucial for our analysis.[7]

### 2.1 What do Shareholders Vote on?

On the occasion of general assemblies, shareholders can be asked to vote on many different matters. They may elect directors or vote on specific proposals, sponsored either by the management or by a shareholder. Our study is centered on shareholder-sponsored governance proposals. By SEC rule 14a-8, any shareholder with a holding in the company worth at least $2,000 or 1% of outstanding shares can submit such proposals. Those proposals are different in several dimensions from management-sponsored proposals that have been studied in related papers (e.g., Popadak, 2013). The main difference is that shareholder-sponsored proposals are not usually binding the management. It means that even if the approval threshold set by the corporate charter has been passed, the board of directors has discretion over whether or not to implement the proposal. This matters because in the overwhelming majority of cases, management

[7] Please refer to research and review papers by Cuñat et al. (2012) or Yermack (2010) for a discussion of more general issues related to shareholder voting.

recommends shareholders to vote against shareholder proposals. The paradox that shareholder proposals are officially non-binding and yet have been shown to carry real effects (Cuñat et al., 2012, 2013) is what motivates our focus on this type of governance proposal.

## 2.2 How are Votes Counted?

Corporate charters specify a voting rule that defines the threshold that the number of votes for the proposal needs to reach before it is considered "passed" and, as such, worthy of "consideration" by the board. This matters because, while passage of a shareholder proposal according to the charter never binds the board's final decision, a refusal to implement it may still be a valid proof of breach of fiduciary duty in a derivative suit if it is not the unique piece of evidence.[8]

When voting on shareholder proposals, shareholders have five different choices: 1) send a proxy marked "For" (F), 2) send a proxy marked "Against" (A), 3) send a proxy marked "Abstain" (AB), 4) let the broker send the proxy on their behalf without any indication (BNV), or 5) not send a proxy either directly or indirectly (NP). These votes are then aggregated according to a *voting rule* to decide whether a proposal has been approved or not. A voting rule essentially determines whether certain voting options (AB, BNV, and NP) are not counted or de-facto counted as votes against a proposal. Given the different voting options, there can be four different voting rules (or approval thresholds):[9]

- Threshold 1: F/(F+A) > 50%
- Threshold 2: F/(F+A+AB) > 50%
- Threshold 3: F/(F+A+AB+BNV) > 50%
- Threshold 4: F/(F+A+AB+BNV+NP) > 50%

We collect data on the voting rule that is used by each firm from proxy statements *before* each meeting.

[8] See *In re FirstEnergy Shareholder Derivative Litigation*, US District Court N.D. Ohio, 2004

[9] In a few cases, the proposal must reach a super-majority threshold (i.e., significantly greater than 50%), always using outstanding voting power as a denominator, but those represent only 1.4% of the proposals in our sample. In the rest of the paper, we rescale voting results for those proposals to make them comparable to simple-majority proposals.

Even though an "approved" proposal is not binding, management very often publicly states that it will not implement a proposal because it did not reach the official bar for approval. Those justifications are often given explicitly after the vote because many third parties push for implementation based on a bar for approval that is uniform across firms (e.g., voting support for the proposal reaching more than 50% of votes cast "for" and "against") and lower than the management approval threshold in a majority of cases. The Investor Responsibility Research Centre (IRRC) has been counting votes and defining majority approval in this fashion ever since it started collecting and publishing voting results in 1987.[10] The Council of Institutional Investors (CII), which by 2004 represented over 140 pension funds, including many of the biggest ones, provides an annual list of the proposals that have reached this level of support to its member institutions.

In our analysis, we focus on three different thresholds. The "management threshold" is the threshold according to the official voting rule of the corporate charter (which is fixed and known ex-ante, before the voting). The management threshold can essentially be any one of Threshold 1 to 4. The remaining two thresholds of interest are thresholds used by third parties. The Council of Institutional Investors (CII) considers a proposal with 50% of votes cast for and against as approved, i.e., it uses Threshold 1. The main proxy advisory firm, Institutional Shareholder Services (ISS), bases its recommendation on 50% of outstanding shares, i.e., on Threshold 4.[11] Figure A.1 in the Web Appendix illustrates the different thresholds graphically. Note that the CII threshold is usually lower than the ISS threshold (in terms of required "for"-votes for approving the proposal) and the management threshold can lie anywhere between these two thresholds or coincide with any of them.

The bottom line is that management and organizations representing or working for dispersed investors often disagree on whether a shareholder proposal has "passed".[12] This allows us to identify distinct responses of management and shareholder organizations to the voting results.

[10] IRRC was acquired by ISS in 2006.
[11] ISS actually follows a more refined strategy and may trigger some actions when Threshold 1 (CII) is crossed as well. However, as we will explain in more detail in Section 2.3., for our purpose as well as for clarity, we will refer to Threshold 4 when talking about the ISS threshold.
[12] An example of a disagreement in the interpretation of voting results is shown in Section 5.1. in the Web Appendix.

## 2.3 What Do Third Parties Do With Voting Results?

Disagreements between management and third-party organizations may not bear significant consequences unless some third parties take further actions based on a concept of majority which differs from that of the management. We can identify at least two such responses to the vote in the US context.

In companies in which a shareholder proposal reaches 50% of votes cast "for" and "against", i.e., crossing Threshold 1, CII considers that a board is in breach of CII "policies", a list of best governance practices, if the proposal is then not implemented by the board. Members of CII use the organization as a forum to discuss their voting decisions for each firm in which they hold a stake. Because CII policies serve as a guideline for those discussions, breaching the policies is very likely to trigger sanctions in the form of a high number of votes withheld by funds which belong to CII. In order to detect breaches to its policies, CII keeps track of the implementation of majority-supported proposals using both public (SEC filings and news releases) and private sources of information. It then issues a list of complying and non-complying firms and makes it available to its members. The latter can then individually select companies from this list and launch vote-no campaigns against them, or the list may serve as an input in the discussions that CII organizes between its members ahead of each proxy season (Anand and Givant Star, 1994). Importantly, the organization treats the chief executive officer of companies where a majority vote took place as the main individual accountable for the decision to implement shareholder proposals. For instance, when there is no direct evidence that a company has implemented a passing proposal, the CII staff sends a letter directly to the CEO asking for a justification; the resulting correspondence is made public to all members of the shareholder organization[13]. However, apart from the CEO, CII does not collect individual-specific data on board members so it cannot temper the sanctions for directors who otherwise behaved particularly well. This makes it likely that decisions to withhold a vote made by CII members may particularly target the incumbent CEO but otherwise may not make distinctions between directors.

[13] In the Web Appendix, we display excerpts of CII policies and correspondence between CII and CEOs of majority-vote companies.

The main proxy advisor, ISS, may also take sanctions against unresponsive boards. Those sanctions consist in issuing recommendations to vote against management nominees at the next director elections. Because many mutual funds blindly follow recommendations made by ISS (Iliev and Lowry, 2014), this may translate into a high number of withheld votes at those elections. There are, however, two key differences between sanctions coming from ISS and CII. First, according to ISS, voting support for a proposal needs to reach more than 50% of shares outstanding (i.e., Threshold 4), or it must have reached more than 50% of votes cast "for" and "against" (i.e., Threshold 1) at least twice in the last three years. The latter condition represents about 20% of all proposals that reach 50% of votes cast "for" and "against" in a given year.[14] For this reason, the rest of the paper focuses on the former condition based on outstanding shares.[15] Because this last threshold (Threshold 4) is in most cases distinct from both the CII majority threshold and from the Management threshold derived from firms' bylaws, we can precisely identify the impact of sanctions from ISS. The second divergence from CII guidelines is that ISS's sanctions can be tempered by individual-specific information on nominees so that not all nominees have to be jointly penalized by the lack of response to a well-supported shareholder proposal. This allows us to test whether heavy-handed sanctions on the board from CII have more or less impact than fine-tuned penalties from ISS.

# 3 Data and Descriptive Statistics

## 3.1 Sample Construction

The first segment of our data is on shareholder proposals put to the vote during general assemblies between 1997 and 2011. This dataset is collected by ISS (previously IRRC) and a thorough description of its content is available in Cuñat et al. (2012). One limitation of the dataset

[14] It could be that markets react on the first strike anticipating that the same proposal will be voted upon the following year and will then trigger the ISS sanctions. However, in unreported results, we do not find any evidence that a proposal is more likely to be included again in the proxy statement or to pass the threshold of 50% of votes for and against in the following year when it has crossed the threshold of 50% of votes for and against in the current year.

[15] Starting in 2013, ISS has recently switched to exactly the same condition as CII: a proposal must be implemented as soon as it once reaches 50% of votes "for" and "against". ISS's main competitor, Glass Lewis, has issued a similar policy starting in 2013 but with a different threshold: a company must seriously consider a proposal, but not necessarily fully implement it, as soon as it reaches 25% of votes cast "for" and "against". All of those changes took place after our sample period.

is that the voting result variable is consistently reported only according to the CII/IRRC measure of voting support (number of "for" votes over number of votes "for" and "against"). This is why we add data on voting results from the annual Georgeson corporate governance reviews and ISS/Voting Analytics, which measure voting support according to several additional relevant metrics: votes "for" over votes "for", "against" and "abstain", votes "for" over outstanding voting power.[16] Whenever there is an inconsistency between the three datasets or a missing value for one of the voting metrics, we go back to the SEC filings in EDGAR.[17]

Our sample includes the ten most supported proposal types over the period 1997-2011, shareholder support being defined here by the number of times a proposal type has obtained a majority of votes "for" and "against".[18] The reason we focus on those provisions is two-fold. Firstly, over our sample period, those proposals represent a very large majority (about 90%) of the proposals reaching at least 50% of votes "for" and "against". Other proposal types are far less likely to pass: while they represent about 50% of all governance proposals, only 20% of those will ever go beyond 50% of votes "for" and "against". Because we focus on close-call votes, those numbers mean we do not lose much of either identification power or external validity from excluding the remaining non-CSR proposals. Removing proposals that have virtually no chance of passing has also the advantage of improving the statistical power of our tests (Crump et al., 2009). Secondly, focusing on popular proposals greatly helps tracking their implementation: standard proposals are generally more precise and they also elicit quite standard responses from the board.[19]

Since we investigate, among other things, the impact of proposals on CEO turnover, the scope of our sampling at firm-level is determined by data availability regarding CEO identity: we must be able to match the proposals dataset with ExecuComp, whose coverage is limited to S&P 1500

[16] Available on the web: http://www.georgeson.com/us/resource/Pages/acgr.aspx.
[17] This leads to corrections in about 10% of proposal results in our sample. Results from Georgeson reports are typically the most reliable but they only cover meetings held between January and July, and before 2001 only proposals submitted by non-individuals.
[18] This leaves us with the following proposal topics (by order of popularity): repeal classified board, eliminate or vote on poison pills, eliminate super-majority requirements, require majority vote for director elections, right to call special meetings, right to act by written consent, vote on golden parachutes, option expensing, say-on-pay, separation between CEO and chairman.
[19] Section 3 in the Web Appendix shows in detail how we proceeded to measure the implementation of proposals.

companies. This means that our sample comprises 2,512 proposals discussed in 1,955 meetings of 652 different firms. The first row of Table 1 presents the distribution of proposals across time (between 1997 and 2011): there are about 160 proposals per year on average.

Meeting day returns are a good measure of the stock market reaction to the vote because voting results on proposals are typically announced at the end of shareholder meetings.[20] Table 2 Shows that the announcement return at the day of the meeting, while positive on average, is very heterogeneous (e.g., they are -0.89% at the lowest quartile and 0.99% at the highest quartile), suggesting intense information processing by stock markets just after the annual meeting takes place.

### 3.2 Voting Rules

Our data for the vote count rules comes from different sources for different periods. From 1997 to 2006, the exact voting rule is documented by the ISS/IRRC database, and, from 2003 to 2011, it is documented by the ISS/Voting Analytics database. There are, however, multiple inconsistencies between data sources or within a firm across time, probably often due to ambiguities in the proxy statement itself (Calpers, 2013). Using proxy statements filed in EDGAR before each meeting for those inconsistent cases, we make corrections to about 10% of all proposals in our sample. Table 1 also shows the distribution of voting rules over time. Only in 42.8% of the proposals does the official passing threshold correspond to the majority threshold. In a majority of cases, abstentions are counted as "against" votes, i.e., the metric for voting support is the number of votes "for" over votes "for", "against" and "abstain".

Default voting rules are defined in corporate state law.[21] However, firms can opt out and change the voting rule through amendments to the corporate bylaws made before the vote takes place. We collect data on the voting rules on state level from LexisNexis. In about 36% of the cases the state rule corresponds to the "for" over "for" and "against" voting metric and in 64% to the "for"

[20] Karpoff, Malatesta and Walkling (1996) quote the CEO of the main proxy solicitation firm, Georgeson, as saying that preliminary results are generally given at the meeting, while final tallies are available to investors within hours of the meeting. Since then, the collection of votes is done through the Internet, which most likely makes the announcement of the results even quicker.

[21] See Table A.2 in the Web Appendix for a list of voting rules according to each state law. Researchers who are interested in the voting rule set by the corporate charter may use the voting rule by the state law as an approximation (see Section 4 in the Web Appendix).

over "for", "against" and "abstain" voting metric. Companies comply with the state rule in about 76% of the cases.

For the purpose of our analysis, it is essential that there are many disputed votes; it turns out that the average voting support for a proposal (as a share of votes cast "for" and "against") is close to 50%, which is comforting. Panel B in Table 1 shows the fraction of proposals that pass the CII, Management and ISS thresholds respectively. On average, 46% pass the Management threshold. By definition, the passing rate is higher (51%) at the CII threshold and lower at the ISS threshold (36%).

### 3.3 Implementation

In order to investigate whether those different forms of proposal passage matter for actual implementation of the proposal, we have hand-collected evidence on the implementation of the proposals from various SEC filings accessible on EDGAR.[22] Panel B of Table 1 shows a dramatic rise in implementation of the proposals conditional on their passage according to corporate charters: the implementation rate went from about 20% before 2002 to more than 70% after 2004. Given that at the same time the number of passed proposals has largely increased, this means that shareholder proposals have largely changed in nature after the Enron scandal and Sarbanes-Oxley: they are now clearly an important instrument for changing the way corporate governance rules are set.[23]

### 3.4 Director Elections

In order to test our hypotheses related to sanctions taken by CII following votes on shareholder proposals, we collect data on director elections in the annual meeting following the annual meeting of interest. We obtain the votes on individual directors from ISS/Voting Analytics for the period 2003-2011 and 10-Q filings from EDGAR for cases missing in that database and also prior to 2003. For each incumbent management nominee, we calculate the percentage of votes withheld over votes "for" and "withhold". In the few cases of contested elections, we count as withheld

[22] A detailed list of ways in which firms implement each kind of proposal is available in Section 2 of the Web Appendix.

[23] The trend has already been documented in previous papers (Thomas and Cotter, 2007; Ertimur, Ferri and Stubben, 2010; Renneboog and Szilagyi, 2011) but we are the first to show that the rate of implementation of proposals has reached a very high plateau ever since 2005.

votes that are either effectively withheld or voted for a non-management nominee. We aggregate those votes against directors at firm-level by calculating the mean, the minimum and the maximum withholding rate among management nominees for a given election. Because shareholder organizations target CEOs in priority, we provide separate measures of director vote outcome depending on whether the nominee is the incumbent CEO itself or not.

Withholding rates are relatively low (around 9% of the votes withheld on average according to Table 2), but it is generally recognized that even low yet significant levels of defiance at director elections negatively affect the reputation of incumbent board members and management (Cai, Garner and Walkling, 2009).[24] Therefore, a large percentage increase in withheld votes following the passage of a proposal may be sufficient to trigger strong decisions from the board. Moreover, it is important to note that the distribution of withholding rates is not normally distributed as there is a mass of firms with very low withholding rates but also a significant number of firms with large withholding rates. That is why we will also consider the logarithm of the withholding rate for nominees in the rest of our analysis.[25]

Voting Analytics also provides us with the voting recommendations given by ISS for about 85% of the director elections in our sample. Prior to 2003, the database only mentions if all nominees are recommended to be voted "for", if all votes for nominees are recommended to be withheld, or if some should be withheld and some should not. We aggregate the recommendations at the firm-meeting level and construct a dummy indicating whether there is at least one recommendation to withhold and a dummy indicating whether ISS issues a "Withhold" recommendation for all incumbent management nominees.

Recommendations to withhold are more frequent than what the actual withholding rates in director elections would suggest but they are still a small minority of the recommendations (about 27% according to Table 2), which fits the available evidence on proxy advisor recommendations (Cai, Garner and Walkling, 2009).

[24] For example, when 23% of votes for AOL's chairman Steve Case were withheld, he felt compelled to resign.

### 3.5 CEO Turnovers

We want to test the effect of the vote on shareholder proposals on the quantity and quality of CEO turnovers. Therefore, we identify turnovers using changes in the identity of a firm's CEO in ExecuComp. Using this information, we obtain several pieces of information on each turnover from newspaper articles and press releases collected in Factiva: announcement date, whether the turnover is an integral part of a merger, whether the turnover is caused by death or severe health problems of the CEO. We focus our attention on the first turnover announced less than two years after the day of the shareholder meeting. We choose this period of time because CEOs may leave in anticipation of the next director elections (i.e., between t and t+1) or due to the results obtained by incumbents in those elections (i.e., between t+1 and t+2). If a turnover has been announced before the meeting but has not yet taken place effectively by that date, we only consider as a turnover event the one that was announced for the CEO-elect at the time of the meeting.

We also restrict our attention to departures unrelated to a merger or bad health.[26] After all these data filters, we find that 551 CEOs have announced their departure less than two years after a shareholder meeting in which one of our sample proposals has been put to the vote. This means that shareholder meetings are followed by a CEO turnover in the next two years in 22% of the cases. For each turnover, we compute abnormal returns upon announcement using the market model. Descriptive statistics for the sample of CEO turnovers are in Panel C of Table 2. CARs on turnover announcement are centered around zero. This does not mean, however, that these are irrelevant events: the standard deviation of abnormal returns more than doubles on the day of announcement (as in the seminal study on CEO turnovers by Warner, Watts and Wruck (1988)). This simply suggests that turnovers have very heterogeneous value implications across firms: some are viewed as negative events and some as positive. For that reason, just looking at the effect of governance on the frequency of turnovers might entail a substantial information loss and one should instead consider CEO departures that affect firm value positively (the "good" turnovers) and those that impact stock prices negatively (the "bad" turnovers) as distinct outcomes. Because a quarter of turnover announcement CARs are below minus 1.81%, we define

[26] Given the small likelihood of such events (around 10% of all turnovers), none of our results are affected by their inclusion in our sample.

all such unambiguously value-decreasing turnover events as our main outcome of interest in the rest of the paper[27].

# 4 Empirical Strategy: RDD with Multiple Treatment Thresholds

Shareholder organizations, proxy advisors, and management are all reacting to the voting support received by a shareholder proposal in a discontinuous way: votes "for" must go above a certain threshold before each of those players sharply changes its behavior. To the extent that voting support for a proposal has a significant random component, this allows us to use a Regression Discontinuity Design (RDD) in order to tease out the causal effects of each player's reactions to the vote. Essentially, this amounts to assuming that proposals whose level of support is sufficiently close to one of the three thresholds are randomly assigned to a treatment. This means in particular that there is not any systematic manipulation of the results when the result is a close call which can be properly tested. One powerful test has been proposed by McCrary (2008) and rests on the assumption that if there was strategic voting, one should observe that the density of proposals subject to a vote exhibits a significant jump at the 50% majority threshold. Another test of the randomness of passing a governance proposal in closely-contested votes consists in running placebo experiments with outcomes that cannot possibly be affected by the passing of the proposal because they were measured before the meeting. RDD results are known to be potentially sensitive to the choice of the estimation method. We follow the best practices (Lee and Lemieux (2010)) and pick the optimal non-parametric estimation method according to Imbens and Kalyanaraman (2012) as a baseline but also show our results using different methods (both parametric and non-parametric, together with variations over the optimal bandwidth according to Imbens and Kalyanaraman (2012)). Further justification of the choice of the estimation method as well as internal and external validity tests of the voting experiment are presented in detail in Section 1 in the Web Appendix. In the next paragraph, we discuss several challenges to the Regression Discontinuity Design that are specific to our analysis.

[27] We do not consider all CEO turnovers followed by an only mild negative stock market reaction as bad events because such small negative abnormal returns may happen by pure chance. Nonetheless, our main results carry similar significance when we consider a wider set of negative abnormal returns as bad events.

Our aim is to identify separately the reactions of management, shareholder organizations, and proxy advisors. This is theoretically feasible because the different treatment thresholds are crossed one after the other as voting support for a proposal grows. Of course, when those thresholds are identical, i.e., when corporations' bylaws use the same majority concept as CII, it is impossible to disentangle effects coming from management actions and effects coming from third parties' responses to the vote. When each party uses different voting metrics, the RDD method does not, in principle, need any adjustment: when an observation is at the border of one majority threshold, it cannot simultaneously be at the border of another majority threshold. In practice, however, sample size is limited and some extrapolation using observations far from the treatment threshold is required. For that reason, the treatment effect of proposal adoption according to one majority requirement may be contaminated by the treatment effect of proposal adoption according to another majority requirement.

In order to deal with this problem, we test our hypotheses using different specifications and subsamples:[28]

- Specification 1: Management-CII > 1%
  In our main specifications, we focus on proposals where the management threshold is different from the CII threshold. Moreover, we require that the number of votes counting against the proposal according to the CII and management rule differ by at least 1% of votes effectively cast "for" and "against".[29] We choose this threshold of 1% because in unreported results, according to RDD estimations, we find that the probability of implementation jumps discontinuously in the sample of proposals with a gap between voting metrics smaller than 1% but not at all when the gap is bigger than 1%.

- Specification 2: Management-CII > 2%
  Our second specification differs from Specification 1 by requiring the vote share difference between management and CII rule to be at least 2%. We use this specification for two reasons. One is to check for the sensitivity of our baseline results to changing the sample restriction used in our baseline regressions. The other reason is specific to evaluating the stock market reaction to the vote. When the gap between voting metrics

[28] Figures 1.B in the Web Appendix illustrate these sample restrictions.
[29] As an example, consider the case when the management rule is to count abstentions in the denominator (which is the same thing as treating them as votes against the proposal) and the proposal obtains the following results: 501 for, 499 against and 50 abstentions. The voting result is 50.1% according to CII, 47.7% according to management, and the corresponding voting gap is 5% (i.e.. 50/(501+499)) of votes "for" and "against".

used by CII and management is very small, there is the concern that markets are unable to distinguish very quickly approval according to CII from approval according to management. Since Cuñat et al. (2012) show that markets are able to predict voting results just *before* the vote takes place with a margin of error of little more than 2%, it is *a fortiori* reasonable to expect that markets are able to quickly distinguish approval concepts just *after* the vote took place when the gap between voting metrics is larger than 2%.[30] Given this tighter restriction we keep only about a quarter of all proposals and, hence, we expect to further reduce the statistical power of our tests.

- Specification 3: Full Sample
  Our third specification employs the full sample, i.e., it also includes proposals where management rule and CII rule coincide. The treatment effect is estimated non-parametrically, using the optimal bandwidth. This specification has the advantage of having the greatest external validity. However, one should remain cautious about the interpretation because those estimates often measure the combined reactions to the vote of CII and management.

- Specification 4: No Contamination Sample
  We also use as robustness checks samples in which the treatment of interest varies but the other treatment statuses remain constant. The most important of such "no contamination" samples is the one where we only consider proposals that are never passed according to management in order to estimate the causal effect of a proposal obtaining a majority according to CII. This restriction leaves us with 31.4% of all proposals.

- Specification 5: Parametric estimation with controls
  We also estimate the treatment effect parametrically using OLS around the majority threshold (+/- 3%).[31] Our main independent variable is a dummy variable that is equal to one if the proposal has passed the approval threshold of interest. We control for potential contaminating effects of crossing / not crossing other thresholds by including passing dummies of all thresholds in the regressions.

Using a Regression Discontinuity Design requires a sufficient number of observations close to each of those thresholds. Table 1, Panel B, also shows the number of proposals with voting outcomes close to each of the three thresholds. (47, 53) corresponds to the number of proposals

[30] For these reasons, Specification 2 will be very important when investigating the effects of passing the thresholds on valuation (see Section 5.4)).
[31] We follow the parametric methodology suggested by Cattaneo, Frandsen, Titiunik (2014) and we choose the -3/+3 window because it is the largest window such that difference-in-means tests below and above the thresholds are insignificant for pre-treatment outcomes (see Table A.1. in the Web Appendix).

with voting outcomes between 47%-53% using the respective counting rule. We have about 322 and 337 proposals in our sample when applying a -3/+3% range around the CII and Management threshold, respectively; numbers are lower around the ISS threshold as it is more unlikely that proposals reach these levels of support (the corresponding number is 224). While the number of proposals reaching voting results in those neighborhoods appears to be small relative to the total number of proposals, we do not observe that firms where such close-call votes take place are markedly different from the rest (see table A.1. in the Web Appendix) so our results will carry extensive external validity.

# 5 Results

## 5.1 Implementation

It is natural to start the analysis by looking at the impact of the vote on the implementation of the proposal being voted upon. Indeed, all key majority thresholds we have identified may sharply increase the likelihood of implementation: crossing the CII threshold may trigger punishment of the board of directors by those institutions if the board does not implement the proposal; if the Management threshold is crossed, the bylaws of the firm force the board to "consider" the implementation of the proposal. Figure 2 and Table 3 present our results for implementation.[32] The graphs provide stark visual evidence that it is only the Management threshold that matters for implementation: crossing the CII threshold does not lead to a discontinuity in the likelihood of adopting a proposal. While the likelihood of adoption is very flat and very low (around 10%) for low shareholder support, it raises continuously with higher support of shareholders. The picture looks different altogether when analyzing the management threshold. The implementation likelihood is also relatively flat for low levels of shareholder support and is rising as well. However, when the 50%-threshold is passed, there is a very sizeable jump of about 20% of the implementation likelihood (around 30% below the threshold compared to around 50% above the threshold). Corresponding regressions (Table 3, Panel B) show that the

[32] In our figures and baseline regressions, we exclude cases where voting rules used by CII and by the Management are identical or almost identical as we are interested in analyzing differential effects of crossing each of these thresholds.

likelihood of implementing the proposal increases between 18%-29% once it has been approved according to the bylaws.

The effect of a proposal being approved according to the CII definition in most specifications is negligible, both economically and statistically. Exceptions in Table 3, Panel A are the specification that employs the full sample (column 5) and the specification corresponding to a very large bandwidth (column 3). This is due to the fact that in many cases CII and management threshold lie close to each other or are even identical (see discussion in Section 4). The effect disappears when we look at more carefully designed specifications (see columns 1, 4, 6, and 7) that are motivated to address this problem: in columns 1 and 4 we only look at proposals in which the management threshold is not the CII threshold and there is a certain distance between them (1% and 2% of the votes); column 6 uses the "no contamination" sample, and column 7 uses only proposals that are close to the threshold and simultaneously controls for ant effect of passing the management threshold.

Overall we provide evidence that boards implement shareholder proposals when the bylaws nudge them to do so, not when they face potential sanctions from proxy advisors and shareholder organizations. There may be three underlying reasons for the latter absence of reaction. First of all, the Regression Discontinuity Design may lack statistical power to detect small implementation reactions to incentives set by CII. Secondly, CII's actions may simply have little impact on corporate insiders. Lastly, management may be privately valuing the proposal content very negatively and might rather risk being sanctioned by CII than implement the proposal. We will put each of these hypotheses to further testing in the next sub-sections.

## 5.2 Director Elections

Do the assessments of the voting results made by CII simply do not matter? To answer this question, we estimate the impact of shareholder proposal votes on next year's director elections. Incumbent directors may not be sanctioned uniformly by CII members when the organization has deemed the board to be too unresponsive. First of all, when they are up for election (in about 55% of the cases in our sample), CEOs are an easy-to-distinguish target for voters belonging to CII; there is evidence that spokesmen for CII regularly single out the attitude of the CEO when a board is not responsive. We therefore expect the CEO to be particularly sanctioned at future

elections if the board does not act upon winning proposals. Secondly, CII does not gather director-specific information, so board members who would usually be safe at elections, due to a correct individual record, might be as affected by CII sanctions as board members already singled out by other activists. To check the validity of this intuition, we look at the impact of current voting results for shareholder proposals on future defiance votes received by the nominees with the most and the least defiance votes received at the next meeting.

Figure 3 and Table 4 present the results of our tests. Whenever a proposal is approved according to CII, there is a significant jump in the number of votes against management nominees the following year. CEOs up for election are by far the most sanctioned: they receive 70% more votes against them as usual (see Figure 3 (left) and Table 4, row 1); they are much more likely to have more than 15% of votes cast against them (Table 4, row 2), an event generally recognized as a very strong mark of defiance given that it so rarely happens at US director elections.[33] The average incumbent director is affected, albeit less dramatically as the number of votes withheld rises by a third (Table 4, row 3). None of the incumbent directors seem to escape those sanctions: the nominee who fares best in the election in relative terms suffers from a rise in defiance votes at least as high as the one who fares the worst (see rows 4 and 5 of Table 4).

This result is all the more impressive as existing literature has convincingly shown that even small movements in withholding rates might significantly affect the board's decisions (Cai, Garner and Walkling, 2009). Yet, in contrast with recent work on director elections by Ertimur, Ferri and Oesch (2015), we show that such important masses of withheld votes do not require an initial "Withhold" recommendation from proxy advisors: in rows 6 and 7 of Table 4, we do not detect any effect of passing shareholder proposals on future voting recommendations made by ISS.[34] Shareholders, when collectively organized, can have by themselves an effect on votes of similar size as ISS. In summary, director elections that follow the passage of a shareholder proposal single out the incumbent CEO and the board members who support him very negatively.

[33] We choose the 15% threshold because this is what is considered a very unusual level of defiance against directors in the authoritative governance report provided every year by the proxy firm Georgeson. Results are very similar when we pick a higher rejection threshold.

[34] The difference between our results and the existing literature on this topic may come from a substantially different sampling since we focus on firms in which a shareholder proposal has recently been put to a vote while existing studies study the whole universe of firms.

This suggests that, in reaction to or in anticipation of such an event, there might be abnormal CEO turnover after a shareholder proposal wins a majority.

### 5.3 CEO Turnovers

We start our analysis of CEO turnover by testing whether the voting outcome on shareholder-sponsored proposals leads to a higher probability that a good CEO leaves a firm. We define the quality of the leaving CEO in terms of how much value is lost upon the announcement of her departure. At the CII threshold, there is a large positive jump on the frequency of "bad turnovers" (Figure 3 (right)), i.e., those that lead to a negative stock market reaction upon turnover announcement. The likelihood of a bad turnover goes from around 8% to about 28% once voting support for the proposal crosses 50% of votes "for" and "against" (see Table 5, row 1). We do not find any consistently significant effect of majority approval according to CII for "good" turnovers (Table 5, row 3). There seems to be a partial substitution effect of the passage of a shareholder proposal: while "bad" turnovers are much more frequent, "medium" turnovers, those that lead to no particular reaction from the market, are suddenly less likely to occur (Table 5, row 2). This suggests that some turnover events that would initially have been planned in advance to cause as little damage to the firm as possible are now taking place too hastily.

Arguably, interpreting stock market reactions to CEO turnovers suffers from ambiguities. A good example could be a board which performs its task efficiently, collecting private information on the CEO and taking the decision to dismiss the CEO based on that piece of information. Inevitably, the announcement of the dismissal will be taken to disclose potential bad news about the firm's prospects at the same time that the board is taking a value-enhancing decision for the firm. However, if boards were good at identifying bad CEOs and imposing value-enhancing turnovers, it should often appear in the accounting performance results after the dismissal decision (i.e., the firm should improve its performance once the poorly-performing CEO has been dismissed). This provides a simple test in which we distinguish turnovers according to the evolution of accounting performance after the turnover. Following Denis and Denis (1995), we define post-turnover operating performance as the evolution of the ROA from t-1 to t+3. In order to control for mean-reversion, industry-and-year effects, we follow the approach by Barber and Lyon (1996): we match each firm in t-4 to a group of firms in the same SIC2 industry and in the

same decile of ROA, then for all subsequent years, we subtract the median ROA in this control group from the raw ROA. Once we have defined this industry-and-performance-adjusted ROA, we group turnovers depending on whether the change in ROA after the turnover was above the 75$^{th}$ percentile (the good turnovers), below the 25$^{th}$ percentile (the bad turnovers) or between these two percentiles (the medium-quality turnovers). We can then use our RDD methodology to look at the causal effect of governance on each kind of turnover. The results are displayed in rows 4 to 6 of Table 5. At the CII threshold, we find that proposal passage slightly decreases rather than increases the probability of turnovers followed by an improvement in accounting performance; in fact it then becomes more likely (albeit not significant statistically) that there is a CEO turnover followed by a long-term decline in operating performance. Assuming, as shown in Cornelli et al. (2013), that well-informed boards take CEO dismissal decisions that have on average a positive impact on performance, our result is at odds with the hypothesis that following proposal passage boards use their private information more often to make their dismissal decisions. It is in fact more in line with the hypothesis that it is good CEOs rather than bad ones who leave firms when board members feel pressured by the majority passage of a proposal according to CII.

The above results are in line with the conclusion from our analysis of director elections that sanctions taken by CII can lead to inefficiencies ex post.

### 5.4 Valuation

Our previous tests show that adoption of proposal according to the bylaws triggers implementation, while adoption according to CII strongly reduces the entrenchment of boards and CEOs. It is not clear whether any of those consequences are positive or negative for firm value, which is why we now turn to the analysis of the stock reaction to voting results on meeting day (Figure 4 and Table 6). We find a significant increase in the stock price as soon as a shareholder proposal reaches 50% of the votes "for" and "against" (i.e., the adoption threshold set by CII), with an effect of around +0.99% (column 1 in row 1 of Table 6). The estimated effect slightly increases (1.01% - 1.64%) in the specifications that aim to cope more efficiently with a potential contamination of the management threshold. As previously discussed in Section 4 shareholders need to be able to quickly understand whether certain thresholds have or have not been crossed in

order for us to detect a stock market price reaction. Therefore, we believe it is important to focus particularly on column 4 (i.e., Specification 2) where we require a sufficiently large gap between the ISS threshold and the management threshold.

Our interpretation of this abnormal return is very distinct from former papers linking shareholder votes to value through their impact on formal governance (Cuñat et al., 2012, 2013) since the only thing that changes at the CII threshold is not the likelihood of implementing the proposal but instead the stark reduction in CEO and board entrenchment due to CII sanctions of unresponsive boards. The positive abnormal return shows that markets do value this lower entrenchment in spite of some ex post inefficiencies revealed by the subsequent increase in value-decreasing CEO turnovers.

Our view that short-term abnormal returns are the least controversial and least noisy way of measuring value lends itself to several criticisms which we aim to tackle with alternative indicators of performance. Firstly, it may take some time before markets can fully assess the impact of shareholder votes or, alternatively, prices may overshoot in the days after the meeting and then revert back to their pre-event level. In order to address this problem, we follow Cunat et al., 2012, and analyze changes in the book-to-market ratio one, two, and three years after the shareholder meeting compared to the level of that indicator in the year before the meeting. A second criticism is that market efficiency may simply not hold over any reasonable medium-term horizon, so that pure price data may not reveal true corporate improvements after the shareholder vote. We address this concern by looking at the accounting measure which best corresponds to shareholder value, the return on equity (ROE). Again, we take as an outcome changes in ROE one, two, and three years after the shareholder meeting compared to the ROE level in the year before the meeting. Rows 2-7 of Table 6 present our findings. The estimated effects on changes in book-to-market and return on equity have almost always the expected sign, with greater magnitudes than our results on short-term performance but with less statistical significance. This should not come as a surprise: those measures contain much more noise than a daily abnormal return, which severely reduces statistical power. Overall, we interpret the results on the long-run performance measures as further support for the hypothesis that the documented reduction in entrenchment is valuable for shareholders.

## 5.5 Do The Effects of the Vote Depend on Actual Implementation?

The evidence presented so far shows that the largest part of the impact of shareholder support for a shareholder-sponsored proposal comes from crossing the threshold of adoption defined by CII. We have proposed that those causal effects arise because CII issues penalties to the board if it does not implement the proposal. Because in our sample there is a significant rate of implementation of proposals, our previous estimates may underestimate the true causal impact of CII sanctions. The implementation rate in our sample for proposals close to the CII threshold is 28.5%. This means the impacts of approval according to CII should be multiplied by 1.40 (=1/(1-0.285)) if one wants to get at the causal effect of receiving a sanction from that organizations:[35] being targeted by CII increases withheld votes of CEOs by 113%, withheld votes for the average incumbent director by 52%, "bad" CEO turnover by about 28%, and firm value by 1.40%.[36]

However, this kind of computation is only valid if reaching the thresholds of 50% of votes "for" and "against" matters only due to conditional sanctions delivered by CII and not instead due to some other mechanism affecting the firm regardless of the actual (non-)implementation of the proposal. Proposals reaching those levels of support might indeed cause real effects irrespective of whether they are implemented or not if the CII threshold turns out to be a natural focal point which increases the probability of a takeover or the media exposure of the firm in the days, weeks and months after the annual meeting.

To address this concern, we present in Table 7 our main estimations run so far, in two subsamples: one in which eventually the proposal is implemented in the following year and one in which it is not. Conditioning the analysis of the impact of the vote on a variable determined after the vote raises endogeneity issues similar to the problem of attrition in randomized experiments. However, the problem is likely to be minor since we have shown before that our main treatment of interest, passage of a proposal according to CII, has no discernible effect on the implementation decision. In such a case, Lee (2008) proves that it is enough to assume a

[35] Our measure of implementation most likely suffers from some measurement error because we do not observe the ISS and CII's assessments of the efforts made by the firm to implement the proposals. This means our results still understate the size of the impact of CII and ISS sanctions.

[36] For instance, the effect of 113% on withheld votes for CEOs is calculated as follows: we first scale our baseline estimate of 0.54 by the mentioned multiplier 1.4 to obtain a scaled coefficient of 0.76.; we then calculate the semi-elasticity computing exp(0.76)-1.

monotonicity condition on the impact of proposal passage on implementation: as long as none of the firms would rather implement the proposal when it receives less than the CII threshold than when it obtains majority according to CII (which is untestable but very reasonable), our treatment estimates for proposal passage according to CII conditional on implementation are causal[37]. The results in columns 1 and 2 of Table 7 show that virtually nothing happens around those thresholds of voting support for the proposal when it is eventually implemented (column 2), while the estimates are even larger than in the pooled analyses (Tables 4 to 6) and highly significant when the proposal is eventually not implemented (column 1). Most interestingly, the market even seems to be able to anticipate this non-implementation and the value of the ensuing punishment exerted by CII: the first row of Table 7 shows that a majority vote triggers a far smaller reaction in the stock price on meeting day when the proposal is eventually implemented (-0.42%) rather than not (+1.54%). In other words, the impact of voting results on the various outcomes we have analyzed can indeed be fully ascribed to the CII policies consisting in pointing the finger at unresponsive boards.

### 5.6 Why Do Boards Disregard Threats from Shareholder Organizations?

We have shown that corporate insiders bear significant risks to their position within the firm and reputation if they decide not to properly implement a shareholder proposal that has reached a majority according to the shareholder organization CII. Why then do we observe so many boards refusing to listen to shareholders in such cases?

Firstly, an important element to keep in mind is that the implementation of changes in the corporate charter is a collective decision taken by the board, not just the CEO. Interestingly in this respect, our results suggest that it is primarily the CEO of the unresponsive firm who is punished by shareholder organizations when a majority-supported proposal is not implemented. This divergence within the board could partly explain the absence of reaction to a proposal reaching the trigger level of support set by CII.

[37] If instead, there is a slight (although not statistically detectable) effect of proposal passage on implementation, the treatment effects of CII passage conditional on ex post implementation may indeed be biased. However, these few implementers of proposals that are passed according to CII are likely among those boards whose cost of defying CII is the highest. In that case, the impact of defiance conditional on non-implementation is in fact an underestimate of the true impact of CII sanctions.

Secondly, many corporate insiders may choose not to implement a proposal because to them the private costs of the proposed changes to the corporate charter are larger than the costs of an increased risk of having to leave the firm if they do not implement the proposal. One way to investigate this is to check whether voting results are actively "managed" in favor of incumbent directors when results would really force the board to implement a proposal, i.e., when support for the proposal is close to reaching the management threshold of approval, which would trigger substantial litigation risk in case of a non-response from management. Influencing the voting process is costly to management: it requires a real-time assessment of voting trends with respect to a proposal and an ability to contact friendly "swing" voters; typically, proxy experts have to be hired for this purpose. As a result, we would expect boards to actively manage votes in order to avoid implementation only when the content of the proposal is very costly to them. Figure 5 shows a very clear tendency for voting results to exhibit an abnormally high density of official vote shares just below 50%, which ensures that managers have no legal incentive to implement the proposal. The corresponding drop in density at 50% is estimated at -0.3562 (log difference in height) and statistically significant at the 5% level (t-stat of 2.04).[38] This is reliable evidence that incumbent directors strongly dislike the content of proposals put forward by shareholders.

Another way of measuring the expected costs of shareholder proposals for boards is to consider the ownership contexts in which CII sanctions are most efficient. CII is a collective organization that gathers medium-sized to big institutional investors. Those investors are also the ones most likely to seize the new shareholder powers given by the implementation of shareholder proposals. As a result, it may be precisely when the influence of CII is the most effective that boards will be the least willing to implement proposals. To check this we look in Table 7, columns 3 to 6, at the impact of voting results for shareholder proposals depending on whether the level of institutional ownership concentration in the firm is above or below the median. It turns out that majority-supported proposals have a measurable effect on shareholder defiance (i.e., higher withheld votes in director elections) primarily when the level of institutional ownership concentration is high. This makes it less surprising that boards of such firms are fearful of implementing proposals that

[38] The statistical significance is even bigger when we employ the full sample. The log difference is slightly lower (-0.27) but more precisely estimated (t-stat of 3.05). The corresponding density plot is provided in Figure A.3 in the appendix.

would give more powers to shareholders. Another interesting result from those columns is that the valuation benefits are maximized (row 1) and the CEO departure costs minimized (row 2) when institutional ownership concentration is high (columns 4 and 6). This suggests that a strong level of coordination between investors is key to make sure that sanctions on CEOs are well-proportioned.

### 5.7 Can the CII policy be improved?

We have thus far provided evidence that the sanctions issued by CII carry ex-ante benefits (as measured by stock market valuations) but also ex-post costs (the departure of valuable insiders). This begs the question of why do shareholders have such a strong reaction of defiance when it often means the departure of valuable executives from the firm.

One way to answer is to consider whether one can penalize unresponsive boards with similar benefits but lower costs than the CII policy. This is why we proceed to analyzing the impact of sanctions taken by the main proxy advisor, Institutional Shareholder Services (ISS), against unfriendly boards. Those sanctions consist in advising client firms (mainly mutual funds) to vote against management nominees from firms that previously did not implement proposals receiving more than 50% of outstanding shares. Because this threshold is very distinct from the ones used by CII and Management, we can use the same regression discontinuity approach as for the analysis of actions taken by CII.

Table 9 summarizes our tests on implementation, director elections, CEO turnover, and valuation at the ISS threshold. Note that the gap between the ISS and the management threshold always exceeds 2% so that the previous specifications 1 to 3 are identical in this setup. Row 1 shows that boards are no more reactive to the sanctions taken by ISS than they are to sanctions taken by CII: they do not implement significantly more proposals once they have reached the ISS threshold. This means that we can attribute the impact of the ISS sanctions mostly to the effects of the punishment itself and not to its deterrent effect.

In contrast to CII, ISS makes nominee-specific recommendations and for that reason rarely sanctions an entire set of candidates. Because the ranking of candidates by ISS is very correlated with the relative levels of support they eventually receive in the election (Cai, Garner, and

Walkling, 2009), we may expect that the most popular candidate is the least likely to be sanctioned by ISS after the board refuses to implement a majority-supported proposal as defined by ISS.

Unsurprisingly, ISS director ratings are affected by voting support for a shareholder proposal the previous year if and only if the proposal has reached more than 50% of outstanding voting power (see rows 2 and 3 in Table 9).[39] This impact is asymmetric: the chance that there be at least one withhold recommendation increases by 15 percentage points but the chance that ISS only issues withhold recommendations increases by only 9 percentage points because of the proposal passage as defined by ISS guidelines. This suggests that ISS often uses nominee-specific information to protect the best nominees against its all-or-nothing sanctions policy. In other words, the ISS policy towards unresponsive boards is indeed more conditional and fine-tuned than the CII policy.

An important question is whether those additional "Withhold" recommendations translate into higher withholding rates in director elections. Unsurprisingly given our results on ratings, we find that it is only the nominee receiving the least votes in her favor whose amount of withhold votes significantly increases due to shareholder proposal reaching the ISS support threshold. Regressions (rows 6 and 7 in Table 9) indicate that crossing the ISS threshold increases withheld votes against the least popular nominee by about 21%. Using the ISS threshold as an instrument, one can perform an IV regression of the impact of receiving at least one "Withhold" recommendation on the voting support received by the least popular nominee. The effect is strong: while the existing literature estimates an effect located between 10% and 30% with strong suspicions of an upwards endogeneity bias (Cai, Garner and Walkling, 2009; Choi, Fisch and Kahan, 2010; Li, 2013), we estimate that a withhold recommendation causes the share of voting support for the least popular nominee to decline by 20 to 25 points across specifications (row 10 of Table 9). This result is very close to what is found in a contemporaneous paper by Malenko and Shen (2015) who also provide causal evidence using a different empirical strategy. The most popular management nominee is barely affected by a proposal reaching a level of support high

[39] Please remember that we do not find that crossing the CII threshold triggers negative ISS ratings (see rows 5 and 6 in Table 4).

enough to trigger ISS sanctions. It is in great part due to the fact that, as evidenced above, ISS tones down its sanctions against nominees with a particularly good track record, but it may also be due to the fact that ISS clients may not follow recommendations as readily when those recommendations appear too heavy-handed.

Rows 8 & 9 of Table 9 show the effect of the ISS policy on CEOs as opposed to other directors. We find no specific effect of having a shareholder proposal go beyond the adoption threshold set by ISS on defiance towards the CEO. This counter-example confirms that it is most likely the targeting of CEOs by CII which is the source of value-destroying CEO turnovers.

Last, we find that crossing the ISS threshold does not affect stock market returns (row 4 of Table 9). The fact that, as opposed to CII sanctions, markets simply do not react when suddenly sanctions from the proxy advisor ISS are more likely suggests further that those ex post inefficiencies linked to undue pressures exerted by CII on board members and CEOs are actually a good disciplining tool ex ante.

# 6 Conclusion

In this paper, we offer a new mechanism for how shareholder voting on non-binding shareholder proposals can have real effects on the firm: large voting support for proposals opposed by management generates defiance between passive shareholders and management. This means that voting should not be downplayed as a monitoring tool on the basis that the content of proposals is by nature very constrained. In practice, this suggested mechanism also provides a new rationale for advisory shareholder votes such as say-on-pay votes, which have become widespread in many parts of the world in the last decade.

Another lesson from this piece of research is that shareholder organizations can have an impact using low-cost tools such as informing passive investors about boards' responsiveness to shareholder demands and advertising proxy guidelines tied to this information. This is in sharp contrast to an "engagement strategy" which is currently very popular among institutional investor activists (McCahery et al., 2015). This strategy consists in regularly communicating investors' grievances through private communication with portfolio companies in the hopes that

shareholders' requests will be taken into account more seriously by management. One problem with this approach is that managers may be tempted to make cosmetic changes to address shareholders' requests and avoid uproar. Alternatively, it may be that the changes required by shareholders are not very demanding so that implementing those turns out to improve investors' confidence with little effort. In those cases, the defiance strategy we have exposed may be more appropriate, as managers may then have to undertake strategic changes not previously envisioned by shareholders yet very valuable to them in order to regain investor confidence. Those two activist strategies are in many ways exclusive of each other so that a natural question arises, which we leave for future research: when does the engagement strategy protect shareholder value better than the defiance strategy we have described, and when does it not?

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# 8 Figures

**Figure 1:** The Growth of Shareholder-sponsored Governance Proposals since 1997

This graph compares the number of S&P 1500 firms facing at least one majority-supported governance proposal with the number of proxy contests in S&P 1500 firms in a given year. The data for proxy contests has been kindly provided by Vyacheslav Fos using the methodology in Fos (2013). The data for shareholder proposals comes from ISS. We define a proposal as majority-supported if its support has reached more than 50% of votes cast for and against it.

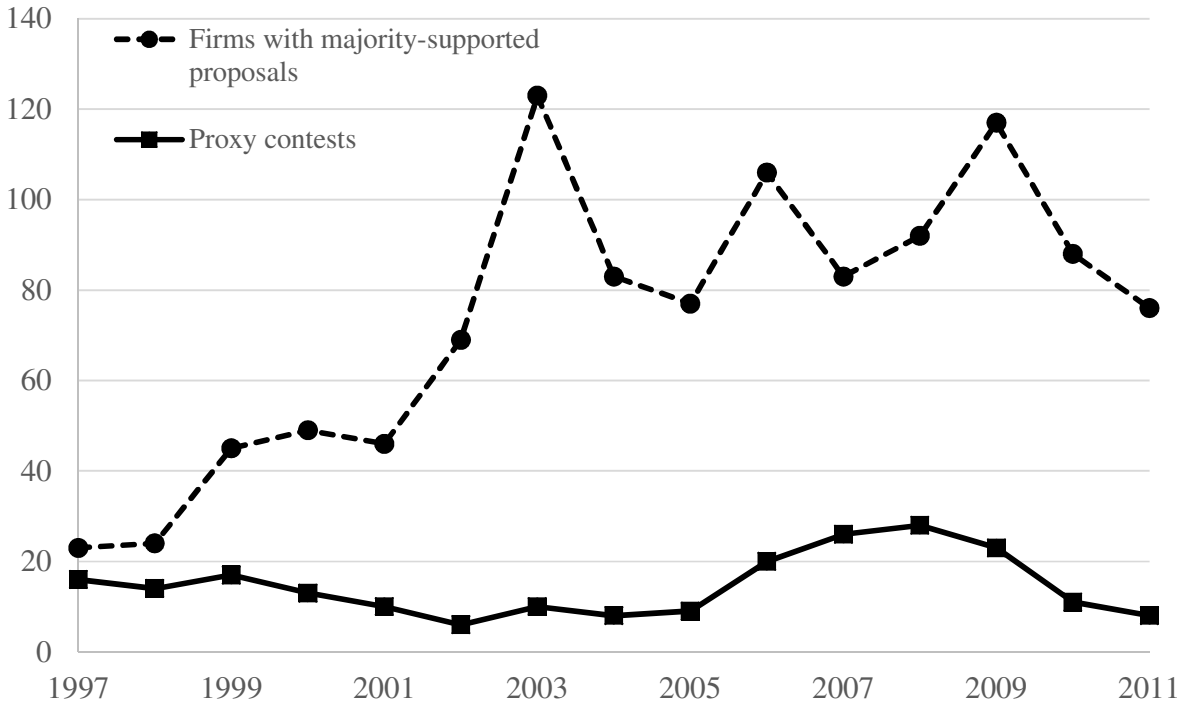


**Figure 2:** Ex-post Implementation of Shareholder Proposals and Shareholder Voting

Implementation is a dummy variable equal to one if the proposal is implemented in the year after the shareholder meeting in which a proposal is put to the vote. The first figure shows the results for proposals at the CII threshold (voting rule: For/(For+Against), the second figure at the Management threshold. Proposals for which the threshold of interest overlaps (or differs by less than 1% of cast votes) with another threshold are excluded. The interval size of bin averages is chosen according to the methodology in Calonico et al. (2014). Source: DEF 14A filings (1997-2011).

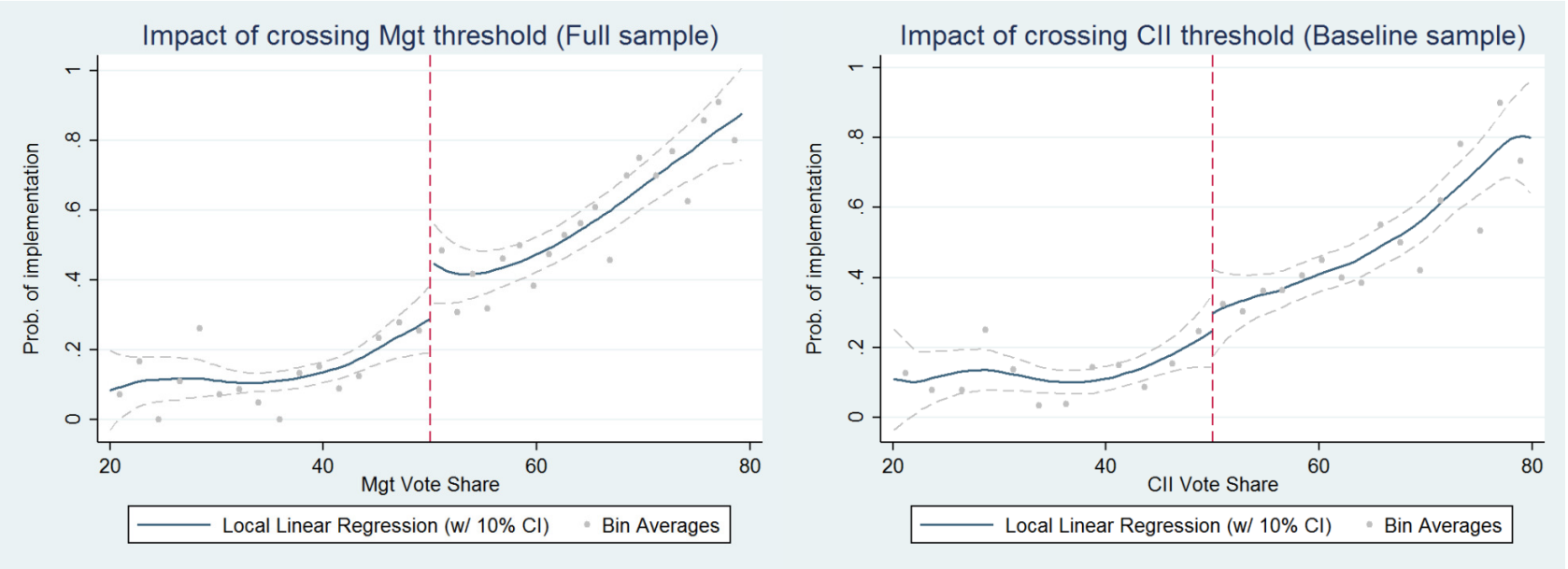


**Figure 3:** Entrenchment of CEOs and Shareholder Voting

In the left panel, votes against the incumbent CEO are votes withheld the year after the initial meeting from the nominee who was CEO at the time of the initial meeting. Proposals for which the threshold of interest overlaps (or differs by less than 0.5% of cast votes) with another threshold are excluded. The interval size of bin averages is chosen according to the methodology in Calonico et al. (2014). Source: 10-Q, ISS (1997-2011). In the right panel, value-destroying turnovers are those that are announced less than two years after the shareholder meeting and lead to an announcement CAR [0;+1] below the 25$^{th}$ percentile of the distribution. CARs are computed using the market model. Proposals for which the threshold of interest overlaps (or differs by less than 1% of cast votes) with another threshold are excluded. The interval size of bin averages is chosen according to the methodology in Calonico et al. (2014). Source: ISS (1997-2011).

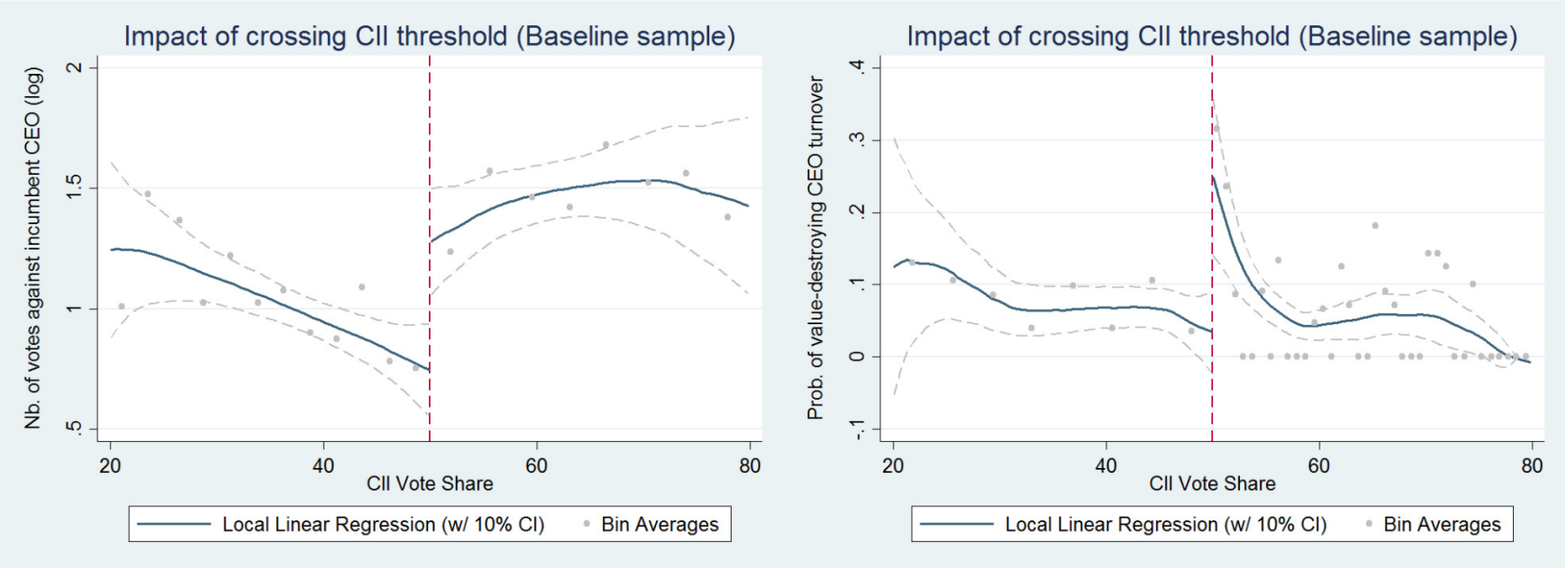


**Figure 4:** Shareholder Value and Shareholder Voting

Abnormal returns are measured using the market model on the day of the meeting in which a proposal is put to the vote. The first figure shows the results for proposals at the CII threshold (voting rule: For/(For+Against), the second figure at the ISS threshold (voting rule: For/Outstanding). Proposals for which the threshold of interest overlaps (or differs by less than 0.5% of cast votes) with another threshold are excluded. The interval size of bin averages is chosen according to the methodology in Calonico et al. (2014). Source: DEF 14A filings (1997-2011).

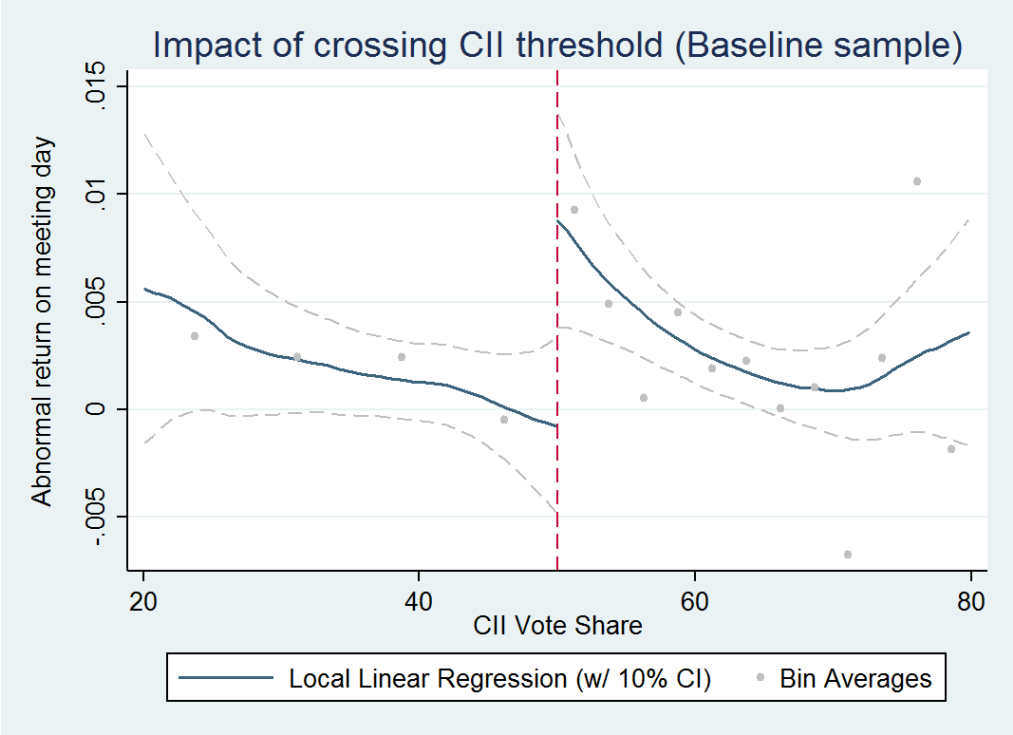
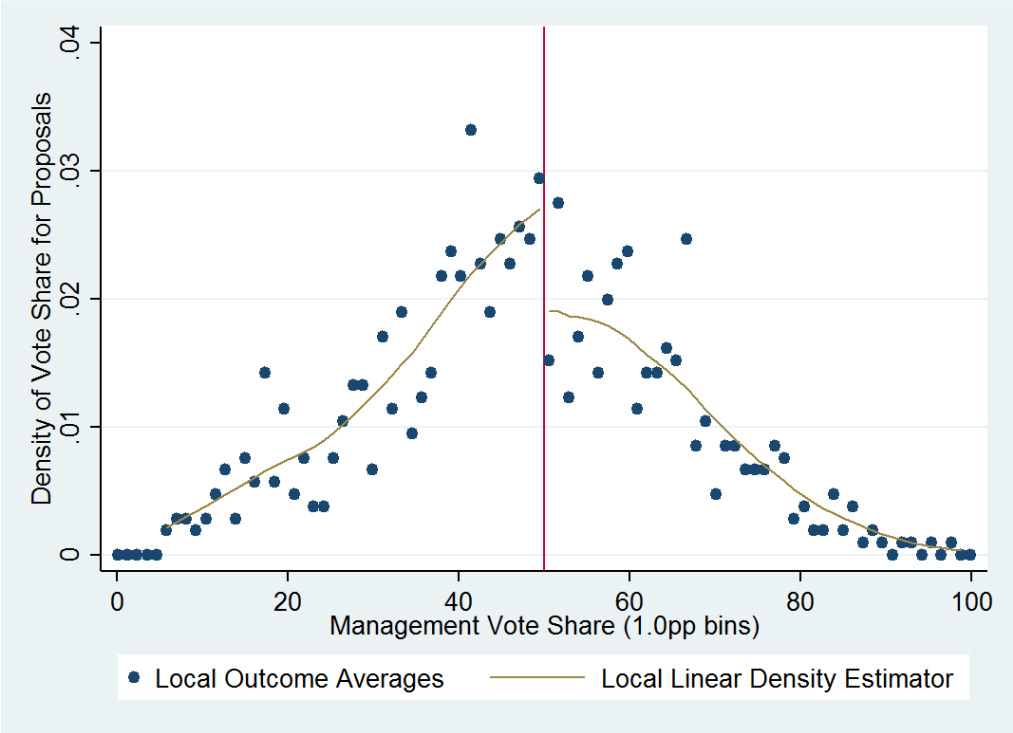


**Figure 5:** Distribution of Voting Results Around the Approval Threshold Set by Management

Proposals are grouped into one percentage-point bins: proposals that passed by between 0% and 1% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The local linear regression is estimated using the bandwidth suggested by McCrary (2008). Proposals for which the threshold of interest overlaps (or differs by less than q% of cast votes) with another threshold are excluded. Source : ISS (1997-2011).



# 9 Tables

**Table 1:** Shareholder Proposals and Voting Rules

This table shows the distribution of proposals and voting rules across time. Shareholders can either vote for (F) or against (A) a proposal but they can also formally abstain (AB), not give indications to their broker (NV) or not participate. The last row calculates the fraction of proposals for which the voting rule according to the bylaws is not the CII voting rule. A proposal passes if the voting share in favor of the proposal reaches 50% according to the voting rule of interest. A proposal is considered to be implemented if management adopts the content of the proposal within two years after the shareholder meeting.

*Panel A:*

| | Year | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1997* | *1998* | *1999* | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009* | *2010* | *2011* | *Total* |
| **Number of Proposals** | 66 | 69 | 102 | 89 | 90 | 117 | 241 | 172 | 166 | 229 | 211 | 206 | 261 | 215 | 170 | 2404 |
| **Implemented** | 12% | 7% | 12% | 9% | 11% | 28% | 35% | 50% | 48% | 54% | 31% | 35% | 42% | 51% | 37% | 36% |
| *Voting Rules* | | | | | | | | | | | | | | | | |
| **F/(F+A) = CII** | 21 | 23 | 42 | 28 | 38 | 48 | 108 | 73 | 59 | 101 | 97 | 98 | 119 | 96 | 79 | 1029 |
| **F/(F+A+AB)** | 37 | 39 | 49 | 52 | 46 | 61 | 118 | 85 | 87 | 110 | 98 | 94 | 126 | 113 | 86 | 1202 |
| **F/(F+A+AB+NV)** | 3 | 3 | 2 | 1 | 2 | 2 | 7 | 9 | 14 | 12 | 7 | 8 | 6 | 1 | 0 | 77 |
| **F/(Outstanding) = ISS** | 5 | 4 | 9 | 8 | 4 | 6 | 8 | 5 | 6 | 6 | 9 | 6 | 10 | 5 | 5 | 96 |
| **% not F/(F+A)** | 68% | 67% | 59% | 69% | 58% | 59% | 55% | 58% | 64% | 56% | 54% | 52% | 54% | 55% | 54% | 57% |

*Panel B:*

| | Year | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1997* | *1998* | *1999* | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009* | *2010* | *2011* | *Total* |
| *Management threshold* | | | | | | | | | | | | | | | | |
| **Passing rate** | 32% | 32% | 37% | 46% | 57% | 64% | 58% | 54% | 51% | 42% | 37% | 44% | 46% | 40% | 48% | 46% |
| **Impl.\|passing** | 35% | 23% | 27% | 20% | 18% | 34% | 48% | 72% | 73% | 79% | 70% | 60% | 72% | 72% | 71% | 59% |
| **# Proposals (47,53)** | 11 | 9 | 21 | 19 | 14 | 14 | 33 | 16 | 20 | 17 | 24 | 21 | 42 | 39 | 23 | 322 |
| *CII threshold* | | | | | | | | | | | | | | | | |
| **Passing rate** | 38% | 36% | 47% | 61% | 61% | 70% | 62% | 59% | 54% | 46% | 41% | 45% | 50% | 44% | 49% | 51% |
| **Impl.\|passing** | 29% | 20% | 21% | 16% | 18% | 31% | 48% | 69% | 72% | 76% | 65% | 60% | 70% | 73% | 70% | 56% |
| **# Proposals (47,53)** | 11 | 9 | 21 | 21 | 13 | 14 | 33 | 15 | 22 | 21 | 28 | 19 | 46 | 38 | 26 | 337 |
| *ISS threshold* | | | | | | | | | | | | | | | | |
| **Passing rate** | 5% | 7% | 12% | 9% | 11% | 28% | 35% | 50% | 48% | 54% | 31% | 35% | 42% | 51% | 37% | 36% |
| **Impl.\|passing** | 33% | 60% | 11% | 22% | 33% | 48% | 55% | 64% | 83% | 83% | 67% | 69% | 79% | 73% | 82% | 69% |
| **# Proposals (47,53)** | 6 | 6 | 11 | 9 | 6 | 15 | 27 | 18 | 17 | 22 | 16 | 17 | 25 | 11 | 18 | 224 |

**Table 2:** Summary Statistics

This table shows summary statistics of firms, CEOs, and voting outcomes at the date of the shareholder meetings as well statistics on implementation, CEO turnover, and director elections after the shareholder meetings. The definition of variables is in the Web Appendix. Source: ISS, ExecuComp, CRSP, Compustat (1997-2012).

*Panel A: Shareholder Meeting Statistics*

| | *All* | | | | | | *Mngt. <> CII* | |
|---|---|---|---|---|---|---|---|---|
| | **mean** | **sd** | **p25** | **p50** | **p75** | **N** | **mean** | **N** |
| **Market cap (M$)** | 30,295 | 54,402 | 3,664 | 11,011 | 29,370 | 2512 | 23,913 | 1438 |
| **Tobin's Q** | 1.30 | 1.09 | 0.66 | 0.97 | 1.52 | 2510 | 1.31 | 1437 |
| **Book-to-market** | 0.49 | 0.27 | 0.26 | 0.44 | 0.68 | 2512 | 0.48 | 1438 |
| **ROE** | 0.12 | 0.11 | 0.05 | 0.11 | 0.20 | 2133 | 0.12 | 1182 |
| **G-index** | 6.51 | 1.92 | 5.00 | 7.00 | 8.00 | 2378 | 6.71 | 1371 |
| **Vote share CII (F/(F+A))** | 50.96 | 18.91 | 38.56 | 50.30 | 64.04 | 2512 | 51.04 | 1438 |
| **Vote share Management** | 49.28 | 18.92 | 37.10 | 48.52 | 62.50 | 2512 | 48.10 | 1438 |
| **Vote share ISS (F/Outstanding)** | 37.16 | 14.88 | 26.90 | 35.90 | 47.00 | 2498 | 37.41 | 1429 |
| **CAR[0,0] meeting** | 0.12% | 1.99% | -0.89% | 0.01% | 0.99% | 2512 | 0.10% | 1438 |
| **Age** | 56.38 | 6.12 | 53.00 | 56.00 | 60.00 | 2512 | 56.40 | 1438 |
| **Total compensation (k$)** | 10,428 | 11,957 | 3,396 | 7,475 | 13,705 | 2500 | 10,217 | 1430 |

*Panel B: Implementation*

| | **mean** | **sd** | **p25** | **p50** | **p75** | **N** | **mean** | **N** |
|---|---|---|---|---|---|---|---|---|
| **Implementation** | 33.7% | 47.3% | | | | 2330 | 32.6% | 1337 |

*Panel C: CEO Turnover*

| | mean | sd | p25 | p50 | p75 | N | mean | N |
|---|---|---|---|---|---|---|---|---|
| **CEO turnover** | 22.05% | 41.47% | 0.00% | 0.00% | 0.00% | 2512 | 21.97% | 1438 |
| **CEO turnover CARs** | 0.15% | 7.76% | -1.81% | 0.07% | 2.39% | 551 | -0.26% | 315 |
| **Bad CEO turnover (CAR)** | 5.45% | 22.71% | 0.00% | 0.00% | 0.00% | 2512 | 6.61% | 1438 |
| **Medium CEO turnover (CAR)** | 11.23% | 31.58% | 0.00% | 0.00% | 0.00% | 2512 | 9.46% | 1438 |
| **Good CEO turnover (CAR)** | 5.25% | 22.32% | 0.00% | 0.00% | 0.00% | 2512 | 5.84% | 1438 |
| **Bad CEO turnover (ROA)** | 4.34% | 20.38% | 0.00% | 0.00% | 0.00% | 2512 | 5.15% | 1438 |
| **Medium CEO turnover (ROA)** | 9.00% | 28.62% | 0.00% | 0.00% | 0.00% | 2512 | 8.97% | 1438 |
| **Good CEO turnover (ROA)** | 4.14% | 19.93% | 0.00% | 0.00% | 0.00% | 2512 | 4.17% | 1438 |

*Panel D: Director Elections*

| | **mean** | **sd** | **p25** | **p50** | **p75** | **N** | **mean** | **N** |
|---|---|---|---|---|---|---|---|---|
| **Mean votes against incumbent directors** | 8.12 | 9.80 | 2.37 | 4.24 | 9.18 | 2419 | 7.71 | 1378 |
| **Votes against best director** | 5.50 | 9.10 | 1.20 | 2.10 | 4.51 | 2419 | 5.34 | 1378 |
| **Votes against worst director** | 12.68 | 12.25 | 3.70 | 8.10 | 17.80 | 2419 | 11.76 | 1378 |
| **Votes against CEO** | 5.83 | 8.02 | 2.00 | 3.00 | 5.00 | 1392 | 5.33 | 777 |
| **Recomm. against a director** | 25.8% | 43.8% | | | | 2090 | 25.1% | 1206 |
| **Recomm. against all directors** | 9.2% | 29.0% | | | | 2090 | 9.3% | 1206 |

**Table 3:** The Effect of Passing Governance Proposals on Proposal Implementation

Each column presents the treatment effect on implementation of passing a proposal at either the CII or the management threshold using different sample restrictions (small, medium or large overlap with the management voting metric) and different estimation methods (local linear regression with triangular kernel and optimal, smaller and larger bandwidth, and OLS with covariates for other treatments). The implementation dummy is a dummy variable that is equal to 1 if the firm has implemented the proposal within one year after the shareholder meeting. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

*Panel A: CII Threshold*

| | Local Linear Regressions | | | | | | OLS |
|---|---|---|---|---|---|---|---|
| *Coeff.* | 9.38% | 4.44% | 12.41% | -1.75% | 15.03% | -5.26% | -0.19% |
| *s.e.* | (7.03) | (8.70) | (5.80)** | (10.18) | (6.91)** | (8.71) | (7.83) |
| *Scaling* | 100% | 50% | 150% | 100% | 100% | 100% | N/A |
| *Sample* | | Mngt-CII > 1% | | Mngt-CII > 2% | Mngt-CII > 0% | No cont. | (47,53) |
| *N* | 573 | 313 | 750 | 204 | 683 | 359 | 174 |

*Panel B: Management Threshold*

| | Local Linear Regressions | | | | | | OLS |
|---|---|---|---|---|---|---|---|
| *Coeff.* | 21.35% | 28.77% | 18.07% | 23.31% | 26.14% | 25.37% | 27.62% |
| *s.e.* | (7.63)*** | (10.57)*** | (6.36)*** | (9.93)** | (6.1)*** | (11.09)*** | (9.8)*** |
| *Scaling* | 100% | 50% | 150% | 100% | 100% | 100% | N/A |
| *Sample* | | Mngt-CII > 1% | | Mngt-CII > 2% | Mngt-CII > 0% | No cont. | (47,53) |
| *N* | 513 | 269 | 673 | 288 | 842 | 212 | 150 |

**Table 4:** The Effect of Passing Governance Proposals according to CII on Voting Against Directors

Each column presents the treatment effect on future director election outcomes of passing a proposal at the CII threshold using different sample restrictions (small, medium or large overlap with the management voting metric) and different estimation methods (local linear regression with triangular kernel and optimal, smaller and larger bandwidth, and OLS with covariates for other treatments). The logarithm of votes against incumbent directors is equal to the average logarithm of withholding vote shares across all incumbent nominees in the director election. The best director is the one that receives the most favorable votes at the election, the worst director the one that receives the least favorable votes. Standard errors clustered at firm-level and number of observations included in estimation in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

| | Local Linear Regressions | | | | | | OLS |
|---|---|---|---|---|---|---|---|
| ***Log of votes against CEO*** | 0.54<br>(0.17/389)*** | 0.50<br>(0.22/237)** | 0.56<br>(0.16/475)*** | 0.63<br>(0.30/184)** | 0.37<br>(0.14/670)** | 0.37<br>(0.26/240) | 0.37<br>(0.27/109) |
| ***Log of votes ag. incumbent directors*** | 0.30<br>(0.12/626)** | 0.28<br>(0.18/351) | 0.37<br>(0.12/799)*** | 0.30<br>(0.18/332)* | 0.23<br>(0.14/734) | 0.30<br>(0.2/374) | 0.38<br>(0.17/183)** |
| ***Prob. that CEO receives > 15% withheld votes*** | 0.12<br>(0.05/449)** | 0.09<br>(0.05/303)* | 0.15<br>(0.05/523)*** | 0.14<br>(0.08/199)* | 0.06<br>(0.06/402) | 0.08<br>(0.09/184) | 0.13<br>(0.08/109)* |
| ***Log of votes against best director*** | 0.30<br>(0.14/701)** | 0.29<br>(0.19/414) | 0.38<br>(0.13/863)*** | 0.39<br>(0.23/336)* | 0.20<br>(0.15/756)* | 0.33<br>(0.21/332) | 0.40<br>(0.18/183) ** |
| ***Log of votes against worst director*** | 0.23<br>(0.13/648)* | 0.10<br>(0.18/365) | 0.30<br>(0.13/810)** | 0.04<br>(0.18/349) | 0.14<br>(0.14/870) | 0.25<br>(0.17/616) | 0.23<br>(0.17/183) |
| ***ISS rating against all directors*** | 0.04<br>(0.03/421) | 0.04<br>(0.05/208) | 0.05<br>(0.04/564) | 0.02<br>(0.05/342) | 0.04<br>(0.04/597) | -0.02<br>(0.04/336) | 0.01<br>(0.04/164) |
| ***ISS rating against a director*** | 0.02<br>(0.07/386) | 0.04<br>(0.1/193) | 0.09<br>(0.06/520) | 0.01<br>(0.09/299) | 0.09<br>(0.05/738)* | -0.02<br>(0.07/353) | 0.06<br>(0.08/164) |
| *Scaling* | 100% | 50% | 150% | 100% | 100% | 100% | N/A |
| *Sample* | | Mngt-CII > 1% | | Mngt-CII > 2% | Mngt-CII > 0% | No cont. | (47,53) |

**Table 5:** The Effect of Passing Governance Proposals according to CII on CEO Turnover

Each column presents the treatment effect on CEO turnover outcomes of passing a proposal at the CII threshold using different sample restrictions (small, medium or large overlap with the management voting metric) and different estimation methods (local linear regression with triangular kernel and optimal, smaller and larger bandwidth, and OLS with covariates for other treatments). The quality of turnovers is determined by the stock reaction upon their announcement. Performance in terms of ROA is measured in the years before the turnover relative to an industry benchmark. Standard errors clustered at firm-level and number of observations included in estimation in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

| | Local Linear Regressions | | | | | | OLS |
|---|---|---|---|---|---|---|---|
| ***Bad turnover (CAR)*** | 20.08% | 20.24% | 15.32% | 27.84% | 14.08% | 20.94% | 16.50% |
| | (9.27/335)** | (12.72/170) | (7.99/502)* | (11.15/192)** | (7.04/464)** | (10.22/282)** | (7.23/197)** |
| ***Medium turnover (CAR)*** | -8.67% | -7.89% | -10.21% | -17.47% | -5.26% | -10.17% | -8.95% |
| | (5.05/579)* | (6.54/308) | (4.32/765)** | (6.9/379)** | (3.91/628) | (4.65/538)** | (4.02/197)** |
| ***Good turnover (CAR)*** | 0.82% | -2.29% | 1.03% | -10.05% | 0.49% | -5.69% | -5.26% |
| | (3.44/825) | (3.75/524) | (3.25/976) | (6.31/324) | (2.77/994) | (3.99/373) | (3.38/197) |
| ***Bad turnover (ROA)*** | 6.15% | 7.62% | 4.28% | 9.82% | 4.61% | 11.30% | 9.28% |
| | (5.66/806) | (7.75/502) | (4.87/961) | (10.12/350) | (5.1/781) | (9.55/334) | (7.45/197) |
| ***Medium turnover (ROA)*** | -0.77% | -1.11% | -3.48% | -9.46% | -4.36% | -8.69% | -7.25% |
| | (5.48/522) | (7.54/260) | (4.67/699) | (7.54/335) | (3.59/975) | (6.29/312)* | (4.3/197)* |
| ***Good turnover (ROA)*** | -2.99% | -2.02% | -3.96% | -8.04% | -0.62% | -3.93% | -3.08% |
| | (5.32/524) | (6.35/261) | (4.31/703) | (6.26/429) | (3.92/733) | (4.35/455) | (4.94/197) |
| *Scaling* | 100% | 50% | 150% | 100% | 100% | 100% | N/A |
| *Sample* | | Mngt-CII > 1% | | Mngt-CII > 2% | Mngt-CII > 0% | No cont. | (47,53) |

**Table 6:** The Effect of Passing Governance Proposals according to CII on Shareholder Value

Each column presents the treatment effect on several measures of shareholder value of passing a proposal at the CII threshold using different sample restrictions (small, medium or large overlap with the management voting metric) and different estimation methods (local linear regression with triangular kernel and optimal, smaller and larger bandwidth and OLS with covariates for other treatments). Abnormal returns are measured using the market model on the day of the meeting in which a proposal is put to the vote. Long-term performance is measured as the first difference in either book-to-market ratio or ROE in fiscal years t+1, t+2, t+3 vs. fiscal year t-1. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

| | Local Linear Regressions | | | | | | OLS |
|---|---|---|---|---|---|---|---|
| ***Excess return (meeting day)*** | 0.99% (0.48/579)** | 0.79% (0.69/309) | 0.85% (0.39/766)** | 1.64% (0.67/319)** | 0.64% (0.35/976)* | 1.01% (0.5/522)** | 1.06% (0.5/197)** |
| *Long-Term Perf.:* | | | | | | | |
| **Δ*Book/Mkt (x100)* *(after one year)*** | -3.32% (2.92/520) | -6.08% (4.4/256) | -2.24% (2.56/691) | -2.45% (4.53/279) | -5.60% (2.78/613)** | -6.33% (4.59/251) | -1.85% (3.28/180) |
| **Δ*Book/Mkt (x100)* *(after two years)*** | -1.04% (2.85/647) | -0.63% (3.82/366) | -1.26% (2.5/803) | 2.86% (4.26/302) | -1.49% (2.75/800) | -3.30% (4.95/271) | -1.27% (3.5/178) |
| **Δ*Book/Mkt (x100)* *(after three years)*** | -5.84% (3.59/474) | -11.37% (4.75/231)** | -6.06% (3.22/622)* | -4.93% (5.53/294) | -6.82% (3.35/603)** | -14.30% (5.11/245)** | -8.10% (3.9/161)** |
| **Δ*ROE (x100)* *(after one year)*** | 3.94% (2.69/478) | 4.75% (3.73/260) | 3.77% (2.36/623) | 5.21% (3.75/289) | 3.26% (1.86/823)* | 3.45% (3.73/244) | 3.62% (2.83/142) |
| **Δ*ROE (x100)* *(after two years)*** | 5.14% (3.13/397) | 9.72% (4.08/196)** | 4.80% (2.64/526)* | 3.75% (3.62/255) | 5.87% (2.28/554)*** | 10.86% (4.04/184) | 4.49% (2.83/135) |
| **Δ*ROE (x100)* *(after three years)*** | 1.84% (3.63/377) | 7.75% (5.28/189) | 2.44% (2.78/497) | 0.15% (4.58/211) | 2.89% (2.43/577) | 4.21% (3.04/426) | 3.81% (3.67/121) |
| *Scaling* | 100% | 50% | 150% | 100% | 100% | 100% | N/A |
| *Sample* | | Mngt-CII > 1% | | Mngt-CII > 2% | Mngt-CII > 0% | No cont. | (47,53) |

**Table 7:** The Effect of Passing Governance Proposals according to CII – Sample Splits

Each column presents the baseline treatment effect on major outcomes of interest of passing a proposal at the CII threshold conditional on management eventually implementing the proposal or not (columns 1 & 2), and conditional on the firm having a below or above-median level of institutional ownership concentration before the initial meeting (columns 3 to 6). Implementation of the proposal is assessed within one year after the shareholder meeting. Institutional ownership concentration is measured using either the Herfindahl index (columns 3 & 4) or taking the share of institutional ownership in the firm that comes from the 20 largest funds (columns 5 & 6). Standard errors clustered at firm-level and number of observations included in estimation in parentheses. *** p<0.01 ** p<0.05 * p<0.1. Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

| | Implementation status | | Inst. ownership concentr. (HHI) | | Inst. ownership concentr. (Top 20) | |
|---|---|---|---|---|---|---|
| | Not adop. | Adopted | Low | High | Low | High |
| ***Valuation*** | 1.54% | -0.42% | 0.44% | 1.85% | 0.53% | 1.84% |
| | (0.73/325)** | (0.48/250) | (0.47/296) | (0.75/260)** | (0.40/338) | (0.86/233)** |
| ***Bad turnover (CAR)*** | 22.51% | -4.53% | 22.69% | 13.62% | 21.06% | 12.08% |
| | (10.37/274)** | (8.08/221) | (11.98/148)* | (10.24/296) | (9.79/190)** | (9.58/233) |
| ***Log of votes against CEO*** | 0.51 | 0.12 | 0.22 | 0.78 | 0.36 | 0.70 |
| | (0.25/198)** | (0.32/86) | (0.25/153) | (0.36/115)** | (0.24/195) | (0.30/134)** |
| ***Log of votes against incumbent directors*** | 0.36 | -0.06 | 0.04 | 0.44 | 0.03 | 0.52 |
| | (0.17/369)** | (0.29/129) | (0.19/299) | (0.17/288)** | (0.20/268) | (0.20/196)*** |
| *Scaling* | 100% | | | | | |
| *Sample* | Mngt-CII > 1% | | | | | |

**Table 8:** The Effect of Passing Governance Proposals according to ISS

Each column presents the treatment effect on major outcomes of interest of passing a proposal at the ISS threshold using different sample restrictions (small or medium overlap with the management voting metric) and different estimation methods (local linear regression with triangular kernel and optimal bandwidth and OLS with covariates for other treatments). The IV regression in row 10 is implemented either using a non-parametric fuzzy RDD or using a parametric 2SLS model in a close window around the threshold. Standard errors clustered at firm-level and number of observations included in estimation in parentheses. *** p<0.01 ** p<0.05 * p<0.1. Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

| | Local Linear Regressions | | | | OLS |
|---|---|---|---|---|---|
| ***Implementation*** | 3.20% | 3.56% | 2.14% | 5.97% | 1.98% |
| | (6.45/1254) | (8.70/603) | (5.60/1801) | (7.38/802) | (6.83/216) |
| ***Recommendation against all directors*** | 0.09 | 0.08 | 0.10 | 0.07 | 0.07 |
| | (0.05/962)* | (0.07/479) | (0.04/1467)** | (0.06/579) | (0.05/185) |
| ***Recommendation against a director*** | 0.15 | 0.19 | 0.14 | 0.18 | 0.14 |
| | (0.06/907)** | (0.08/460)** | (0.06/1386)** | (0.08/537)** | (0.07/185)** |
| ***Excess Return (meeting day)*** | -0.16% | 0.05% | -0.18% | -0.04% | -0.09% |
| | (0.23/1254) | (0.31/604) | (0.20/1830) | (0.27/812) | (0.24/227) |
| ***Bad turnover (CAR)*** | 2.32% | 5.41% | 2.01% | 5.91% | 5.18% |
| | (3.19/1106) | (3.63/554) | (2.92/1676) | (3.7/507)* | (2.87/227)* |
| ***Log of Votes against Best Director*** | -0.03 | -0.03 | -0.02 | -0.06 | -0.02 |
| | (0.17/1282) | (0.23/619) | (0.15/1868) | (0.22/677) | (0.18/221) |
| ***Log of Votes against Worst Director*** | 0.20 | 0.31 | 0.18 | 0.30 | 0.22 |
| | (0.12/1322)* | (0.16/640)* | (0.11/1905)* | (0.16/633)* | (0.13/221) |
| ***Log of Votes against incumbents*** | 0.05 | 0.07 | 0.07 | 0.05 | 0.05 |
| | (0.13/1328) | (0.18/641) | (0.12/1910) | (0.18/656) | (0.15/221) |
| ***Log of Votes against CEO*** | 0.11 | 0.09 | 0.16 | 0.08 | 0.17 |
| | (0.22/525) | (0.29/253) | (0.19/827) | (0.28/256) | (0.24/109) |
| *IV impact of ISS rec. against a director on:* | | | | | |
| ***Votes against Worst Director*** | -24.17 | -19.86 | -22.09 | -20.61 | -19.22 |
| | (6.29/1129)*** | (7.02/519)*** | (6.11/1607)*** | (6.92/555)*** | (6.93/185)*** |
| *Scaling* | 100% | 50% | 150% | 100% | N/A |
| *Sample* | | Mngt <> ISS | | No cont. | (47,53) |

# Why Do Shareholder Votes Matter?

## *Web Appendix*

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# 1 Internal and External Validity of the Voting Experiment

An evaluation of the testable assumptions (e.g., the manipulation of the forcing variable and the possibility of other changes at the same cutoff value of the covariate) is crucial in any RDD design. The deferral of these tests until the appendix is solely to ensure the readability of the main paper. In Section 1.1 we carefully test the internal validity of our voting experiment by employing the McCrary density tests and testing for changes at the cutoff value of various predetermined outcomes. We also test the external validity of the experiment in Section 1.2.

## 1.1 Internal Validity of the Voting Experiment

The internal validity of our estimates rests on the assumption that small variations in the vote share obtained by a proposal are random. This means in particular that there is not any systematic manipulation of the results when the result is a close call.

Such an assumption can be properly tested. One powerful test has been proposed by McCrary (2008) and rests on the assumption that if there was strategic voting, one should observe that the density of proposals subject to a vote exhibits a significant jump at the 50% majority threshold. Another test of the randomness of passing a governance proposal in closely-contested votes consists in running placebo experiments with outcomes that cannot possibly be affected by the passing of the proposal because they were measured before the meeting.

We start by analyzing the CII threshold. Figure A.2 (left) shows that there is no significant jump in the density at the majority threshold. The estimated discontinuity from the corresponding McCrary test is not statistically different from zero. Table A.1 analyzes the effect of passing the CII threshold on some previously determined outcomes: size, Tobin's Q, return on equity, CEO wage, CEO age, corporate governance (G-index), as well as different measures of institutional ownership. None of the estimated effects are statistically significant.

Running similar tests on the ISS threshold (Table A.1, panel B and Figure A.2 (right)), we do not find any evidence of manipulation either.

## 1.2 External Validity of the Voting Experiment

One remaining caveat of our identification approach, which is common to all regression discontinuity designs, is that the causal estimates may not be representative of a significant share

of US companies. However, the treatment we have in mind, the majority support for a shareholder proposal, does not affect firms randomly but only those in which there is a shareholder proposal with a significant likelihood of reaching majority support. Therefore, the benchmark for external validity of our results should not be the average S&P 1500 firm but the average firm in which a vote on one of the popular shareholder proposals takes place. To this effect, in Table A.1, panel A and B, we compare a series of structural firm-level variables measured prior to the meeting in the entire sample we have constructed and in the sample of closely-contested proposals (between 47% and 53% of the vote share).

Analyzing the CII threshold, we find that firms with closely-contested proposals are very similar to other firms in our sample. This holds for firm size, performance, and CEO characteristics. There are, however, small differences in institutional ownership (measured by institutional ownership concentration as well as by share of top 20 institutional investors. Interestingly, firms with closely-contested proposals have less/lower institutional ownership concentration / top 20 share. The differences are small in relative terms. Overall, the CII threshold experiment takes place in a quasi-representative sample.

The picture looks different at the ISS threshold, as firms tend to be much smaller and also slightly less well governed when support for a proposal reaches such a high level (see Panel B of Table A.1). It is not surprising: it is more difficult for a proposal to reach 50% of outstanding shares if the number of shareholders that must be voting is very large, unless the firm is particularly ill-governed. In principle the degree of entrenchment of management is higher in such firms, so the impact of ISS recommendations on turnovers, director elections, and value should be higher than in the representative firm.

## 2 Details of RDD Estimation

The RDD methodology brings a series of concerns about estimation and its efficiency. The reason is that, unless the sample of close-call votes has infinite size, there are never enough instances in which vote shares are just at one and the other border of the passing threshold to guarantee a reasonable level of statistical power for tests of the significance of the impact of proposal passage. With a finite sample, it is therefore necessary to use information far away from the threshold and compensate for the potential extrapolation bias by modelling the continuous

relationship between the vote share and the outcome on each side of the treatment threshold. This modelling process contains a lot of degrees of freedom, but the econometric literature has converged towards a set of best practices which we will closely follow (Lee and Lemieux (2010)).

For all of our outcomes and treatments of interest, we begin with plotting averages of the outcome of interest over small intervals of the voting metric according to which the passing threshold is defined. Those bin averages give a sense of the credibility of the jump caused by crossing the majority threshold. Those intervals over which averages are constructed should be small enough that the link between the outcome and the vote looks quite erratic, but big enough to make sure that a jump at the treatment threshold is visible if it is really there. We follow the procedure laid out in Calonico, Cattaneo and Titiunik (2014) in order to produce graphs which respect those two conditions. Those graphs come together with a global polynomial fit of the data to the right and to the left of the passing threshold in order to get a sense of a magnitude of the treatment effect.

Once reassured by non-parametric graphs about the existence or lack of an effect of proposal passage, we turn to local linear regressions in order to provide precise estimates and statistical tests. The key parameter in such an exercise is the bandwidth of the non-parametric estimation; it should be small enough to limit the extrapolation bias and big enough to provide statistical power. We use the algorithm designed by Imbens and Kalyanaraman (2012) to obtain such an optimal bandwidth. We provide treatment estimates for bandwidths that are 50% lower and 50% bigger than the optimal level so as to make sure results are not overly sensitive to bandwidth choice. Another robustness check consists in using instead a parametric approach: we compare means of the outcome three percentage points to the left of the majority threshold and three percentage points to the right. This has the advantage of being intuitively the closest equivalent to considering the passage of a proposal as a random event (Calonico, Frandsen, Titiunik, 2014).

## 3 Implementation

Our measure of implementation of proposals serves to identify boards' response to shareholder votes and sanctions taken by CII and ISS when those institutions consider a proposal has not been implemented. We look at SEC filings in the year following the meeting in order to check whether

the proposal is implemented and count as missing observations for which the firm has merged or gone bankrupt before implementation of the proposal could be observed in that year. Because we want to rule out cases where a firm had already decided to implement the proposal before the vote took place, we also look at filings made in the year before the meeting. We do not condition our search for implementation on a proposal having reached majority vote. The form of implementation is very proposal-specific so we now detail our criteria for implementation per proposal type.

### 3.1 Repeal Classified Boards

Putting in place the annual election of directors requires an amendment to the bylaws, which most of the time requires a shareholder vote. For that reason, almost all cases of implementation of such proposals involve the submission by management of a proposal to amend the bylaws at the following annual meeting, which can be checked in the corresponding proxy statements. We have also considered a proposal to declassify the board as implemented if the following year the board does not recommend voting against a similar shareholder proposal the following year. Sometimes, bylaws are amended without a vote taking place, and such amendments are notified in 8-K filings.

### 3.2 Repeal or vote on Poison Pills

Poison pill proposals may take place regardless of whether the firm currently has a pill (i.e., a rights plan) in place. The difference is that when the firm already has a rights plan, shareholder proponents primarily push for the elimination of the current plan, while if there's no pill they generally want the board to commit to put future pills to a shareholder vote. There are many ways management can react to a successful proposal (Giné and Moussawi, 2007). For firms with an existing pill, we consider a proposal to have been substantially implemented if an existing pill terminates earlier than originally planned or if it is substantially lightened through a chewable feature, the end of dead-hand provisions or regular oversight by independent directors (TIDE provisions). This information is generally available in 8-A12B or 8-K filings. For firms that do not have a pill, proposals are implemented through commitments made by the board to consult shareholders in case a pill should be adopted[2]. Such policies are usually advertised in proxy

[2] In a few cases, bylaws are also amended to make sure shareholders are consulted.

statements. We do not make distinctions between policies that always require a shareholder vote before adopting a pill and those that give boards an option to skip this step (*fiduciary out* clause).

### 3.3 Eliminate Supermajority Requirements

By design, the reduction of voting requirements requires a shareholder vote. We mark a proposal as implemented if the following year management submits a proposal to amend the corresponding bylaws or if the board does not recommend voting against a similar shareholder proposal. We consider that management has reacted to the proposal if it has acted to remove some but not all supermajority requirements.

### 3.4 Right to Call a Special Meeting or Act by Written Consent[3]

Implementing those proposals requires an amendment to the bylaws, but not necessarily a vote. We consider such a proposal implemented if bylaws are directly amended by the board (8-K filing) or if the following year management submits a proposal to amend the corresponding bylaws or if the board does not recommend voting against a similar shareholder proposal. If management reduces the special meeting requirement, but not down to the level initially demanded by shareholder proponents, we still regard the proposal as implemented.

### 3.5 Majority Voting in Director Elections

Following the movement for majority voting started in 2004-2005, companies have officially implemented majority voting but with many degrees of efficacy (Cai, Garner and Walkling, 2013). We mark such proposals as implemented if boards have amended or made steps to amend the bylaws to impose majority voting for directors or resignation policies for directors failing to get a majority of votes. This means we do not consider the simple adoption of non-binding resignation guidelines as implementation. This very light step has in fact been taken by most listed firms, even if not asked by shareholders, making its relevance dubious. Moreover, ISS has stated that it does not consider such guidelines as a form of implementation of majority-vote proposals (Allen, 2007).

### 3.6 Vote on Golden Parachutes

Golden parachute proposals typically require a shareholder vote on the adoption of severance payments above a certain limit. We consider a proposal implemented if the board commits never

[3] Those two proposal types are often mixed together by proponents and management, which is why we bundle them.

to implement such severance payments in the future or if it commits to put their adoption to a vote. This commitment is generally displayed in the proxy statement.

### 3.7 CEO-Chairman Separation

Those proposals generally require the board to regularly appoint an independent chairman. We consider such proposals to be implemented if the board enacts such a policy, if it cancels an existing policy of having the CEO as chairman, if it creates a position of lead independent director/presiding director, if it starts to organize non-executive board sessions or if an independent director becomes chairman for a non-temporary period.

### 3.8 Say-on-Pay

This is implemented if either a management proposal to organize an advisory vote on executive compensation is submitted or such a vote is organized at the next meeting. Firms benefitting to TARP funds were required by law to hold such a vote starting in 2009; for those firms, we consider that proposals discussed in 2008 have an unobservable implementation status. Similarly, we consider that all proposals discussed in 2010, which were implemented following the Dodd-Frank Act, have an unobservable self-implementation status.

### 3.9 Option Expensing

We consider that a proposal to expense employee stock option plans is implemented if in the next 10-K statement, such plans are indeed expensed in the official income statement (not just as part of pro forma accounts). The FASB imposed option expensing in December 2004, so we consider that proposals discussed from 2004 onwards have an unobservable self-implementation status.

## 4 Majority Thresholds according to the State Rule

Table A.2 shows the distribution of majority thresholds across states. While in 13 states the approval threshold is based on counting votes “For over For plus Against plus Abstentions”, abstentions are not counted in the majority of the states.

Table A.3 shows that in the majority of the cases (1,589 out of 2,473), the approval threshold is “For over For+Abainst+Abstentions” according to the state law, while in the remaining 884 cases only votes “For” and “Against” are counted. Rows 1 to 3 show the corresponding corporate threshold. For instance, in 1,057 proposals, the corporate charter defines the threshold in terms of

votes “For over For plus Against”. The table also shows the compliance rate by the firms: in 717 out of 884 cases (81%) firms do not deviate from the simple majority state threshold. In the case of “For over For plus Against plus Abstentions”, firms only comply in 73% of the cases.

As we explain in Section 4.2., the data collection process for the management threshold is very demanding and time-consuming. Given that firms comply with the state rule in the majority of the cases, using the state-level threshold as a proxy for the management threshold may be a good and handy approximation.

We, therefore, check whether crossing the approval threshold set by the state law has any effect on adoption (similar to our findings on the management threshold in Section 5.1). In our empirical and graphical analysis, we look at the full sample and use the threshold defined by the state law as the threshold of interest. Figure A.3 shows a sharp and significant effect of passing the state-level threshold on implementation: The likelihood of implementation doubles and goes up by 20 percentage points. This result is confirmed in the non-parametric as well as parametric analysis (see Table A.4). The estimated effect is between 18 and 20% and significant at the 1%-level.

# 5 CII – Policies, Actions, and Disagreements

In the following section we display policies and actions that have been applied by CII as well as obvious disagreements in the interpretation of voting results between CII and firms. Please note that most of the information collected by the organization (such as the implementation of majority supported shareholder proposals) was made publicly available on the webpage of CII until the early 2000s. Today, however, action reports from CII are only available to its members. As we write, not even the membership list of CII is publicly available. Historical public information from the CII webpage can be accessed in part via the Internet Archive though.

## 5.1 General Principles of CII and Monitoring of Implementation

The Corporate Governance Policies of CII display the voting rule applied by CII for shareholder proposals ("for over for plus against") as well as its expectations from the board once a proposal has been approved according to that voting rule:

*GENERAL PRINCIPLES*

*C. Board Accountability to Shareholders*

*3. Boards should take actions recommended in shareholder proposals that receive a majority of* ***votes cast for and against. If shareholder approval is required for the action, the board should submit the proposal to a binding vote at the next shareholder meeting.*** *[…]*

Source: CII webpage

After an annual meeting, CII monitors the implementation of majority supported proposals. This implementation is tracked by CII via letters sent directly to the CEO.

> *Each year, the Council of Institutional Investors tracks all companies reporting majority votes on shareholder-sponsored resolutions.* ***The Council determines the voting results based on the votes cast for and against the resolutions; abstentions are not considered.*** *As set forth in the Policies section of the Council's Corporate Governance Policies, Council members believe that boards should take actions recommended in a shareholder proposal receiving a majority of the votes cast for and against unless the board communicates compelling reasons for not doing so.*
>
> ***To monitor how companies are responding to majority votes on shareholder resolutions, the Council sends letters to the chief executive officers of these companies, requesting information on the board's processes for evaluating the results and the board's recommendations following the votes.***
>
> Source: CII webpage

A summary of the yearly activities is usually published on the CII webpage. Below we display an excerpt of the report for the year 2000:

> *The Council sent letters to 50 companies reporting majority votes on 59 shareholder resolutions submitted in 2000. The Council tracked responses and posted company responses on its web page.*
>
> Source: CII webpage (Year 2000 ACCOMPLISHMENTS)

## 5.2 Example of disagreement between the Management and CII

As evidenced above, CII uses a simple majority rule (for over for plus against) as a voting rule, which may be different from the one in the corporate charter of some companies. This divergence may lead to conflicting interpretations of voting results in some cases. The following letter gives one example of such a conflict:

FREEPORT-McMoRan COPPER & GOLD

Freeport-McMoRan Copper & Gold Inc.
1615 Poydras Street
New Orleans, LA 70112
P.O. Box 51777
New Orleans, LA 70151

Douglas N. Currault II
Assistant Secretary
Telephone: 504-582-8412
FAX: 504-582-4250

July 27, 2000

**Via Telecopy and Mail**

Sarah Ball Teslik
Executive Director
Council of Institutional Investors
Suite 512
1730 Rhode Island Avenue, N.W.
Washington, DC 20036

Dear Ms. Teslik:

Mr. Moffett asked me to respond to your letter dated July 14, 2000 with respect to the stockholder proposal regarding our classified board structure.

As noted in your letter, at our 2000 annual meeting of stockholders Mr. Harold J. Mathis, Jr. and the New York City Employees' Retirement System sponsored a resolution requesting that our board take action to provide that new directors be elected annually. This was the third straight year that this proposal has been presented to our stockholders and has failed to pass. Once again the proposal failed to pass in 2000 because it received less than a majority of votes cast. Specifically, holders of 61,513,873 shares (49.45% of the votes cast) voted for, holders of 59,862,912 shares (48.12% of the votes cast) voted against and holders of 3,026,978 shares (2.43% of the votes cast) abstained from voting on the resolution.

In your letter, you indicated that "a majority of your shareholders supported a resolution" to repeal the classified board. Your website, http://www.cii.org/majvote00.htm, entitled "2000 Majority Vote Companies," also reports a majority vote in favor of the classified board resolution. However, as noted above, the proposal failed to receive a majority of the votes cast, although it did receive more votes "for" than "against." Because the proposal did not receive a majority of the votes cast (in fact, it received less than 38.5% of the total outstanding shares voting), it failed. As a result, the stockholders did not request board action, and no board action is required at this time.

We request that your website be revised to accurately reflect that the proposal did not receive a majority of votes cast and to remove any statements suggesting that the proposal passed.

Sincerely,

Douglas N. Currault II

cc: Harold J. Mathis, Jr.
Ken Sylvester, New York City Pension Funds
James R. Moffett

{F5003858.1}

## 5.3 Actions taken by CII

Following its General Principles presented above, CII expects from a board to implement a majority-supported shareholder proposal. While there is no proxy voting rule imposed on CII members to withhold votes for directors after a board has failed to implement a majority-supported proposal, there is evidence that CII uses private communications to advise members to withhold their votes in case a firm does not implement a majority-supported proposal.

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*PROTEST CONSIDERED BY CII MEMBERS MAY WITHHOLD SUPPORT FROM SOME DIRECTORS*

*By Vineeta Anand and Marlene Givant Star | February 21, 1994 | Pensions & Investments*

*WASHINGTON - **The Council of Institutional Investors might encourage its members to signal their loss of confidence in directors of recalcitrant companies by withholding votes for their re-election at upcoming annual meetings, said Anne Hansen, the council's deputy director. […]***

***Among the companies the council may be targeting are Armstrong World Industries, Bowater Inc. and Browning-Ferris Industries, for failing to adopt bylaw changes even after a majority of investors have voted for them at annual meetings (Pensions & Investments, Feb. 7).***

***Such "Just Say No" campaigns, as they are known in corporate governance circles, have proved to be effective in sending directors a message that shareholders have lost confidence in their oversight abilities.***

*The council also hopes, by promoting discussion of shareholder proposals and proxy voting strategies among members, to shame such companies into adopting governance changes that have received more than 50% of the votes cast by shareholders at annual meetings in previous years. […]*

Source: February 21, 1994 | Pensions & Investments

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# 6 Figures

**Figure A.1:** Thresholds and Samples

1.A: Thresholds / Voting Rules:

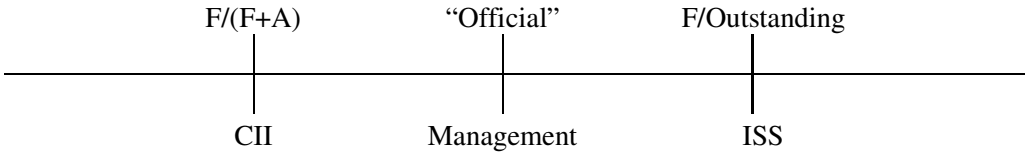



Figure 1.A illustrates and labels the different thresholds this paper focuses on. The CII threshold only considers votes "for" and "against", while the ISS threshold counts "abstentions", "broker non-votes", and "absent votes" de facto as votes against the proposal, i.e., the approval threshold is 50% of votes "for" over shares outstanding. The official threshold, which we call the "management threshold", is defined by the corporate bylaws. This threshold is fixed and known to shareholders before the shareholder meeting and can be based on any voting rule as discussed in Section 2.2., including the CII and ISS voting rule. In our main specifications, when evaluating the treatment effect of passing the CII (ISS) threshold, we require the CII (ISS) threshold to be different from the management threshold.

1.B: Specifications / Samples of interest:

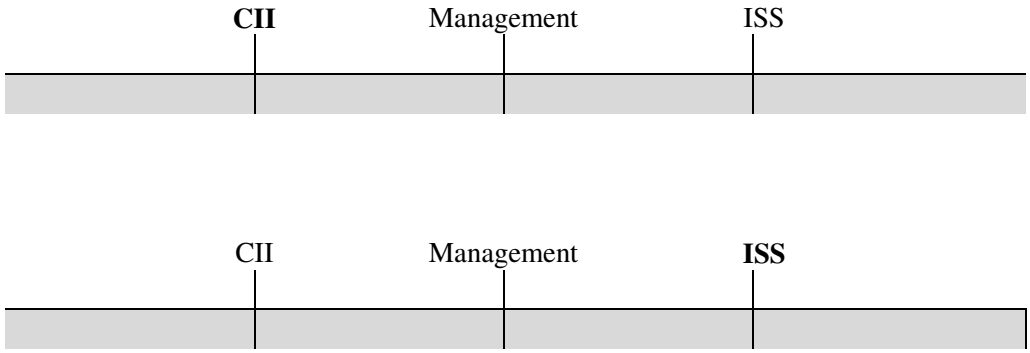
*1.B.1: Specification 1: Mngt-CII > 1%*

This specification requires that the number of votes counting against the proposal according to the CII and management rule differ by at least 1% of votes effectively cast "for" and "against", i.e., there is a "voting gap" of at least 1%. As an example, consider the case when the management rule is to count abstentions in the denominator (which is the same thing as treating them as votes against the proposal) and the proposal obtains the following results: 501 for, 499 against and 50 abstentions. The voting result is 50.1% according to CII, 47.7% according to management, and the corresponding voting gap is 5% (i.e., 50/(501+499)) of votes "for" and "against".

*1.B.2: Specification 2: Mngt-CII > 2%*

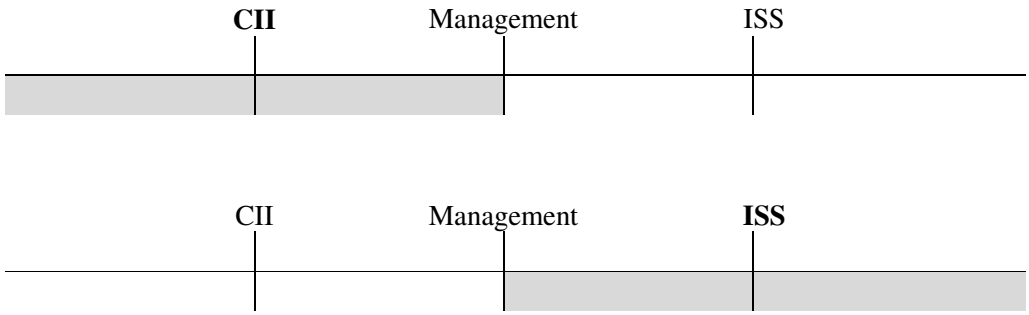
This specification requires that the number of votes counting against the proposal according to the CII and management rule differ by at least 2% of votes effectively cast "for" and "against", i.e., there is a "voting gap" of at least 2%.

*1.B.3: Specification 3: Full Sample*



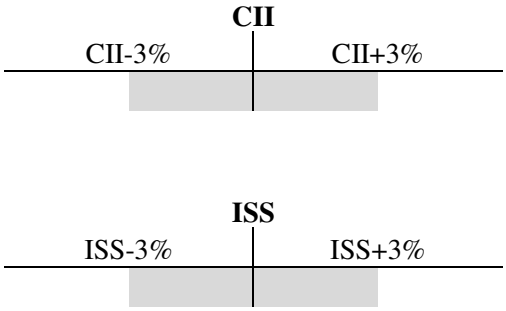

The upper part Figure 1.B.3 shows the proposals in grey that are considered when evaluating ant treatment effect of passing the CII threshold (bold). The lower part shows the equivalent considered proposals in for an evaluation of the ISS threshold. In this specification all proposals are used. The treatment effects are estimated by running local linear regressions.

*1.B.4: Specification 4: No Contamination Sample*




The upper part Figure 1.B.4 shows the proposals in grey that are considered when evaluating ant treatment effect of passing the CII threshold (bold). To avoid contamination by passing also the management threshold, this specification focuses only on proposals that have *not yet* passed the management threshold. The lower part shows the equivalent considered proposals when evaluation of the ISS threshold. To avoid contamination by not passing the management threshold, this specification focuses only on proposals that have already passed the management threshold. The treatment effects are estimated by running local linear regressions.

*1.B.5: Specification 5: Parametric estimation with controls*




The upper part Figure 1.B.5 shows the proposals in grey that are considered when evaluating ant treatment effect of passing the CII threshold (bold). The lower part shows the equivalent considered proposals when evaluation of the ISS threshold. These specifications use only proposals that are contested, i.e., in which the voting outcome it in the range of 47-53% around the threshold of interest. This specification is estimated parametrically using OLS and controlling for potential effects of passing other thresholds as well. For example, we estimate the treatment effect of passing the CII threshold on outcome Y by running the following regression:

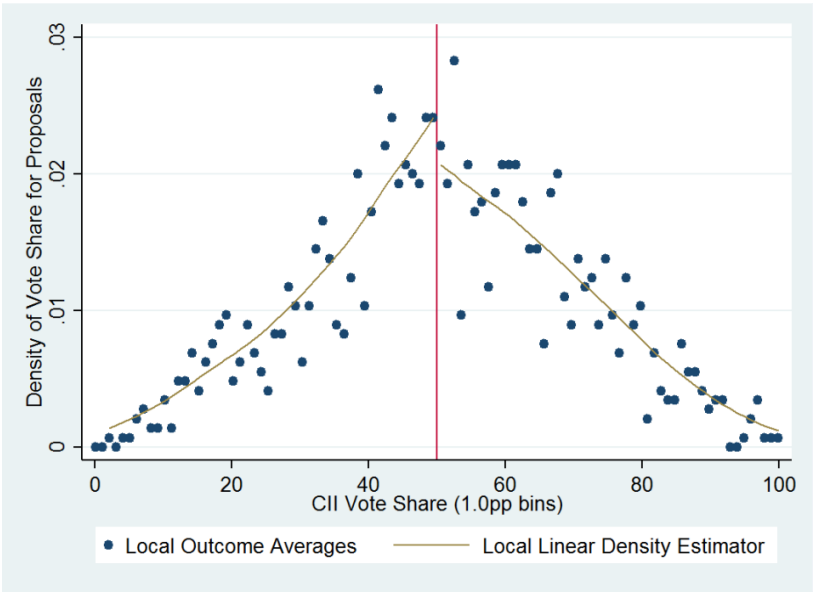
$$Y_i = \alpha + \beta_1 Pass(CII)_i + \beta_2 Pass(Mngt)_i + \beta_3 Pass(ISS)_i + \varepsilon_i$$

In this example the sample is restricted to proposals that reach support between 47 and 53% according to the CII voting rule; the coefficient of interest is $\beta_1$.

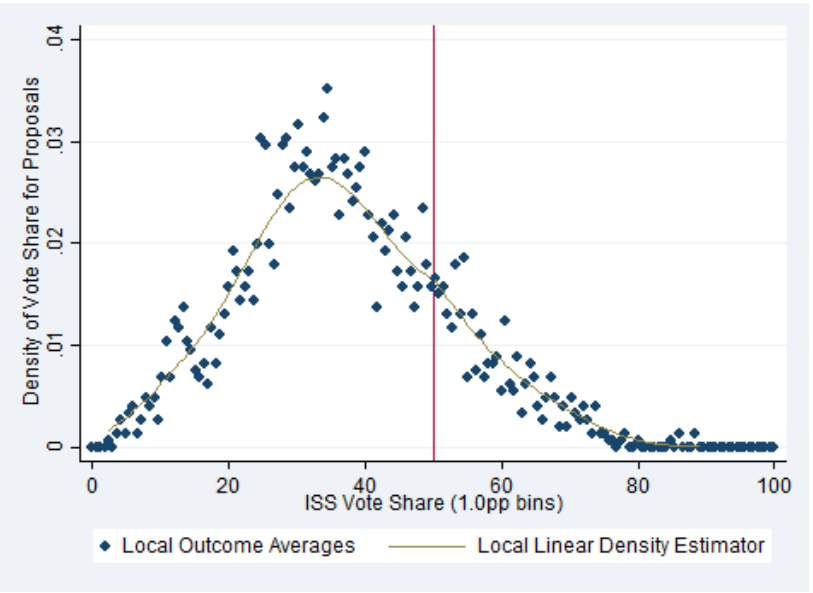
**Figure A.3:** Distribution of Voting Shares Around the Approval Thresholds

Proposals are grouped into one percentage-point bins: proposals that passed by between 0% and 1% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The local linear regression is estimated using the bandwidth suggested by McCrary (2008). The first figure shows the results for proposals at the CII threshold (voting rule: For/(For+Against), the second figure at the Management threshold, and the third figure at the ISS threshold (voting rule: For/Outstanding). Proposals for which the threshold of interest overlaps (or differs by less than 0.5% of cast votes) with another threshold are excluded. Source : ISS (1997-2011).

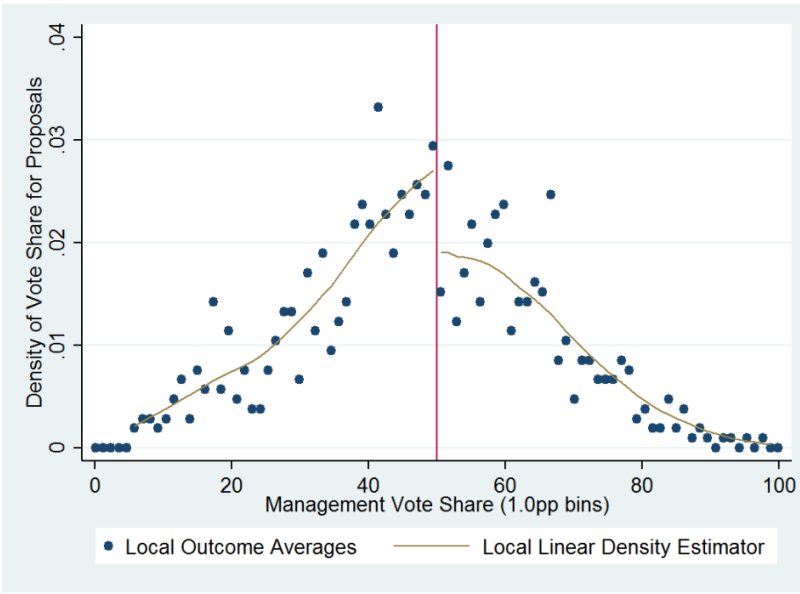
CII




ISS



Management




Management (full sample)

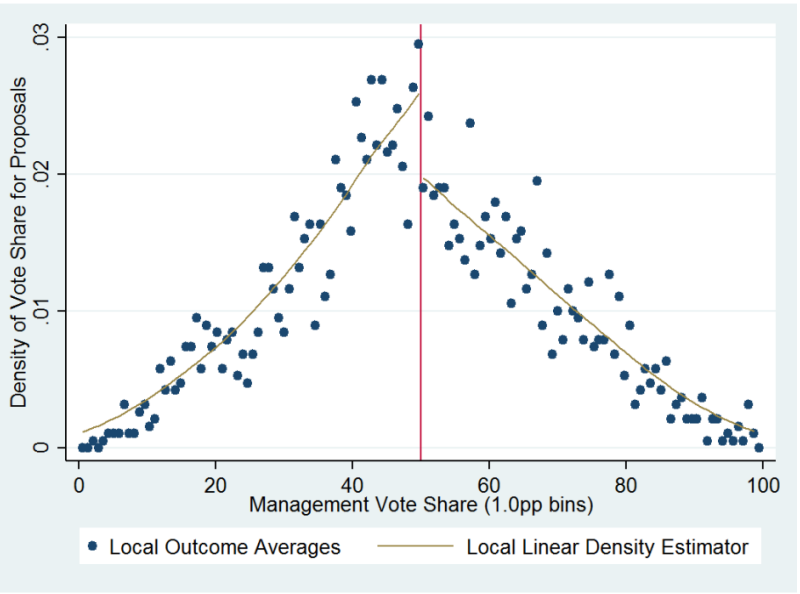
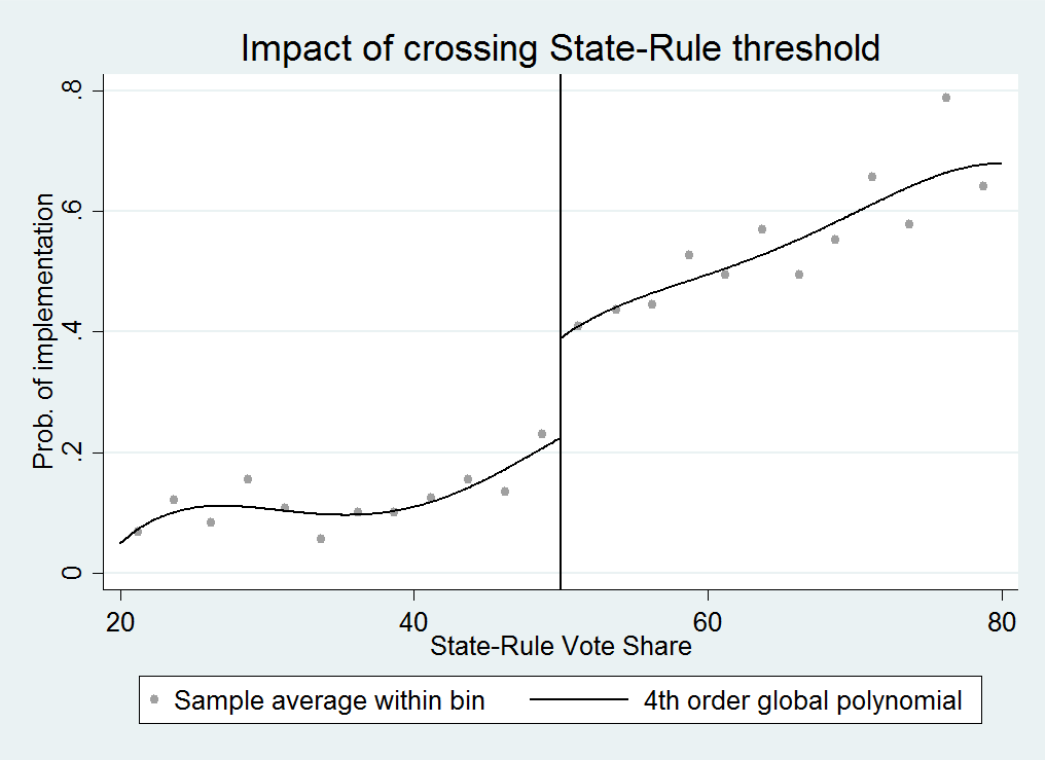


**Figure A.4:** Ex-post Implementation of Shareholder Proposals and Shareholder Voting

Implementation is a dummy variable equal to one if the proposal is implemented in the year after the shareholder meeting in which a proposal is put to the vote. The figure shows the results for proposals at the state-level threshold. Source : DEF 14A filings (1997-2011).



# 7 Tables

**Table A.1:** Internal and External Validity of the Vote Discontinuity Quasi-Experiment

For placebo tests, each column presents the treatment effect on the outcome titled on the leftmost column of passing a proposal at either the CII or the ISS threshold using different sample restrictions (baseline and full sample) and different estimation methods (local linear regression with triangular kernel and IK bandwidth, and difference-in-means in a -3/+3 window around the threshold). For external validity tests, we perform difference-in-means tests between observations that correspond to heavily contested proposals (either according to the CII or to the ISS threshold) and those where there is little uncertainty over the outcome. Variables are described in Table A.5. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, ExecuComp, Compustat (1997-2011).

*Panel A: CII Threshold*

| | *Placebo Tests* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Local Linear Regressions** | | | | | | **OLS** |
| Log(Assets) | -0.02 | -0.19 | -0.03 | 0.54 | -0.10 | 0.44 | 0.38 |
| | (0.22/566) | (0.33/295) | (0.19/746) | (0.24/394)** | (0.19) | (0.26/451) | (0.25/197) |
| Tobin's Q | 0.25 | 0.60 | 0.13 | -0.13 | -0.01 | 0.24 | 0.01 |
| | (0.31/572) | (0.47/301) | (0.24/761) | (0.26/367) | (0.14) | (0.33/397) | (0.25/197) |
| ROE | -0.01 | 0.02 | -0.01 | 0.04 | -0.02 | 0.03 | 0.02 |
| | (0.02/704) | (0.02/454) | (0.02/809) | (0.03/234) | (0.01) | (0.03/312) | (0.02/160) |
| Log(Wage Ratio) | -0.21 | -0.21 | -0.25 | -0.12 | -0.16 | -0.01 | 0.05 |
| | (0.16/693) | (0.21/395) | (0.14/855)* | (0.25/355) | (0.12) | (0.2/449) | (0.19/196) |
| CEO Age | -1.74 | -2.22 | -1.21 | -0.89 | 0.66 | 0.07 | 0.27 |
| | (1.25/400) | (1.72/201) | (1.01/566) | (1.17/412) | (0.89) | (1.54/377) | (1.12/197) |
| G-Index | -0.50 | -0.63 | -0.47 | -0.24 | -0.42 | -0.67 | -0.54 |
| | (0.32/525) | (0.45/268) | (0.28/694) | (0.37/331) | (0.25) | (0.37/429) | (0.37/189) |
| Ownership (HHI) | 0.006 | 0.009 | 0.006 | 0.004 | 0.005 | 0.003 | 0.003 |
| | (0.004/600) | (0.005/325)* | (0.004/786)* | (0.005/338) | (0.003) | (0.004/652) | (0.005/189) |
| Share of top20 inst. investors | 0.013 | 0.012 | 0.020 | 0.006 | 0.011 | -0.021 | -0.016 |
| | (0.02/564) | (0.02/302) | (0.01/749) | (0.02/399) | (0.01) | (0.02/361) | (0.02/189) |
| *Scaling* | 100% | 50% | 150% | 100% | 100% | 100% | N/A |
| *Sample* | | Mngt-CII > 1% | | Mngt-CII > 2% | Mngt-CII > 0% | No cont. | (47,53) |

*External Validity*

| | **Non-Contested proposals** | | **Contested proposals (47,53)** | | **Difference** | |
|---|---|---|---|---|---|---|
| Assets (Log) | 9.60 | 2171 | 9.73 | 341 | 0.13 | 0.1 |
| Tobin's Q | 1.28 | 2169 | 1.38 | 341 | 0.09 | 0.09 |
| ROE | 0.12 | 1841 | 0.13 | 292 | 0.01 | 0.01 |
| CEO Excess Comp. (log) | 8.75 | 2162 | 8.81 | 338 | 0.06 | 0.07 |
| CEO Age | 56.32 | 2171 | 56.74 | 341 | 0.42 | 0.4 |
| G-Index | 6.51 | 2052 | 6.55 | 326 | 0.04 | 0.13 |
| Ownership (HHI) | 0.043 | 2077 | 0.040 | 332 | -0.003 | 0.0014** |
| Share of top20 institutional investors | 0.66 | 2077 | 0.65 | 332 | -0.02 | 0.01** |

*Panel B: ISS Threshold*

*Placebo Tests*

| | **Local Linear Regressions** | | | | **OLS** |
|---|---|---|---|---|---|
| Log(Assets) | -0.32 | -0.38 | -0.17 | -0.37 | -0.31 |
| | (0.19/993)* | (0.28/503) | (0.17/1534) | (0.24/632)* | (0.17/227)* |
| Tobin's Q | 0.04 | 0.17 | 0.03 | 0.18 | 0.13 |
| | (0.16/1525) | (0.22/730) | (0.14/2092) | (0.25/598) | (0.18/227) |
| ROE | 0.02 | 0.03 | 0.01 | 0.04 | 0.02 |
| | (0.01/1171) | (0.02/568) | (0.01/1674) | (0.02/424) | (0.02/206) |
| CEO Excess Comp. (log) | 0.00 | -0.06 | 0.08 | -0.05 | -0.04 |
| | (0.12/1259) | (0.19/609) | (0.11/1831) | (0.16/697) | (0.12/227) |
| CEO Age | -1.04 | -1.03 | -1.27 | -2.14 | -1.69 |
| | (0.69/1988) | (0.97/1028) | (0.61/2356)** | (1.26/507)* | (0.86/227)* |
| G-Index | -0.19 | -0.03 | -0.13 | -0.13 | 0.00 |
| | (0.23/989) | (0.32/503) | (0.19/1498) | (0.3/547) | (0.22/217) |
| Ownership (HHI) | -0.001 | 0.002 | -0.001 | 0.002 | 0.001 |
| | (0.002/1391) | (0.003/664) | (0.002/1954) | (0.003/554) | (0.002/217) |
| Share of top20 institutional investors | 0.006 | 0.015 | 0.001 | 0.003 | 0.012 |
| | (0.01/1027) | (0.02/516) | (0.01/1560) | (0.01/990) | (0.01/217) |
| *Scaling* | 100% | 50% | 150% | 100% | N/A |
| *Sample* | | Mngt-CII > 0,1,2% | | No cont. | (47,53) |

*External Validity*

| | **Non-Contested proposals** | | **Contested proposals (47,53)** | | **Difference** | |
|---|---|---|---|---|---|---|
| Assets (Log) | 9.68 | 2275 | 9.03 | 237 | -0.65 | 0.12*** |
| Tobin's Q | 1.29 | 2273 | 1.36 | 237 | 0.07 | 0.09 |
| ROE | 0.12 | 1919 | 0.11 | 214 | -0.01 | 0.01 |
| CEO compensation (Log) | 8.77 | 2263 | 8.68 | 237 | -0.09 | 0.07 |
| CEO Age | 56.42 | 2275 | 55.95 | 237 | -0.47 | 0.44 |
| G-Index | 6.48 | 2151 | 6.84 | 227 | 0.36 | 0.14** |
| Ownership (HHI) | 0.0430 | 2183 | 0.0428 | 226 | -0.0001 | 0.0017 |
| Share of top20 institutional investors | 0.66 | 2183 | 0.68 | 226 | 0.02 | 0.01** |

**Table A.2:** Voting Rules according to the State Law

This table shows the voting rule according to the state low for the different states in the US. We collect data on the voting rules on state level from LexisNexis.

| State | Voting Rule | State | Voting Rule |
|---|---|---|---|
| Alaska | F/(F+A+AB) | Mississippi | F/(F+A) |
| Alabama | F/(F+A) | Montana | F/(F+A) |
| Arkansas | F/(F+A) | North Carolina | F/(F+A) |
| Arizona | F/(F+A) | North Dakota | F/(F+A+AB) |
| California | F/(F+A) | Nebraska | F/(F+A) |
| Colorado | F/(F+A) | New Hampshire | F/(F+A) |
| Colorado | F/(F+A+AB) | New Jersey | F/(F+A) |
| Connecticut | F/(F+A) | New Mexico | F/(F+A+AB) |
| District of Columbia | F/(F+A) | Nevada | F/(F+A) |
| Delaware | F/(F+A+AB) | New York | F/(F+A) |
| Florida | F/(F+A) | Ohio | F/(F+A) |
| Georgia | F/(F+A) | Oklahoma | F/(F+A+AB) |
| Hawaii | F/(F+A) | Oregon | F/(F+A) |
| Iowa | F/(F+A) | Pennsylvania | F/(F+A) |
| Idaho | F/(F+A) | Rhode Island | F/(F+A+AB) |
| Illinois | F/(F+A+AB) | South Carolina | F/(F+A) |
| Indiana | F/(F+A) | South Dakota | F/(F+A) |
| Kansas | F/(F+A+AB) | Tennessee | F/(F+A) |
| Kentucky | F/(F+A) | Texas | F/(F+A+AB) |
| Louisiana | F/(F+A) | Utah | F/(F+A) |
| Massachusetts | F/(F+A) | Virginia | F/(F+A) |
| Maryland | F/(F+A) | Vermont | F/(F+A) |
| Maine | F/(F+A) | Washington | F/(F+A) |
| Michigan | F/(F+A) | Wisconsin | F/(F+A) |
| Minnesota | F/(F+A+AB) | West Virginia | F/(F+A) |
| Missouri | F/(F+A+AB) | Wyoming | F/(F+A) |

**Table A.3:** Deviations from the State Rule

This table shows the frequencies of the different majority rules by state and corporate level respectively on proposal level. The columns show frequencies of the different thresholds according to the state law, while the columns represent the corresponding thresholds according to the corporate charter (the management threshold).

| | | **State rule** | | |
|---|---|---|---|---|
| | | F+A | F+A+AB | Total |
| **Corporate rule** | F+A | 717 | 340 | 1057 |
| | F+A+AB | 95 | 1153 | 1248 |
| | F+A+AB+NV | 15 | 57 | 72 |
| | Outstanding | 57 | 39 | 96 |
| | Total | 884 | 1589 | 2473 |

**Table A.4:** The Effect of Passing Governance Proposals on Proposal Implementation

Each column presents the treatment effect on implementation of passing a proposal at the state-level threshold using the full sample. We use different estimation methods (medium, small and large bandwidth, and OLS). The implementation dummy is a dummy variable that is equal to 1 if the firm has implemented the proposal within one year after the shareholder meeting. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

| | **State-level threshold** | | | |
|---|---|---|---|---|
| | Local Linear Regressions | | | OLS |
| *Coeff.* | 18.09% | 20.18% | 19.68% | 18.83% |
| *s.e.* | (4.99)*** | (7.18)*** | (4.25)*** | (5.11)*** |
| *Scaling* | 100% | 50% | 150% | N/A |
| *Covariates* | | No | | Yes |
| *Sample* | | Full | | (47,53) |


| | **State-level threshold** | | | |
|---|---|---|---|---|
| | Local Linear Regressions | | | OLS |
| *Coeff.* | 18.09% | 20.18% | 19.68% | 18.83% |
| *s.e.* | (4.99)*** | (7.18)*** | (4.25)*** | (5.11)*** |
| *Scaling* | 100% | 50% | 150% | N/A |
| *Covariates* | | No | | Yes |
| *Sample* | | Full | | (47,53) |

**Table A.5:** List of Variables

*Panel A: Firm and CEO Characteristics*

| **Variable Name** | **Description** | **Database** |
|---|---|---|
| CEO age | Age of incumbent CEO at the time of the meeting | Execucomp |
| CEO excess compensation (log) | Total compensation of CEO at end of the year before the meeting over market cap | Execucomp + Compustat |
| Market cap (M$) | Logarithm of market cap at end of the year before the meeting | Compustat |
| Book-to-market | Book-to-market is the ratio of book value of common equity (previous fiscal year) to market value of common equity (end of previous fiscal year). | Compustat |
| ΔBook/Mkt (x100) (after one, two, three years) | The difference between the book-to-market ratio one, two, three years after the shareholder meeting compared to book-to-market in the year before the meeting. | Compustat |
| ROE | Return on Equity is the ratio of Net income to book value of equity plus Deferred Taxes and Investment Tax Credit. | Compustat |
| ΔROE (x100) (after one, two, three years) | The difference between ROE one, two, three years after the shareholder meeting compared to ROE in the year before the meeting. | Compustat |
| G-index | G-index is the governance index of the firm in the end of the year before the meeting | RiskMetrics |

*Panel B: Voting Outcomes, Proposal Implementation, Valuation*

| Variable Name | Description | Database |
|---|---|---|
| Vote share CII (F/(F+A)) | Percentage of votes for proposal over votes for plus votes against proposal | RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR |
| Vote share Management | Percentage of votes for proposal over denominator according the the bylaws of the company | RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR |
| Vote share ISS (F/Outstanding) | Percentage of votes for proposal over shares outstanding | RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR |
| Passing CII | Dummy for when a proposal reaches 50% of votes according to the CII threshold, i.e., if the vote share CII reaches 50% | RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR |
| Passing Management | Dummy for when a proposal reaches 50% of votes according to the Management threshold, i.e., if the vote share Mangement reaches 50% | RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR |
| Passing ISS | Dummy for when a proposal reaches 50% of votes according to the ISS threshold, i.e., if the vote share ISS reaches 50% | RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR |
| CAR[0,0] meeting | CAR[0,0] for meeting day (Market Model, Value-weighted), winsorized at the 1% level | CRSP |
| Implementation | Dummy for implementation of the proposal by the government in the year after the shareholder meeting. | SEC filings in EDGAR |

*Panel C: CEO Turnover*

| Variable Name | Description | Database |
|---|---|---|
| CEO turnover | Dummy for when a turnover occurs in the two years following meeting | Factiva |
| CEO turnover CARs | CAR[0,+1] for CEO turnover day (Market Model, Value-weighted) | Factiva + CRSP |
| Bad CEO turnover | Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below the lowest quartile of the CARs at the announcement days of CEO turnovers | Factiva + CRSP |
| Medium CEO turnover | Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] above the lowest quartile and below the highest quartile of the CARs at the announcement days of CEO turnovers | Factiva + CRSP |
| Good CEO turnover | Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] above the highest quartile of the CARs at the announcement days of CEO turnovers | Factiva + CRSP |
| Bad CEO turnover (ROA) | Dummy for when a turnover occurs in the two years following meeting, with a change in the industry-adjusted ROA (from t-1 to t+3) below the 25$^{th}$ percentile of these changes. | Factiva + Compustat |
| Medium CEO turnover (ROA) | Dummy for when a turnover occurs in the two years following meeting, with a change in the industry-adjusted ROA (from t-1 to t+3) above the 25$^{th}$ percentile and below the 75$^{th}$ percentile of these changes. | Factiva + Compustat |
| Good CEO turnover (ROA) | Dummy for when a turnover occurs in the two years following meeting, with a change in the industry-adjusted ROA (from t-1 to t+3) above the 75$^{th}$ percentile of these changes. | Factiva + Compustat |

*Panel D: Director Recommendation and Elections*

| Variable Name | Description | Database |
|---|---|---|
| Mean votes against directors | Mean withholding vote share of incumbent directors (in place by the year of the initial shareholder meeting) at the next year's shareholder meeting | SEC filings in EDGAR |
| Log votes against incumbent directors | Average logarithm of the withholding vote share across incumbent directors (in place by the year of the initial shareholder meeting) at the next year's shareholder meeting | SEC filings in EDGAR |
| Mean votes against CEO | Mean withholding vote share of incumbent CEO (in place by the initial shareholder meeting) at the next year's shareholder meeting | SEC filings in EDGAR |
| Log votes against CEO | Logarithm of the withholding vote share of incumbent CEO (in place by the initial shareholder meeting) at the next year's shareholder meeting | SEC filings in EDGAR |
| Log of Votes against best director | Logarithm of votes against the incumbent management nominee that receives the highest fraction of support at the next year's shareholder meeting, i.e., 100%-votes of best director. | SEC filings in EDGAR |
| Votes against best director | Withholding vote share of the incumbent management nominee that receives the highest fraction of support at the next year's shareholder meeting. | SEC filings in EDGAR |
| Log of Votes against worst director | Logarithm of votes against the incumbent management nominee that receives the least fraction of support at the next year's shareholder meeting. i.e., 100%-votes of worst director. | SEC filings in EDGAR |
| Votes against worst director | Withholding vote share of the incumbent management nominee that receives the lowest fraction of support at the next year's shareholder meeting. | SEC filings in EDGAR |
| Recommendation against a director | Dummy equal to one if ISS recommends "vote no" against at least one of the incumbent management nominees at the next year's shareholder meeting. | ISS/Voting Analytics |
| Recommendation against all directors | Dummy equal to one if ISS recommends "vote no" against all incumbent management nominees at the next year's shareholder meeting. | ISS/Voting Analytics |

# 8 References

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