

Managerial Response to Shareholder Empowerment: Evidence from Majority Voting Legislation Changes

Finance Working Paper N° 622/2019

August 2019

Vicente Cuñat

London School of Economics and ECGI

Yiqing Lü

New York University Shanghai

Hong Wu

Hong Kong Polytechnic University

© Vicente Cuñat, Yiqing Lü and Hong Wu 2019. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

This paper can be downloaded without charge from:
http://ssrn.com/abstract_id=3219188

www.ecgi.global/content/working-papers

ECGI Working Paper Series in Finance

Managerial Response to Shareholder
Empowerment: Evidence from Majority Voting
Legislation Changes

Working Paper N° 622/2019

August 2019

Vicente Cuñat
Yiqing Lü
Hong Wu

For helpful comments, we thank Reena Aggarwal, Lucian Bebchuk, Alon Brav, Ofer Eldar, Denis Gromb, Swasti Gupta-Mukherjee, Seungjoon Oh, Ralph Walkling, David Yermack, and audiences at the Spanish Economic Association Annual Conference 2018, FMA Europe Conference 2019, CICF 2019, the Erasmus School of Economics, The Technical University of Munich, NYU Shanghai, and Fudan University. Any errors are attributable solely to the authors.

© Vicente Cuñat, Yiqing Lü and Hong Wu 2019. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

Abstract

This paper studies how managers react to shareholder empowerment vis-à-vis governance provisions. We show that a staggered legislative change that increases noncompliance costs in the implementation of shareholder-initiated majority voting proposals is followed by an increase in the submission of management-initiated proposals. Management adopts provisions that crowd out shareholder-initiated proposals, pre-empt shareholder-initiated changes and give management control over future voting standard amendments. The remaining firms experience a more negative market return reaction in response to close-call votes on shareholder-initiated proposals. The results jointly indicate that managers seek to preserve shareholder-value by moderating the implementation of majority voting standards.

Keywords: Corporate Governance, Majority Voting, Shareholder Activism, Management Fronting

JEL Classifications: G34, G14

Vicente Cuñat

Associate Professor of Finance
London School of Economics, Department of Finance
Houghton Street
WC2A 2AE London, United Kingdom
phone: +44 207 955 6203
e-mail: V.Cunat@lse.ac.uk

Yiqing Lü*

Assistant Professor of Finance
New York University Shanghai
1555 Century Ave
Pudong, Shanghai, China
phone: +86 212 059 5104
e-mail: yiqing.lu@nyu.edu

Hong Wu

Assistant Professor of Finance
Hong Kong Polytechnic University, School of Accounting and Finance
11 Yuk Choi Road
Hung Hom, Kowloon, Hong Kong
e-mail: hong.87.wu@polyu.edu.hk

*Corresponding Author

**Managerial Response to Shareholder Empowerment:
Evidence from Majority Voting Legislation Changes**

Vicente Cuñat¹

Department of Finance, London School of Economics

V.Cunat@lse.ac.uk

Yiqing Lü

New York University Shanghai

yiqing.lu@nyu.edu

Hong Wu

School of Accounting and Finance

Hong Kong Polytechnic University

hong.87.wu@polyu.edu.hk

August 2019

Abstract: This paper studies how managers react to shareholder empowerment vis-à-vis governance provisions. We show that a staggered legislative change that increases noncompliance costs in the implementation of shareholder-initiated majority voting proposals is followed by an increase in the submission of management-initiated proposals. Management adopts provisions that crowd out shareholder-initiated proposals, pre-empt shareholder-initiated changes and give management control over future voting standard amendments. The remaining firms experience a more negative market return reaction in response to close-call votes on shareholder-initiated proposals. The results jointly indicate that managers seek to preserve shareholder-value by moderating the implementation of majority voting standards.

JEL: G34, G14

Keywords: Corporate Governance, Majority Voting, Shareholder Activism, Management Fronting

¹ For helpful comments, we thank Reena Aggarwal, Lucian Bebchuk, Alon Brav, Ofer Eldar, Denis Gromb, Swasti Gupta-Mukherjee, Seungjoon Oh, Ralph Walkling, David Yermack, and audiences at the Spanish Economic Association Annual Conference 2018, FMA Europe Conference 2019, CICF 2019, the Erasmus School of Economics, The Technical University of Munich, NYU Shanghai, and Fudan University. Any errors are attributable solely to the authors.

1. Introduction

Shareholders can influence firms through two distinct voting mechanisms. The first is an indirect democracy mechanism, which shares some similarities with the election of political representatives. Shareholders elect firm directors, who then make decisions about who runs the firm and how it is managed as a central agency. The second is a direct democracy channel, akin to some form of a shareholder referendum on a specific issue. Shareholders can vote on proposals submitted by either shareholders or the management. These mechanisms are two of the main channels through which shareholders can affect managerial actions. While indirect democracy confers authority onto the board of directors (Bainbridge, 2005), direct democracy enables shareholders to directly intervene in a firm's operation (Bebchuk, 2004).

Regulators often change the rules of both direct and indirect shareholder democracy to improve the effectiveness of shareholder voting and to limit managerial authority. However, firms are heterogeneous in the sense that the virtues of managerial authority in relation to the need to discipline such power differ substantially across firms (Aghion and Tirole, 1997; Aghion and Holden, 2011). Thus, changes in governance regulations may be beneficial for some firms but destructive for others. This paper studies managerial reaction to shareholder empowerment that strengthens the direct democracy form of shareholder voting. We explore this research question by using a quasi-natural experiment, the staggered passage of legislation that makes it more costly to not implement the outcome of a specific subset of shareholder-initiated proposals (hereafter, shareholder proposals). Incidentally, the specific type of proposal accompanied by higher non-compliance costs concerns the rules for electing directors. Essentially, the new law empowers shareholders via binding voting that subjects board of directors to stricter voting rules in director elections. Therefore, this regulatory change provides a suitable setting for understanding managerial behaviors and the underlying incentives when regulators tilt the balance of corporate governance away from managerial authority and toward shareholder empowerment in both forms of direct and indirect democracy.

Director election is a crucial means by which shareholders hold directors accountable. The plurality voting standard has been the default standard in director elections in nearly all U.S. states.² In 2006, the Delaware legislature and the American Bar Association passed new amendments to the Delaware General Corporation Law (DGCL) and Model Business Corporation Act (MBCA), respectively. Under the new laws, the board cannot unilaterally amend or repeal the shareholder-

² It has received increasing criticism for its disregard of withheld votes, given that in an uncontested board election, a single vote can be sufficient to ensure success.

adopted majority voting bylaw amendments related to director elections. Several states that use the MBCA as the basis of their own state laws subsequently changed their corporate law provisions to facilitate majority voting.³

The literature on proxy voting mainly focuses on the effect of non-binding voting in direct democracy on corporate governance and firm performance (e.g., Karpoff, Malatesta and Walkling, 1996; Levit and Malenko, 2011; Cuñat, Gine and Guadalupe, 2012 and 2013). When voting is non-binding, implementation by management is a decision made after aggregating the voices of shareholders and management.⁴ The legislative change could make it more difficult for management to incorporate their own information into the decision-making, especially when shareholders have divergent interests or are less informed about the firm (Arrow, 1974). While it is important to empower shareholders to monitor managers, it is also crucial to give managers some flexibility so that they can modulate between shareholders' needs and those of the firm, according to their superior information. Thus, a complete understanding of corporate governance needs to balance the two forces of managerial authority and shareholder power.

To examine the managerial response to shareholder empowerment, we proceed in three steps. First, we exploit, as a quasi-natural experiment, the aforementioned legislative changes that increase the costs of not implementing majority voting. Doing so enables us to obtain, from the filed proposals, causal estimates of managers' reactions to the shareholder empowerment that derives from changes to the voting standards. More specifically, we implement a difference-in-differences (DiD) estimation using the staggered introduction of these legal amendments across different U.S. states.

We find evidence that managers view shareholder proposals and management proposals on similar issues differently. After enactment of the new laws, the average number of management proposals per treated state grows by 0.113 to 0.392 depending on the specification after the legislative change, compared to the average number of proposals per control state. This result indicates that in response to the legislative changes, managers prefer to initiate a majority voting standard on their own, rather than to wait for shareholders to introduce a proposal. To the extent that the new laws empower shareholders, we do not find a significant increase in the number of shareholder proposals, suggesting that management proposals may crowd out shareholder proposals. Consistent with this interpretation, we find that after the legislative changes, compared to firms that did not receive management proposals in the past, the chance of a firm having a

³ Including the forced resignation of directors who do not receive a majority of the votes (Mourning, 2007).

⁴ For example, among Russell 3000 firms in 2005, only about half of the majority-passed shareholder proposals were ultimately implemented.

shareholder proposal decreases by 16% after the management brought a proposal. Moreover, the implementation of a majority voting standard significantly increases after legislative changes, even for firms that do not receive a shareholder proposal. Since the legislative changes do not reinforce the implementation in firms that receive no shareholder proposals, this result suggests that management may *front* shareholder proposals. That is, managers directly initiate and implement majority voting standards to pre-empt shareholder proposals.

Second, we investigate the details of these management proposals to see how they differ from shareholder proposals in order to understand the incentives of fronting. In particular, we examine the differences in the characteristics of similarly classified management and shareholder proposals related to the proposals' reversibility and the resignation policies.

We find evidence that managers, after the legislative changes, become less likely to implement majority voting via a bylaw and more likely to do so via charter. This implementation route favors managers because amending a charter requires the consent of both the board and shareholders while amending a bylaw only requires the latter's consent. Managers are also more likely to install a favorable director resignation policy after the enactment of the new laws because such policies enable firms to retain directors who fail to win a majority of votes until a suitable replacement is found, rather than requiring an immediate resignation. These elements make the implementation of management proposals on majority voting more friendly to managers than that of the shareholder proposals on the same issue. Our results focus on those elements of majority voting adoption that are easy to measure and that unambiguously benefit managers, however, they are indicative of the possibility of managers using a broader set of specific adoption characteristics when fronting shareholder proposals.

Such fronting behavior may dis-incentivize shareholder activists because of the discrepancy between the outcomes of management implementation and the shareholders' desired outcome. First, if a management proposal partially implements the activists' preferred provision, activists still face substantial costs in proxy contests in order to implement marginal improvements (Gantchev, 2013). Second, it is more difficult to rally other shareholders if the new shareholder proposal only brings limited changes. This is also consistent with our first finding that only the number of management proposals, not shareholder proposals, increases after the legislative changes. A simple calculation suggests that within the sample of acting firms for which we observe proposals about adopting a majority voting standard, the number of management proposals on the state level increases

dramatically, by four to tenfold.⁵ If shareholders have heterogeneous voting costs or differ in their views about how a proposal should be drafted, putting forward a management proposal that partially addresses shareholder concerns may preclude a future shareholder proposal from being put forward.⁶

Third and finally, we combine the DiD setting with a regression discontinuity design (RDD) to understand the value implications of implementing majority voting on the remaining firms that do not implement it, i.e., for which we observe related shareholder proposals. This exercise offers insight into the managerial incentives, by providing causal value estimates (via RDD) for those firms that select themselves into resisting majority voting or not directly implement it. As noted earlier, managers may resist shareholder empowerment for different reasons. On one hand, the new legislation could empower shareholders to discipline managers through a stricter voting standard. On the other hand, it may limit managerial authority and force them to implement the standard even when the standard proves to be value-destroying. Thus, firms where managers do not implement majority voting are in some way selected insofar as the managers decided that majority voting was undesirable either from the perspective of shareholder value or because of the impact on their own private benefits. By comparing the exogenous implementation of a majority voting standard before and after the legislation is enacted, we can understand the nature of this selection, giving us insight into managers' motives for avoiding, amending, or replacing these voting rules.

We find that the discrete increase in the implementation probability at the majority threshold grows by of 30% - 60% after the enactment of the new legislation. After the enactment of the majority voting standard, however, the market reaction turns from neutral to negative. The results show that managers of firms for which the new legislation is likely to impose the greatest cost or the least benefit, tend to show the greatest resistance towards implementing the new standard. The findings indicate that managers do care about shareholder value and that majority voting can be detrimental for some firms in the sample. We cannot rule out, however, that the value of majority voting is positive for firms that have already implemented the standard, nor that in resisting implementation; managers have motives beyond shareholder value.

Overall, this paper presents evidence of managerial fronting when shareholders are empowered. Managers not only pre-empt shareholders in submitting more management proposals but also put forward provisions that are more management friendly than those in the shareholder proposals. We also provide insights into how managers choose to front shareholders and when they decide not to

⁵ There are also firms that follow a plurality voting standard and for which we do not observe any proposals to adopt the majority voting standard. As we do not have data for these firms, we do not include them in our selection calculation.

⁶ A similar argument can be found in Donaldson, Malenko, and Piacentino (2018).

implement shareholder proposals. Our results suggest that when shareholder value is likely to suffer more or benefit less from the new legislation is precisely when managers show the greatest resistance to implementation of the majority voting standard.

Our paper makes three contributions to the existing literature. First, we contribute to the literature on shareholder activism by examining the behavior of management in the proxy voting process. The existing literature (See, e.g., Denes et al. (2017) for a review) shows that shareholder activism plays a positive role in improving corporate governance in close-call situations. However, the question remains as to how management exercises its discretionary power when implementing proposals, where the literature is still scarce. Exploiting the legislation that reinforces the implementation of majority voting as a novel quasi-natural experiment, we document management's fronting behavior for the first time. Fronting behavior has two main incentives. First, in situations where the control of private benefits and shareholder value are highly correlated, managers may defend the status quo against the majority voting standard, which aims to displace directors more easily (Bebchuk, 2004). Consistent with Bebchuk (2004), we show that managers try to reduce the impact of *direct* shareholder democracy by fronting and changing the proposals' content. Second, managers may view implementation of a majority voting standard as costly and unnecessary, and perhaps even as a deterrent to managerial efficiency and long-term strategic stability (Pozen, 2003; Bainbridge, 2005; Gillan and Starks, 2007). We provide some evidence that this form of enhanced *indirect* democracy may not be beneficial for all firms and that resistance to implementing it may arise in those firms for which it is most detrimental to shareholder value.

Our paper also contributes to the debate on shareholder empowerment in the law and finance literature. For example, Bebchuk (2004) argues that shareholders' existing power to replace directors is insufficient to secure the adoption of the value-increasing governance arrangements that management dislike and thus advocates the institution of binding resolutions. Other scholars (Easterbrook and Fischel, 1989; Bainbridge, 2005) reason that shareholder disempowerment is a natural corollary of centralized board authority and that shareholders already receive adequate protection from the market. Cremers (2016) finds that limiting shareholder rights serves a constructive governance function as long as the limits are the result of mutual agreement between the board and shareholders. Our result of negative market reactions to the pass of proposals after the enactment of new laws indicates that the misalignment of interests between managers and shareholders is not always the source of managers' resistance to implement certain proposals. Our analysis also suggests that a one-size-fits-all approach that aims to empower shareholders in all firms may disadvantage some firms if their boards are able to identify value-enhancing proposals and choose not to implement those that are not.

Finally, our paper is related to the literature on majority voting systems. Prior studies (Ertimur et al., 2015; Choi et al., 2016; Cai et al., 2009; Cai et al., 2013) generally focus on the association between adopting a majority voting standard in director elections and management's response to such adoption, finding mixed evidence. For example, Cai et al. (2013) find that the adoption of majority voting is a paper tiger, amounting to form over substance. Ertimur et al. (2015) find that the adoption of majority voting encourages implementation of shareholder proposals the responsiveness to votes withheld from directors up for election. Choi et al. (2016) find that managers under the majority voting system are more responsive to shareholder demands. This paper employs a different setting of staggered state-level adoptions of legislation that exogenously increases the non-compliance costs for firms if not to implement relevant shareholder proposals. We complement this literature by showing that the new legislative change has a substantial and material impact on the implementation of the majority voting system and that it bears value implications.

2. The Staggered Enactment of the Legislation

2.1. Nature of the Legislation

Even after a shareholder proposal passes, the firm has discretion over its implementation. However, in recent years the forceful implementation of amendments to bylaws that install majority voting in director elections has been reinforced. Two major legislative amendments pioneered the legislative change across different states that prescribed a set of rules to facilitate the adoption of a majority voting standard in director elections: the Delaware General Corporation Law (DGCL) and the Model Business Corporation Act (MBCA).⁷ After 2006, both the MBCA and DGCL allowed shareholders to opt-out of the default plurality voting system through a bylaw amendment that could not be further repealed by the board.

Effective from August 1, 2006, the Delaware Amendments provide that the board of directors may not repeal or amend any bylaw amendment that shareholders adopt and that specifies the votes that are necessary for the election of directors. Similarly, on June 20, 2006, amendments to the MBCA established that the board of directors could not repeal or amend any a bylaw amendment that requires directors elected in plurality voting to serve for no more than 90 days if the director

⁷ Until the 1980s, majority voting was the default standard in most states, including Delaware and the states that adopted the MBCA. However, since then, states, including Delaware, have determined that plurality voting for the election of directors was the default and most public companies have traditionally not adopted a different standard.

had received more votes “against” than “for”.⁸ These regulatory changes increase the management’s non-compliance costs in terms of greater noncompliance cost if they do not implement a passed proposal and consequently the implementation probability of passed proposals. Hence, we should expect the implementation rate of shareholder proposals to increase after the legislative changes.

Over time, other states that use the MBCA as the basis for their state corporation laws followed suit in facilitating the implementation of majority voting proposals related to director elections, including Connecticut, the District of Columbia, Florida, Hawaii, Indiana, New Hampshire, Utah, Wyoming, California and Washington. Figure 1 presents the states that enacted the legislative changes geographically. In Appendix Table B.1, we provide the years in which MV legislation was passed in ten U.S. states plus the District of Columbia as part of their state corporation laws and present the sections for this legislation in the state corporate law.

[Insert Figure 1]

2.2. Data Description

We obtain the data on proposals related to voting requirements in director elections from two sources. First, from Shark Repellent we obtain the company name, the date of the annual meeting, and the percentage of votes in favor of the proposal. The dataset includes information on all proposals in the Russell 3000 universe. Our sample consists of 250 management proposals and 436 shareholder proposals voted on at annual meetings from 2005 until 2015. Second, from Schedule 14A we manually collect information regarding the implementation and proposal content, such as whether the management implements changes via bylaw or charter, and/or demands for changes in resignation policies. We also manually collect legislative changes regarding majority voting from each state’s corporation law.

We use supplementary information from a number of sources: daily abnormal returns estimated using the three Fama–French factors plus a momentum factor model as in Carhart (1997) from Center for Research in Security Prices (CRSP), financial information from Compustat, state level population, employment, and labor market information from the Federal Reserve System.

Table 1 shows the number of proposals voted on and subsequent voting outcomes by year. While the number of management proposals increased from 1 in 2005 to 26 in 2015 and peaked in

⁸ The ABA Committee also made other amendments to the MBCA related to majority voting, including (i) amendments that would permit articles of incorporation provisions to eliminate the holdover rule and otherwise allow corporations to fashion majority voting systems and (ii) amendments to facilitate majority voting policies by expressly recognizing that a director resignation conditioned on the failure to receive a specified vote may be irrevocable.

2008, the number of shareholder proposals declined steadily from 60 in 2005 to only 10 in 2015. As indicated by Table 1, the passing rate of management proposals is almost 100% while that of shareholder proposals is about 49%. This is consistent with prior evidence (Listokin, 2008) that management proposals tend to have a much higher passing rate than do shareholder proposals. Notably, the percentage of shareholder proposals that passed increased from around 20% to more than 50% over the 11 years. Since most of the firms are incorporated in Delaware, in Table B.2 we present the statistics for firms incorporated outside of Delaware. We observe a similar trend. Table B.3 presents additional information on the number of proposals and voting outcomes by state.

[Insert Table 1]

Table 2 presents the descriptive statistics for the main variables that we use in our empirical analyses. Variable definitions are included in Appendix A. Firms in our sample have an average asset size of 4 billion U.S. dollars and an average ROA of 7.6%. The vote percentage in favor of management proposals has a mean of 96.3%, compared to 53.6% for shareholder proposals.⁹ Panel B of Table 2 also reports the unconditional adoption rate across voting outcomes. 90.3% of management proposals were adopted, compared to 39.3% of shareholder proposals. In unreported summary statistics, we find that, across all vote outcomes, before the legislative changes, 37.9% of shareholder proposals were implemented, compared to 42.3% after enactment. We will describe the summary statistics in Panel C of Table 2 in Section 4 where we introduce the construction of the relevant variables.

[Insert Table 2]

3. Managerial Reaction to Shareholder Empowerment

The enactment of majority voting legislative changes effectively increases the noncompliance cost for management if they do not implement such proposals. As a result, managers might pre-empt shareholders by putting forward their own proposals that “crowd out” shareholder proposals. Alternatively, they might resist voluntarily adopting majority voting until shareholders propose to do so. In this section, we examine managerial responses in annual meetings before and after the regulation’s enactment. In particular, we focus on the filing of management proposals seeking to change the majority voting standard in director elections.

⁹ We match our shareholder proposal data to ISS Voting Analytics data in order to obtain the base on which Vote For Percentage (%) is calculated. We get 410 matched proposals out of 436. For all these matched ones, we take the base variable in Voting Analytics to calculate Vote For Percentage (%). If abstention is counted as no, the base is For+Against+Abstention. If abstention is count as non-votes, the base is For+Against. For unmatched cases, they are all under the rule of "majority of votes cast", we use For/(For+Against+Abstention) to be conservative.

3.1. Empirical Strategy: Staggered Difference-in-differences

To obtain causal estimates of the effect of majority voting, we rely on legislative changes that reinforce the implementation of majority voting shareholder proposals. More specifically, we take advantage of different US states enacting majority voting laws in a staggered way to implement a difference-in-differences estimation (DiD). Consider the following specification.

$$Y_{ist} = \beta_1 \text{Treated}_{st} + \delta_s + \lambda_t + \varepsilon_{it},$$

where Y_{ist} is an outcome variable for firm i , which is incorporated in state s , measured in period t . The variable Treated_{st} takes a value of 1 if state s enacts the legislation before period t and 0 otherwise. We introduce state fixed effects δ_s and year dummies λ_t to complete the difference-in-differences structure, so the coefficient of interest, β_1 , measures the effect of the legislation, controlling for any cross-sectional and pure time-series variation. The estimate of β_1 can be interpreted as causal as long as the dependent variable for the treated and non-treated states follow parallel trends in the absence of the treatment. This assumption is not directly testable, but we can find evidence in its favor by adding the lead dummy variables of the treatment variable and showing that the parallel trends assumption holds in the years before the law's enactment.

3.2. Managerial Reaction to Shareholder Empowerment

3.2.1. Fronting

In Table 3, we report the results for the number of management and shareholder proposals before and after the regulation enactment. In columns (1) and (2) of Panel A of Table 3, the dependent variables are NUM_MGT, the number of management proposals per state per year. In columns (3) and (4), the dependent variables are NUM_SHD, the number of shareholder proposals per state per year. In order to account for the difference in the number of Russell 3000 firms across different states, the observations in columns (2) and (4) are weighted by the logarithm of the number of Russell 3000 firms in the states of incorporation. In columns (2) and (4), DIR_Staggered is defined as a dummy variable that takes the value of one for the years *after* the regulation is enacted and zero otherwise. As the regulation may begin to have an effect even in the announcement year, in columns (1) and (3) DIR_Staggered also equals one *in* the enactment year and zero otherwise. Thus, the coefficients on DIR_Staggered in columns (2) and (4) are likely to be more conservative estimates of the treatment effect. We report the baseline results in Panel A, and Panel B shows the results when we restrict the treated period to within 5 years after the enactment of the legislation. This is to see whether the effect of the legislative changes on management and shareholder responses is limited to a certain time period (Choi et al, 2016). Panel C reports the results when we

exclude firms incorporated in Delaware as a robustness check to see whether the treatment effect of legislative changes is mainly brought by firms incorporated in Delaware.

[Insert Table 3]

We find that the enactment of legislation changes leads to more management proposals under these two definitions of treated periods. For example, column (1) of Panel A indicates that the enactment of legislation changes leads to an increase in management proposals by 0.392, significant at the 1% level. Because the average number of management proposals before the enactment was 0.04 per year and per each treated state, an increase in the number of management proposal by 0.392 is translated into about tenfold increase in the treated states after the enactment.

In columns (2) and (4) of Panel B, to balance the importance of early vs. late enacting states, we define *DIR_Staggered* as a dummy variable that takes the value of one within the 5 years after the regulation is enacted and zero otherwise. Column (1) of Panel B indicates that the enactment of legislation changes leads to an increase in the number of management proposals by 0.147, significant at the 5% level. This translates into about a fourfold increase in the number of management proposals in the treated states after enactment. To the extent that the new laws empower shareholders, we do not find a significant increase in the number of shareholder proposals from columns (3) and (4) of both panels.

It could be that the treatment effect is mainly driven by firms incorporated in Delaware. In Panel C of Table 3, we therefore exclude those firms and implement the same analysis as in Panel B as a robustness check. We find that for management proposals, the coefficients on *DIR_Staggered* are still positive and significant at the 1% level. In addition, the magnitudes of these coefficients are similar to those in Panel B, suggesting that our main result is not likely to be driven only by firms incorporated in Delaware. In columns (3) and (4), we find that the number of shareholder proposals declines significantly after the enactment of the regulation, corroborating our conjecture that submitting a management proposal may crowd out shareholder proposals.

3.2.2. The Crowding-out Effect of Management Proposals

In this subsection, Table 4 further explores whether filing a management proposal crowds out shareholder proposals after the legislative changes. It examines whether the likelihood that a shareholder proposal will be filed decreases after the legislation's enactment and, in particular, after a management proposal has been implemented.

[Insert Table 4]

In Panel A, the dependent variables are *SH_Proposal_1*, *SH_Proposal_2*, and *SH_Proposal_3*, dummy variables that equal one if a firm's shareholders submit a proposal in the first, second, or

third year after the enactment of the regulation, and zero otherwise, shown respectively in columns (1), (2), and (3). In Panel B, the dependent variables, *SH_Proposal_1_All*, *SH_Proposal_2_All*, *SH_Proposal_3_All*, are dummy variables that equal one if shareholders submit a proposal *within* one, two, or three years after implementation of the management proposal, and zero otherwise, respectively shown in columns (1), (2), and (3). *DIR_Staggered* is a dummy variable that takes the value of one for the years after the regulation is enacted, and zero otherwise. *Adopt_MGT* is a dummy variable that takes the value of one if the management proposal is implemented and zero otherwise.

The results indicate that after the legislative changes, the implementation of a management proposal about majority voting leads to a decrease in the probability of shareholder proposals about majority voting being submitted. For example, in Panel B, the implementation of a majority voting management proposal leads to a decrease in the probability of a similar shareholder proposal being submitted by 16.9% within one year, 15.9% within two years, and 22.2% within the three years after the legislative changes.

In general, we find that after the enactment of majority voting legislation, management filed more proposals to adopt a majority voting standard while shareholders do not appear to increase their requests for changes. Our results suggest that managers potentially view shareholder proposals and management proposals on similar issues differently. They appear to prefer to initiate the majority voting standard on their own in response to the legislative changes.

Given that the legislation reinforces the implementation of shareholder proposals, management proposals appear to have a “crowding-out” effect on shareholder proposals. Such crowd-out behavior might arise from the benefits of a management-installed majority voting standard. Note that our estimate of DiD coefficient only captures the intent to treat, as channels through which the “crowding-out” effect took place may vary across firms. In some firms, managers may intentionally front to moderate shareholders’ pressure on implementing the majority voting standard. In some other firms, managers may simply follow firms that did front or the guidance of the legislative change by voluntarily adopting majority voting. In any case, our results show management proposals substituting shareholder proposals after the legislative change. To investigate these channels, in Section 4, we examine how some specific details of the management proposals help implement a majority voting standard that is more management-friendly.

3.2.3. Validation of the Difference-in-differences Design

To validate our research design, we first report the results of the pre-trend analysis in Table 5. In columns (1) and (2) of Panel A of Table 5, the dependent variables are NUM_MGT, the number of

management proposals per state per year. In columns (3) and (4), the dependent variables are NUM_SHD, the number of shareholder proposals per state per year. In order to account for the difference in the number of Russell 3000 firms across different states, the observations in columns (2) and (4) are weighted by the logarithm of the number of Russell 3000 firms in the states of incorporation. The observations in columns (1) and (3) are not weighted. *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted in the state and zero otherwise. *DIR_Staggered_lag0* is a dummy variable that takes the value of 1 for the year when the regulation is enacted in the state. *DIR_Staggered_lead1* is a dummy variable that equals one for the year before the regulation is enacted in the state and zero otherwise.

[Insert Table 5]

We find that the coefficients on *DIR_Staggered_lead1* are generally insignificant, suggesting that prior to the enactment of the new legislation, management and shareholders in the treated states did not adjust their behavior differently from those in the non-treated states. We also find that the coefficients on *DIR_Staggered* in columns (1) and (2) are positive and significant at the 1% level; in both panels, the coefficients on *DIR_Staggered_lag0* are positive and significant for management proposals; and in columns (3) and (4), the coefficients on *DIR_Staggered* are insignificant. These results imply that there does not seem to be a pre-trend between the treated and control groups and that after the enactment of the legislation, the number of management proposals significantly increases while the number of shareholder proposals does not change.

In Panel B of Table 5, we further analyze the post-trend. We include *DIR_Staggered_lag1*, *DIR_Staggered_lag2*, and *DIR_Staggered_lag3*, dummy variables that respectively equals one in the one, two, and three years after the regulation is enacted, and zero otherwise. Again, and importantly, we find that the number of managed proposals filed increases immediately after the legislative changes, while the number of filed shareholder proposals does not change post legislation. Specifically, in columns (1) and (2) of Panel B, we find an increase in management proposals mainly in the year the legislation is enacted and the third year after its enactment. In contrast, there is no change or even a decrease in the number of the shareholder proposals in the second year after the enactment of the legislation (column (4)). Although the new legislation makes shareholder proposals more attractive as a means by which shareholders can advance their demand for the installation of majority voting, Table 5 shows that the filing of management proposals increases more than that of shareholder proposals, suggesting that management proposals may crowd out the filing of shareholder proposals.

To confirm that the staggered enactment of legislative changes is not correlated with state-level macroeconomic variables, we run probit regressions of the enactment dummy on state-level

macroeconomic variables in Table B.4 of Appendix B. In general, the enactment of these legislative changes does not seem to be related to any macroeconomic variables.

3.3. Implementation of the Majority Voting Standard

In Table 6, we first examine whether the regulation improves the chance of implementing a majority voting standard in director elections at the firm-year level. Previous findings suggest that after the legislative changes, the number of management proposals about majority voting increased while that of shareholder proposals decreased. If managers submit their own proposals to pre-empt shareholders, we should also expect managers to voluntarily implement the majority voting standard directly. We should observe that majority voting standards are adopted for a bigger sample of firms where no proposals are submitted.

Using Institutional Shareholder Services (ISS) data, we identify the voting requirement related to director elections for firms covered by ISS and track its changes.¹⁰ In Table 6, the dependent variable is *MV*, a dummy variable that equals one if the voting standard is majority voting, and zero otherwise. In order to isolate the legislation effect from other unobservable state characteristics, we control for state of incorporation fixed effects and time-varying state headquarter \times year fixed effects (Bertrand and Schoar, 2003; Bertrand and Mullainathan, 2003). We also control for firm characteristics, including market capitalization, leverage, ROA, and Tobin's Q. Standard errors are clustered at the state of incorporation level.

[Insert Table 6]

In column (1), we find that for firms that receive either management or shareholder proposals related to the voting standard in director elections, the likelihood of implementation significantly increases after legislative changes. This result even holds for firms for which we do not observe shareholder proposals in column (2). This result suggests that management may front shareholder proposals through direct implementation. In column (3), we find that for the full sample, implementation also increases after the legislative change.

Taken together, our findings in this section suggest that the legislation leads to greater implementation of majority voting, both under and in the absence of direct shareholder pressure. In the next two subsections, we present two pieces of evidence that suggest that the aim of managerial fronting is to have more control over the details of the standard's implementation.

¹⁰ We also separate those firms for which we observe proposals related to changing the voting standard in director elections, including both management and shareholder proposals, from firms for which we do not observe these proposals. Note that the sample of firms for which we do not observe proposals also includes those that our Shark Repellent does not cover.

4. Why Fronting? The Devil is in the Details

Apart from an increase in the filing of management proposals, the other main aspect of managerial response lies in the form of the proposal's implementation. When legislation facilitates implementation of shareholder proposals, the legal cost of not implementing such proposals becomes higher. Holding the benefits of implementing a majority voting standard constant, we thus should expect a higher likelihood of implementation. However, there is still leeway for management to deviate from shareholders' precise implementation requests. For example, management proposals may change bylaws or charters, or they may just address procedures and practices. Each of these options has different implications in terms of management's ability to reverse or modify the majority voting standard. Similarly, proposals that concern voting standard may contain a resignation rule that enables a company to retain a director who failed to receive a majority of votes "for" to stay until a suitable replacement is found, rather than requiring an immediate resignation.

In this section, we first show that legislative changes improve the chances of implementation, even in firms where we do not observe proposals related to a voting standard in director elections. We then document how management proposals differ from shareholder proposals in characteristics that appeal to managers. We focus on those characteristics that are important and easy to code, but the results presented in this section should be interpreted as indicative of a broader phenomenon, as there are numerous legal details over which the language in both types of proposals may differ.

4.1 Implementation via Bylaw vs. Charter

We first examine whether the regulation changes firms' incentive to adopt majority voting proposals via bylaw in Table 7. Management may choose to implement proposals via three institutional forms: bylaw, charter, and corporate guideline. The new law prohibits the board of directors from repealing or amending a shareholder-adopted bylaw that provides for majority voting, but allows either the board or the shareholders to repeal the bylaw if it the board implements it. In addition, amending charters adopted by either the management or the shareholders would require the consent of not just shareholders but also the board. Thus, a board that wants to retain a greater say in majority voting may be more inclined to amend the charter. Also, if management implements the proposal through corporate guidelines, then they can avoid the legal requirement to implement majority voting. Thus, implementation via guideline should be considered the weakest form of implementation.

[Insert Table 7]

The dependent variable in columns (1) and (3) of Table 7 is *IMP_Charter_Guideline*, a dummy variable that equals one if the proposal is implemented via charter or guidelines and zero if implementation occurs via bylaw. The dependent variable in columns (2) and (4) is *IMP_Guideline*, a dummy variable that equals one if the proposal is implemented via guideline, zero if via bylaw or charter. *MGT_Proposal* equals one if it is a management proposal and zero otherwise. *SHD_Proposal* equals one if it is a shareholder proposal and zero otherwise. Columns (1) and (2) include passed proposals, and columns (3) and (4) include both passed and failed proposals. We include only those proposals that are implemented; thus, we are comparing the likelihood of implemented proposals' different forms of implementation.

As shown by Panel C of Table 2, 45.3% of implemented management proposals are done so through charters, 54.7% of them through bylaws, and none through guidelines. Only 12.9% of shareholder proposals are implemented through charters, 86% of them through bylaws, and the rest are through guidelines. Similarly, in Table 7, we observe heterogeneity in the ability of moderating majority voting proposals. For example, column (1) shows that, in firms where managers do front directly through management proposals, the likelihood of implementing them through either charter or guideline increased significantly by 49.6% after the legislative change. In firms where managers' ability to front is more limited or they do not front directly through management proposals, we find that the likelihood of implementing shareholder proposals through either charter or guideline still increased significantly, though by a smaller magnitude of 35.9%. This result indicates either that managers retain some freedom to make shareholder proposals more friendly to themselves or that shareholders decide to moderate their proposals to make them more likely to be implemented. In addition, because the effect disappears when we focus on guidelines as in columns (2) and (4), our results there suggest that managers become less likely to implement majority voting via a bylaw, and more likely to implement it via a charter.

Overall, as amending a charter requires the consent of both the board and shareholders while amending a bylaw only requires the shareholders' consent, management is choosing to implement the majority voting standard in ways that still retain their own control rights.

4.2. *Pro-management Implementation*

The previous section documents implementation from the perspective of the institutional framework as it relates to bylaws. In this subsection, we examine to what extent is implementation beneficial to management vis-à-vis its content. For example, while shareholders can request that management implement the majority voting standard in director elections, the management might

choose to not fully do so, preferring to install a resignation policy that is more lenient to directors than what the legislation prescribed.

Historically, U.S. public companies of all sizes, including banks, have used plurality voting to elect directors. Over the last decade or so, shareholders have successfully pushed the largest public companies, including banks, to adopt either majority voting or “plurality-plus” voting standards.¹¹ In a majority voting system, uncontested director nominees must receive more “for” than “against” votes to be elected, and thus a shareholder can stage a “vote no” campaign to attempt to deprive the company’s nominees of the required majority vote without nominating its own directors and soliciting proxies. Under a plurality-plus system, a director nominee is elected if he or she receives the greatest number of votes. The “plus” part of this standard requires that a director resign if he or she receives more “withhold” than “for” votes, although the board has varying degrees of *discretion* over whether it may decline or accept such a resignation. As a result, many firms include a director resignation policy that addresses the issues of “holdover directors.” Holdover directors are incumbents who fail to be reelected under the true majority voting standard but who nevertheless hold the board seat until a new director is elected. Director resignation policies usually limit holdover directors’ terms and allow the board discretion regarding the acceptance of their resignations. Thus, even if an incumbent director is not reelected to the board under a true majority voting standard, under certain director resignation policies he or she may still serve on the board until a new director is elected.

Given these considerations, Table 8 examines the implementation outcomes from various dimensions. The dependent variable in columns (1) and (3) is *IMP_RES_NB*, a dummy variable that equals one if the proposal is implemented via resignation policy or other non-binding obligation, and zero if via strict majority voting. The dependent variable in columns (2) and (4) is *IMP_NB*, a dummy variable that equals one if the proposal is implemented via other non-binding obligations, zero if via resignation policy or strict majority voting. Columns (1) and (2) include passed proposals, and columns (3) and (4) include both passed and failed proposals. As in Table 7, we include only those proposals that are implemented.

As shown by Panel C of Table 2, 51.6% of implemented management proposals are done so through strictly setting up majority voting standards, 33.6% through resignation policy, and the rest through other non-binding obligations. 81.9% of shareholder proposals are implemented through setting strict majority voting standards, only 6.9% of them are implemented through charter, and the rest through other non-binding obligations.

¹¹ Key influential shareholder groups, including the Council of Institutional Investors and Institutional Shareholder Services (“ISS”) favor either majority or plurality-plus voting in uncontested director elections.

[Insert Table 8]

Consistent with the results in Table 7, Table 8 indicates that after the enactment of the new laws managers are more likely to install favorable director resignation policies or other non-binding policies, an effect that is stronger when management introduces the proposal. This is because these policies enable firms to retain directors who fail to win a majority of votes. For example, after the legislative changes, the likelihood of strict implementation of the majority voting standard declines by 53.6% and 33% for management and shareholder proposals, respectively. In other words, managers are more inclined to substitute the implementation of strict majority voting with the implementation of plurality-plus voting, or with other non-binding amendments. These results also indicate that harder-to-code details also matter.

Such fronting behavior may discourage shareholders from bringing proposals that exactly match to their expectation. First, if a management proposal partially implements activists' preferred provision, shareholders still face substantial costs in proxy contests (Gantchev, 2013) such as legal costs if they sue the company, which could outweigh the marginal improvement of implementation. Second, it is more difficult to rally other shareholders if the new shareholder proposal only brings limited changes. This is also consistent with our first finding that only the number of management proposals increases after the legislative changes, not the number of shareholder proposals.

5. Shareholder Value and Selection: Insight into Managerial Objectives

The aim of this section is to analyze the value implications of implementing a majority voting standard in director elections as well as to gain insight into what drives managers to avoid, amend, or replace such a standard. In previous sections, we show that managers front the legislative changes by developing their own proposals. However, for many other firms, managers do not implement majority voting; these firms are more likely to be the selected subset of those for which managers find majority voting less desirable either in terms of shareholder value or because it will negatively impact their own private benefits. By measuring the shareholder value of majority voting before and after the staggered enactment of the new legislation, we can gain some insight into the nature of this selection and management's motives in implementing or resisting the implementation of a majority voting standard.

5.1. A Simple Analytical Framework of Ex-Post Selection of Firms

We provide a simple analytical framework to help understand the value implication of shareholder proposals that aim to change firms' voting standard from plurality to majority voting. We denote

firm value under plurality voting for firm i as π_{pi} and the value under majority voting as π_{mi} . Firm values π_{mi} and π_{pi} under each of the two voting standards follow each a distribution across firms $g_j(\pi_j)$, $\pi_j \in (\pi_l, \pi_h)$ for $j \in \{p, m\}$. The manager cares about firm value. Specifically, she cares about a fraction α of the firm value, where α is a congruence parameter arising from the manager's incentive schemes, reputational concerns, etc. The manager also receives a private benefit from running the firm. The focus on a higher private benefit may entail making decisions that are misaligned with shareholders. Before the legislative change, the manager obtains a private benefit of u_p under plurality voting and u_m under majority voting. Because plurality voting provides less monitoring in terms of disciplining directors and consequently managers, we assume that the private benefit that managers could get under a plurality voting standard is greater than that under a majority voting standard, $u_p > u_m$.

Throughout our analysis, we do not make a distinction between managers and the board of directors, as we can observe only management proposals and there are no such proposals called "director" proposals. In other words, we can measure only managerial response. Managers react to the legislative change that makes director election standards more stringent, either because managers' and directors' interests are aligned and managers want to protect incumbent directors or because managers fear the legislative change will bring directors whose interests are not aligned with theirs.

When making the decision of which voting standard to implement, a manager compares the utility that she could obtain under the two voting standards. Her utility is $\alpha\pi_{mi} + u_m$ under majority voting, and $\alpha\pi_{pi} + u_p$ under plurality voting. If majority voting yields a higher utility, that is, if $\pi_{mi} - \pi_{pi} \geq \bar{\Delta\pi} = +(u_p - u_m)/\alpha$, then the manager voluntarily implements a majority voting standard shareholders could initiate .

The previous result shows that the manager should always voluntarily implement majority voting for values of $\pi_{mi} - \pi_{pi}$ above the cutoff $\bar{\Delta\pi}$. Therefore we should only observe shareholder proposals that try to force management to implement majority voting for firms in which the increase in the value of adopting majority voting is below the cutoff $\bar{\Delta\pi}$. This has to be taken into account when interpreting the results in Section 5.3. The value of firms in which shareholders propose to implement majority voting, come from the selected sample of those for which $\pi_{mi} - \pi_{pi} < \bar{\Delta\pi}$.

Changing the Cutoff. In our setting, the enactment of the legislative change may reduce a manager's private benefit under the plurality voting standard. This is because directors face a greater threat of displacement from shareholders once they allow managerial entrenchment. We model this effect by assuming that after the legislative change, the manager's private benefit

decreases from u_p to u'_p under plurality voting ($u'_p < u_p$). Thus, the manager will implement the majority voting standard if $\alpha\pi_{mi} + u_m \geq \alpha\pi_{pi} + u'_p$. The new cutoff is $\pi_{mi} - \pi_{pi} \geq \widetilde{\Delta\pi} = (u'_p - u_m)/\alpha$. It is therefore straightforward that $\widetilde{\Delta\pi} < \overline{\Delta\pi}$. In other words, the threshold of net benefits above which the manager will implement the majority voting standard is now lower.

This result has two empirical implications. First, part of the fronting effect that we observe in the previous sections can be attributed to this change in the threshold above which managers directly implement majority voting. Second, as the manager would voluntarily implement majority voting for proposals with values above the new cutoff, the remaining firms under plurality voting have a lower average gain from implementing majority voting than before.

In the next section we compute the shareholder reaction to close-call votes to implement majority voting. These should be interpreted as drawn from the set of firms for which $\pi_{mi} - \pi_{pi} < \overline{\Delta\pi}$ before the enactment of the new legislation and $\pi_{mi} - \pi_{pi} < \widetilde{\Delta\pi}$ after the enactment. Therefore the market reaction to the exogenous implementation of the majority voting standard should be less positive (or more negative) after enactment of the new legislation.

Note that the implementation probability of a shareholder proposal changes after the enactment of the legislation. We do take into account this effect to adequately rescale our results in the next section. Note, also, that, in practice the threshold of implemented proposals may be more fuzzy than in this analytical illustration, however, the same intuition follows as long as managers put more weight on shareholder value, relative to private benefits after the enactment of the legislation. Ultimately, this is an empirical question, which is the objective of the next section.

5.2. Empirical Specification: Combining a Difference-in-differences

Structure with an Event Study-RD Design

To investigate how non-implementing firms are selected, we assess the shareholder returns around close-call votes to implement a majority voting standard. We perform the analysis for firms both before and after the staggered enactment of majority voting legislations by state. In particular, we combine in a single specification an event study-RDD design on shareholder votes with a DiD structure using the staggered implementation of majority voting legislation by different states. The RDD structure is useful in determining the shareholder value of certain proposals by treating firms that pass or reject a shareholder proposal by a small margin as akin to being randomly allocated to

either side of the threshold.¹² When combined with an event study, this quasi-random allocation deals in a simple way with the pervasive problem in event studies of pre-existing expectations.

At the same time, the RDD approach entails selection into the sample of *no-fronting*: only firms that have not yet voluntarily implemented majority voting participate in the identification. In this section, we use this selection to our advantage to shed some light on managers' motivation in proposing their own versions of majority voting provisions.

The main building block for this analysis is a regression discontinuity design on the vote outcomes of shareholder proposals (similar to Cuñat et al., 2012 and 2013).

$$CAR_{it} = \beta_1 \text{Pass}_{it} + f(\text{Vote}) + \varepsilon_{it},$$

where CAR_{it} is a measure of cumulative abnormal returns on a window around a shareholder vote, Pass_{it} is an indicator function that takes a value of 1 if a proposal passes and 0 otherwise, and $f(\text{Vote})$ is a flexible function that absorbs any continuous relationship between the dependent variable and the vote. Combining an event study and an RDD design in a single specification has the advantage of dealing with the pre-existing expectations of market participants in a simple way. The abnormal return of a proposal that closely passes is the value of the proposal minus the pre-existing value expectation of that proposal passing. Similarly, the abnormal return of a proposal that closely fails to pass undoes the pre-existing value expectation of that proposal passing. In an event study-RDD design, β_1 measures the difference in abnormal returns between a proposal that closely passes and one that closely fails, so the pre-existing expectations cancel out (see Section I.b in Cuñat et al. (2012)).

For β_1 to measure this difference accurately, $f(\text{Vote})$ needs to be sufficiently flexible to capture any continuous relationship between the vote and the outcome variable. We use several approaches for $f(\text{Vote})$, including a high order polynomial over the full vote support or a linear function over an optimally calculated narrow window around the majority threshold (Calónico, Cattaneo and Titiunik, 2014). The identification strategy relies on all unobserved heterogeneity about the implementation of the proposal being reflected in the vote outcome, that is, if we observe two firms with the same vote outcome, we can infer that their characteristics are drawn from the same distribution of firms. The effect of any characteristics, observable or unobservable, that are correlated with the vote outcome in a continuous way is absorbed by $f(\text{Vote})$ and the only characteristic that *jumps* discontinuously at the majority threshold is the probability of implementing the proposal. The coefficient β_1 therefore measures the effect of passing a proposal and is the intent-to-treat (ITT) estimator of the proposal's value.

¹² See Cuñat, Gine, and Guadalupe 2012 and 2013.

In order to obtain the treatment on the treated effect (TOT) that measures the value impact of the proposal itself, we need to rescale the ITT by the jump in implementation probability at the discontinuity. We therefore run the following specification:

$$IMP_{it} = \beta_2 Pass_{it} + f(Vote)_t + \varepsilon_{it},$$

where IMP is a dummy that takes a value of one if the proposal is implemented and zero otherwise. And the TOT effect is estimated as a Wald estimate $TOT = \beta_1/\beta_2$, which follows the same structure as a two-stage instrumental variables approach.

In order to compare the value of a proposal before and after enacting the legislation, we can run nested regressions in which the staggered DiD structure is combined with an RDD. The main intuition is to measure the change in β_1 before and after the enactment of the new legislation.

$$CAR_{it} = \beta_1 Pass_{it} + \beta_2 Pass_{it} \times DIR_Staggered_{jt} + f(Vote)_t + f(Vote)_{treated} + f(Vote)_{non-treated} + \varepsilon_{it}.$$

The difference-in-difference structure is achieved by having two different coefficients for proposals that pass before or after the treatment (enacting the law); a different $f(Vote)$ structure per year and a different $f(Vote)$ structure for the treated and non-treated.¹³

For the treated states, the implementation probability of a proposal that passes changes substantially. For this reason, it is important to re-scale both β_1 and β_2 by the jump in probability at the majority threshold for the treated and non-treated state-year combinations. We can estimate a similar specification for the implementation probability:

$$IMP_{it} = \beta_3 Pass_{it} + \beta_4 Pass_{it} \times DIR_Staggered_{jt} + f(Vote)_t + f(Vote)_{treated} + f(Vote)_{non-treated} + \varepsilon_{it}.$$

We can then recover the TOT for non-treated firms as $TOT_{Treated=0} = \beta_1/\beta_3$ and compute the difference in the effect between treated and non-treated firms as $\Delta TOT = \beta_2/\beta_4$.

5.3. Results

In Table 9, we estimate the difference in abnormal returns and the difference in implementation probabilities for shareholder proposals on majority voting that narrowly pass or fail by a small margin of votes. We introduce polynomials, different for the treated and control states and that are also different for each side of the threshold, up to order 1 in columns (1) and (2), order 2 in columns (3) and (4), order 3 in columns (5) and (6), and order 4 in columns (7) and (8). We introduce polynomials of order 1, different for each year, the same on each side in columns (1), (3), (5), and (7) and that are different on each side in columns (2), (4), (6), and (8). All models from columns (1) to (4) follow a non-parametric estimation using the bandwidths generated by the approach

¹³ Specifically, this is achieved by introducing polynomials that are different for each side for both the treated and non-treated firms. We also introduce polynomials that are different for each side and for each year.

proposed by Calonico, Cattaneo, and Titiunik (2014) with uniform kernel functions and all models take the minimum bandwidths of IMP and CARs. Columns (5) to (8) follow a parametric estimation and use the full sample. To validate our use of the RDD design, we conduct manipulation tests following Cattaneo, Jansson, and Ma (2016) and McCrary (2008) in Table B.5.¹⁴

[Insert Table 9]

The results in Panel A of Table 9 focus on the implementation probabilities before and after the enactment of state laws. The dependent variable is IMP, a dummy that takes a value of 1 if the proposal is implemented. We also provide the analysis of a *non-nested* model in Table B.6 that investigates the effect of passing a proposal on implementation and CARs, separately for before and after the enactment of the legislation. In keeping with the common argument, the adoption of majority voting was very low prior to the legislation (Cai et al., 2009), which is consistent with our result that managers are not responsive to shareholder votes as indicated by a coefficient for the variable *pass* that is negative and statistically indistinguishable from zero. This coefficient measures the change in implementation probabilities at the majority threshold before states enacted legislation. However, the coefficient on *Pass*×*DIR_Staggered* is positive and large. In most cases, it is statistically significantly different from zero. This indicates that the implementation probability of a majority voting standard at the threshold clearly increases after the enactment of majority voting legislation. The jump in probability after the legislation can be obtained by adding the coefficients on *Pass* and *Pass*×*DIR_Staggered*, and ranges between 30% and 60%. The reason why the implementation jump is not 100%, given that the proposals are binding, is because managers may implement some proposals that do not pass by a small margin, and because via litigation, some of the proposals that pass are contested.

In Panel B, we report the same specification, now applied to CARs on a window that starts three trading days before and ends three days after the vote. The results show negative point estimates before the enactment of the legislation, ranging from -0.1% to -4.1%. Given that neither these results nor the changes in implementation probabilities are statistically significantly different from zero, it is hard to economically interpret them. However, the results for abnormal returns after the staggered enactment of the legislation indicate a negative jump of 4% to 7% in abnormal returns.

Given that any continuous variation is absorbed by the polynomials, one can interpret the coefficient on *DIR_Staggered* as the reaction to a close failed vote after enactment relative to no enactment, and the coefficient on *Pass*×*DIR_Staggered* as the differential effect on a closely passed

¹⁴ Recent literature shows evidence of voting manipulation (Bach and Metzger, 2018; Babenko et al., 2019). For example, Bach and Metzger (2018) show potential vote manipulation issues for the top 10 most voted shareholder proposal. We test explicitly that this is not the case in our sample.

vote after enactment relative to no enactment. According to this interpretation, after enactment, the market reaction to a vote goes from very positive or close to zero when the vote fails and negative when it passes, depending on the specifications. For example, in column 1, the market reaction is 3.1% if a vote fails after the legislative changes and -3.1% if it passes $(-2.1\%+3.1\%-4.1\%)$, while in column 5, the market reaction is 0.9% if the post-legislation vote fails and -6.2% $(-0.1\%+0.9\%-7\%)$ if it passes. In any case, the market reacts more negatively to the passing of a post-legislation proposal after the enactment, as compared to the point estimates that are between -2.1% (column (1) on *Pass*) to -0.1% (column (5) on *Pass*) if the vote passes before enactment.

To obtain the shareholder value of the proposal itself (ToT), we need to rescale this estimate by dividing it by the previous estimate of the jump in implementation at the majority threshold. For the interaction of interest, $\text{Pass} \times \text{DIR_Staggered}$, the rescaling factor is between 2.68 (column 1) and 1.81 (column 6) which implies that the negative abnormal returns range of between 11% and 13%, depending on the specification.

There are two important margins by which the market reaction to shareholder proposals can change before and after the enactment of binding voting standards. The first is that a jump in the probability at the majority threshold that a proposal will be implemented is different for the two periods. Before enactment, managers seem quite reluctant to implement a majority voting standard, even when shareholders voted in favor of them. After enactment, it is compulsory for managers to follow the voted-on recommendation. The second effect is the change in the proposal value after the enactment. This second effect is compensated for by rescaling the results on abnormal returns appropriately to reach a ToT estimator. The selection channel is the effect of interest. Are those firms with managers who show the greatest resistance to the implementation of majority voting standards those that need them the most or the least? Shedding some light on this question will help us understand the relative weights of the manager's objectives in maximizing shareholder value or keeping some private benefits of control.

Going back to the results in Table 9, if we focus strictly on the point estimates, the estimates for the effects of majority voting standards before and after legislation enacting these such standards goes from zero to negative before enactment, so the market reaction to the implementation of majority voting standards is more negative after enactment. If we consider that the impact of majority voting standards can be heterogeneous across firms, the negative effect is informative about the selection of the firms that do not front. Therefore, the results could indicate that managers resist implementation of a majority voting standard precisely in firms where such implementation would be most value-destroying. The enforced implementation of majority voting standards after the staggered enactment of state laws may have been positive for some firms but

negative for others. The market regards majority voting standards as detrimental to those firms where managers showed the greatest resistance to implementation or avoided introducing their own version of a majority voting standard. In Table B.7, we compare the characteristics of firms (Panel A) and boards (Panel B) that receive shareholder proposals before and after the legislative changes. We find that firms that resist the new legislation have a bigger board size and lower voting participation. Because such characteristics are likely to be associated with a higher cost of director replacement and less informative shareholder voting, this result is consistent with our conclusion that managers resist the new legislation in firms where implementation of majority voting is likely to be value-destroying.¹⁵

Although a full analysis of managers' motives here is beyond what our approach makes feasible, our results suggest that in deciding when to selectively introduce management proposals or when to selectively implement shareholder proposals, managers place a substantial weight on shareholders' value. The results suggest that a one-size-fits-all adoption of majority voting standards would be value destroying for some firms, and that giving managers some discretion over adoption can be value creating.

6. Conclusion

Previous literature that examines the proxy voting process focuses on the effectiveness of shareholder proposals. However, little is known about management's role. This paper studies managerial reaction to shareholder empowerment that strengthens direct shareholder democracy, more specifically, by making the shareholder votes on majority voting standards in director elections binding.

Our paper shows that even under a direct democracy, managers have substantial leeway in handling shareholder pressure. Indeed, the management can not only file proposals that compete with shareholder proposals, but more importantly, they have significant power in choosing which shareholder proposals, and which parts of a proposal, to implement, and the form the implementation will take. Managers also pre-empt shareholder proposals by proposing their own provisions in advance. One possible motivation for this fronting is that a management proposal has characteristics that make it more management friendly and its' intent to crowd out future alternative

¹⁵ We also find very similar financial characteristics for both groups, suggesting that firms that resist majority voting are not financially worse off. However, we find that firms with a bigger board size and lower voting participation are more likely to resist the new legislation. Although it is hard to pin down the precise mechanism for this selection, it seems that majority vote outcomes would be hardest to achieve for these firms. These results also have to be set in relation with the findings in Table 9, where they lend further support to our conclusion that managers resist implementation of the standard precisely in firms where implementation would be most value destroying.

shareholder proposals. We find evidence that is consistent with this idea. For example, after the legislative change, the number of management proposals filed increases substantially, while the number of shareholder proposals does not. In addition, management proposals tend to adopt the majority voting standard via charter. Management also strategically chooses the specifics of the implementation: they tend not to implement the majority voting standard strictly, preferring a more management friendly version with, e.g., director resignation policies.

Finally, we show that although managers try to entrench their power by fronting, they are not solely self-interested but also care about shareholder value, as majority voting does not seem to be value-increasing for firms where managers resist shareholder empowerment. We explore the nature of the selection of those firms that show the greatest resistance to the implementation of a majority voting standard. We find that firms that do not voluntarily adopt the majority voting standard experience negative market reactions when they did so induced by subsequent successful shareholder proposals. In other words, the managers of firms that are likely to suffer the most or benefit the least from the new legislation in terms of value tend to resist the implementation of the new laws. The selective implementation of the majority voting standard does not appear to reflect a misalignment of interests between managers and shareholders.

Our paper also sheds light on the debate about whether corporate governance regulations should empower shareholders through stronger direct democracy. While shareholder activism is a rising trend in recent years, some industry practitioners are calling for the recognition of managers' pivotal role in harmonizing shareholders' interests and exercising business judgment to implement the company's long-term objectives (Lipton et al, 2016). Our findings suggest that managers have ways of modulating shareholder influence and their methods do not always result in value destruction. Although it is important to empower shareholders to monitor managers, managers may pursue the common good of maximizing shareholder value if given the discretion to filter shareholders' requests. Thus, imposing a one-size-fits-all approach that aims to empower shareholders in all firms may disadvantage firms where managers care about shareholder value and are able to identify value-enhancing proposals.

References

1. Aghion, P., & Holden, R. (2011). Incomplete contracts and the theory of the firm: What have we learned over the past 25 years? *Journal of Economic Perspectives*, 25(2), 181-97.
2. Aghion, P., & Tirole, J. (1997). Formal and real authority in organizations. *Journal of Political Economy*, 105(1), 1-29.
3. Arrow, K. J. (1974). *The Limits of Organization*. New York, WW Norton & Company.
4. Babenko, I., Choi, G. & Sen, R. (2019). Management (of) Proposals. Working paper.
5. Bach, L., & Metzger, D. (2018). How close are close shareholder votes? *The Review of Financial Studies*, <https://doi.org/10.1093/rfs/hhy126>.
6. Bainbridge, S. M. (2005). Director primacy and shareholder disempowerment. *Harvard Law Review*, 119, 1735.
7. Bebchuk, L. A. (2004). The case for shareholder access: A response to the business roundtable. *Case Western Reserve Law Review*, 55, 557-568.
8. Bertrand, M., & Mullainathan, S. (2003). Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy*, 111(5), 1043-1075.
9. Bertrand, M., & Schoar, A. (2003). Managing with style: The effect of managers on firm policies. *The Quarterly Journal of Economics*, 118(4), 1169-1208.
10. Bray, A., Jiang, W., & Kim, H. (2015). Recent advances in research on hedge fund activism: Value creation and identification. *Annual Review of Financial Economics*, 7, 579-595.
11. Cai, J., Garner, J.L., & Walkling, R.A. (2009). Electing directors. *The Journal of Finance*, 64(5), pp.2389-2421.
12. Cai, J., Garner, J. L., & Walkling, R. A. (2013). A paper tiger? An empirical analysis of majority voting. *Journal of Corporate Finance*, 21, 119-135.
13. Calonico, S., Cattaneo, M. D., & Titiunik, R. (2014). Robust nonparametric confidence intervals for regression-discontinuity designs. *Econometrica*, 82(6), 2295-2326.
14. Carhart, M. M. (1997). On persistence in mutual fund performance. *Journal of Finance*, 52(1), 57-82.
15. Cattaneo, M. D., Jansson, M., & Ma, X. (2016). Simple local regression distribution estimators with an application to manipulation testing. *Working paper, University of Michigan and the University of California Berkeley*.
16. Choi, S. J., Fisch, J. E., Kahan, M., & Rock, E. B. (2016). Does majority voting improve board accountability? *The University of Chicago Law Review*, 83(3), 1119-1180.

17. Cremers, K. J. (2016). The shareholder value of empowered boards. *Stanford Law Review*, 68, 67-148.
18. Cuñat, V., Gine, M., & Guadalupe, M. (2012). The vote is cast: The effect of corporate governance on shareholder value. *Journal of Finance*, 67(5), 1943-1977.
19. Cuñat, V., Gine, M., & Guadalupe, M. (2013). Corporate governance and value: Evidence from “close calls” on shareholder governance proposals. *Journal of Applied Corporate Finance*, 25(1), 44-54.
20. Denes, M. R., Karpoff, J. M., & McWilliams, V. B. (2017). Thirty years of shareholder activism: A survey of empirical research. *Journal of Corporate Finance*, 44, 405-424.
21. Donaldson, J. R., Malenko, N., and Piacentino, G.(2018). Deadlock on the board. *Working paper, Washington University in St. Louis*.
22. Easterbrook, F. H., & Fischel, D. R. (1989). The corporate contract. *Columbia Law Review*, 89(7), 1416-1448.
23. Ertimur, Y., Ferri, F., & Oesch, D. (2015). Does the director election system matter? Evidence from majority voting. *Review of Accounting Studies*, 20(1), 1-41.
24. Gantchev, N. (2013). The costs of shareholder activism: Evidence from a sequential decision model. *Journal of Financial Economics*, 107(3), 610-631.
25. Gillan, S. L., & Starks, L. T. (2007). The evolution of shareholder activism in the United States. *Journal of Applied Corporate Finance*, 19(1), 55-73.
26. Karpoff, J. M., Malatesta, P. H., & Walkling, R. A. (1996). Corporate governance and shareholder initiatives: Empirical evidence. *Journal of Financial Economics*, 42(3), 365-395.
27. Levit, D., & Malenko, N. (2011). Nonbinding voting for shareholder proposals. *The Journal of Finance*, 66(5), 1579-1614.
28. Lipton, M, Rosenblum, S. A., Niles, S.V., Lewis, S. J., & Watanabe, K. (2016). The new paradigm: A roadmap for an implicit corporate governance partnership between corporations and investors to achieve sustainable long-term investment and growth. <https://www.wlrk.com/webdocs/wlrknew/WLRKMemos/WLRK/WLRK.26288.18.pdf>.
29. Listokin, Y. (2008). Management always wins the close ones. *American Law and Economics Review*, 10(2), 159-184.
30. McCrary, J. (2008). Manipulation of the running variable in the regression discontinuity design: A density test. *Journal of Econometrics*, 142(2), 698-714.

31. Mourning, J. R. (2007). The majority voting movement: Curtailing shareholder disenfranchisement in corporate director elections. *Washington University Law Review*, 85, 1143-1194.
32. Pozen, R. C. (2003). Institutional perspective on shareholder nominations of corporate directors. *The Business Lawyer*, 95, 95-108.

Table 1. Number of Proposals by Year

This table provides the number of proposals brought by management and shareholders about voting requirements in director elections for Russell 3000 firms from the years 2005 to 2015. The proposals are further categorized by those that failed or passed by shareholder voting.

Year	Management			Shareholder			Total		
	Pass	Fail	Total	Pass	Fail	Total	Pass	Fail	Total
2005	1	0	1	14	46	60	15	46	61
2006	1	0	1	35	54	89	36	54	90
2007	33	1	34	16	24	40	49	25	74
2008	34	2	36	11	13	24	45	15	60
2009	26	2	28	30	18	48	56	20	76
2010	32	1	33	19	14	33	51	15	66
2011	21	0	21	22	15	37	43	15	58
2012	23	3	26	24	13	37	47	16	63
2013	23	2	25	18	15	33	41	17	58
2014	15	4	19	14	11	25	29	15	44
2015	23	3	26	8	2	10	31	5	36
Total	232	18	250	211	225	436	443	243	686

Table 2. Descriptive Statistics

The table provides the summary statistics for the firms in our sample. In Panel A, columns 1 to 4 report the summary statistics for the characteristics of firms that receive management proposals to adopt a majority voting standard, columns 5 to 8 do so for firms that receive shareholder proposals, and columns 9 to 12 for all firms. Panel B, columns 1 to 4 report the summary statistics for management proposals to adopt a majority voting standard, columns 5 to 8 do so for shareholder proposals, and columns 9 to 12 for all proposals. Panel C, columns 1 to 4 report the summary statistics for implemented management proposals to adopt the majority voting standard, columns 5 to 8 do so for shareholder proposals, and columns 9 to 12 for all proposals.

Variables	Management				Shareholder				Total			
	N	Mean	Median	Std.	N	Mean	Median	Std.	N	Mean	Median	Std.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>Panel A: By firms</i>												
Log(Total Assets)	242	8.332	8.248	1.754	434	8.982	9.083	1.845	673	8.752	8.852	1.841
Log(Market Cap)	242	8.012	8.017	1.808	434	8.765	8.964	1.753	673	8.501	8.709	1.805
Leverage	241	0.229	0.221	0.185	434	0.262	0.236	0.187	672	0.251	0.230	0.187
ROA	242	0.088	0.073	0.081	434	0.069	0.070	0.206	673	0.076	0.073	0.172
Sales Growth	241	0.082	0.065	0.238	434	2.449	0.084	11.379	672	1.610	0.078	9.212
Tobin's Q	221	1.788	1.367	1.171	387	1.978	1.404	2.017	605	1.910	1.397	1.761
CARs	242	0.000	-0.001	0.038	434	0.000	0.000	0.034	673	0.000	-0.001	0.035
<i>Panel B: By proposals</i>												
Pass	247	0.927	1	0.260	435	0.485	0	0.500	682	0.645	1	0.479
Vote For Percentage (%)	247	96.331	98.5	7.9106	435	53.591	49.9	18.044	682	68.99	66.25	25.539
IMP	247	0.903	1	0.297	435	0.393	0	0.489	682	0.578	1	0.494
<i>Panel C: By implemented proposals</i>												
IMP_Charter_Guideline	223	0.453	0	0.499	171	0.140	0	0.348	394	0.313	0	0.464
IMP_Guideline	223	0.000	0	0.000	171	0.011	0	0.105	394	0.005	0	0.070
IMP_RES_NB	223	0.484	0	0.501	171	0.181	0	0.386	394	0.353	0	0.478
IMP_NB	223	0.148	0	0.356	171	0.112	0	0.316	394	0.132	0	0.339

Table 3. Regulation Enactment and Number of Proposals

This table reports the analysis of the regulation enactment and the number of proposals. The dependent variables are the number of management and shareholder proposals per state in columns 1 and 2 and per year in columns 3 and 4. Observations are weighted by the logarithm of the number of Russell 3000 firms in the states where the firm is incorporated. In Panel A, *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted. In Panels B and C, *DIR_Staggered* is a dummy variable that equals one within the 5 years after the regulation is enacted in the state where the firm is incorporated and zero otherwise. In Panel C, we exclude firms incorporated in Delaware. In columns (1) and (3) of all panels, *DIR_Staggered* also equals one in the enactment year and zero otherwise. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable	NUM_MGT		NUM_SHD	
	(1)	(2)	(3)	(4)
<i>Panel A: Regulation enactment</i>				
DIR_Staggered	0.392*** (0.13)	0.330** (0.161)	-2.727 (2.99)	-6.713 (6.127)
Including ann. year	Yes	No	Yes	No
Weights	Yes	Yes	Yes	Yes
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes
R-squared	0.17	0.164	0.651	0.701
N	550	550	550	550
<i>Panel B: Within 5 years after regulation enactment as treatment</i>				
DIR_Staggered	0.147*** (0.048)	0.113* (0.057)	0.703 (0.802)	-1.783 (1.340)
Including ann. year	Yes	No	Yes	No
Weights	Yes	Yes	Yes	Yes
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes
R-squared	0.153	0.150	0.643	0.648
N	550	550	550	550
<i>Panel C: Within 5 years after regulation enactment as treatment, excl. Delaware</i>				
DIR_Staggered	0.181*** (0.050)	0.155** (0.059)	-0.275** (0.105)	-0.243** (0.110)
Including ann. year	Yes	No	Yes	No
Weights	Yes	Yes	Yes	Yes
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes
R-squared	0.151	0.150	0.351	0.350
N	539	539	539	539

Table 4. Management Proposals Crowd Out Shareholder Proposals

This table analyzes whether management proposals crowd out shareholder proposals. In Panel A, the dependent variables are *SHD_Proposal_1*, *SHD_Proposal_2*, and *SHD_Proposal_3*, dummy variables that equal one if shareholders submit a proposal in the first, second, and third year after the enactment of the regulation in columns (1), (2), and (3), respectively and zero otherwise. In Panel B, the dependent variables are *SHD_Proposal_1_All*, *SHD_Proposal_2_All*, and *SHD_Proposal_3_All*, dummy variables that equal one if shareholders submit a proposal within one, two, and three years after implementation of the management proposal in columns (1), (2), and (3), respectively, and zero otherwise. *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted in the state where the firm is incorporated and zero otherwise. *Adopt_MGT* is a dummy variable that equals one if a management majority voting standard proposal is implemented and zero otherwise. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

<i>Panel A: Non-cumulative</i>			
Dependent variable	SHD_Proposal_1	SHD_Proposal_2	SHD_Proposal_3
	(1)	(2)	(3)
DIR_Staggered	-0.096*	-0.003	0.105
	(0.056)	(0.109)	(0.094)
Adopt_MGT	0.100*	-0.023	0.025
	(0.051)	(0.067)	(0.056)
DIR_Staggered×Adopt_MGT	-0.169**	0.011	-0.064
	(0.063)	(0.065)	(0.059)
State fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes
R-squared	0.020	0.012	0.013
N	643	643	643
<i>Panel B: Cumulative</i>			
Dependent variable	SHD_Proposal_1_All	SHD_Proposal_2_All	SHD_Proposal_3_All
	(1)	(2)	(3)
DIR_Staggered	-0.096*	-0.098	0.007
	(0.056)	(0.097)	(0.140)
Adopt_MGT	0.100*	0.077	0.102
	(0.051)	(0.081)	(0.100)
DIR_Staggered×Adopt_MGT	-0.169**	-0.159*	-0.222**
	(0.063)	(0.082)	(0.101)
State fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes
R-squared	0.020	0.036	0.050
N	643	643	643

Table 5. Regulation Enactment and Number of Proposals: Pre-trend Analysis

This table reports the pre-trend analysis of the number of proposals before the regulation enactment. The dependent variables are the number of management and shareholder proposals per state per year in columns 1 and 2 and columns 3 and 4, respectively. Observations in columns 2 and 4 are weighted by the logarithm of the number of Russell 3000 firms in the states where the firm is incorporated. *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted in the state where the firm is incorporated and zero otherwise. *DIR_Staggered_lag0* is a dummy variable that takes the value of one for the year when the regulation is enacted in the state where the firm is incorporated and zero otherwise. *DIR_Staggered_lead1* is a dummy variable that takes the value of one year before the regulation is enacted and zero otherwise. *DIR_Staggered_lag1*, *DIR_Staggered_lag2* and *DIR_Staggered_lag3* are dummy variables that take on the value of one for the one, two, and three years respectively after the regulation is enacted and zero otherwise. All models control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable	NUM_MGT		NUM_SHD	
	(1)	(2)	(3)	(4)
<i>Panel A: Pre-trend of regulation enactment</i>				
DIR_Staggered_lead1	0.019 (0.199)	0.137 (0.224)	6.478 (4.584)	9.870* (5.661)
DIR_Staggered_lag0	0.360** (0.137)	0.426*** (0.124)	10.232 (8.566)	14.437 (9.336)
DIR_Staggered	0.454*** (0.113)	0.418*** (0.113)	-1.631 (1.660)	-2.890 (1.998)
Weights	No	Yes	No	Yes
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes
R-squared	0.173	0.167	0.729	0.786
N	550	550	550	550
<i>Panel B: Pre- and post-trend of regulation enactment</i>				
DIR_Staggered_lead1	-0.077 (0.172)	-0.009 (0.166)	6.964 (5.380)	11.135 (7.128)
DIR_Staggered_lag0	0.231** (0.114)	0.253*** (0.092)	10.866 (9.422)	15.849 (10.803)
DIR_Staggered_lag1	0.474 (0.292)	0.311 (0.257)	0.284 (0.887)	0.879 (1.438)
DIR_Staggered_lag2	0.532 (0.438)	0.166 (0.374)	-5.420 (3.734)	-7.652*** (2.379)
DIR_Staggered_lag3	0.702*** (0.255)	0.624** (0.295)	-0.045 (0.246)	-0.108 (0.391)
Weights	No	Yes	No	Yes
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes
R-squared	0.175	0.165	0.732	0.790
N	550	550	550	550

Table 6. Implementation of Majority Voting Proposals

This table analyzes the implementation patterns of majority voting standards in firms for which we observe proposals related to a voting standard in director elections in column (1), including management and shareholder proposals, column (2) does so for firms for which we do not observe these proposals, and column (3) for all firms. The dependent variable is *MV*, a dummy variable that equals one if the voting standard in director elections follows majority voting. *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted in the state where the firm is incorporated. We control for state fixed effects and state headquarters (HQ) \times year fixed effects. We also control for firm characteristics, including Log(Market Cap), Leverage, ROA, and Tobin's Q. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable:	Firms with proposals	Firms without proposals	All firms
<i>MV</i>	(1)	(2)	(3)
<i>DIR_Staggered</i>	0.904*** (0.038)	0.996*** (0.011)	1.004*** (0.013)
Firm controls	Yes	Yes	Yes
State fixed effect	Yes	Yes	Yes
HQ \times Year fixed effect	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes
Observations	5,310	31,384	36,694
R-squared	0.273	0.101	0.116

Table 7. Implementation through Bylaw and Others

This table analyzes the implementation patterns for both shareholder and management proposals. We include only those proposals that are implemented. The dependent variable in columns 1 and 3 is *IMP_Charter_Guideline*, a dummy variable that equals one if the proposal is implemented via charter or guideline and zero if implementation occurs via bylaw. The dependent variable in columns 2 and 4 is *IMP_Guideline*, a dummy variable that equals one if the proposal is implemented via guideline, zero if via bylaw or charter. *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted in the state where the firm is incorporated. *MGT_Proposal* equals one if it is a management proposal and zero otherwise. *SHD_Proposal* equals one if it is a shareholder proposal. Columns 1 and 2 include passed proposals, and zero otherwise. Columns 3 and 4 include both passed and failed proposals. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable	IMP_Charter_Guideline	IMP_Guideline	IMP_Charter_Guideline	IMP_Guideline
	(1)	(2)	(3)	(4)
	Passed proposals		All proposals	
MGT_proposal	0.098 (0.072)	-0.001 (0.006)	0.052 (0.079)	0.002 (0.005)
DIR_Staggered×MGT_Proposal	0.496*** (0.099)	0.052 (0.042)	0.466*** (0.095)	0.039 (0.042)
DIR_Staggered×SHD_Proposal	0.359*** (0.099)	0.052 (0.043)	0.284*** (0.083)	0.041 (0.044)
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes
R-squared	0.405	0.104	0.422	-0.026
N	323	323	373	373

Table 8. Pro-management Implementation

This table reports the results for the analyses of pro-management implementation behavior. We include only those proposals that are implemented. The dependent variable in columns 1 and 3 is *IMP_RES_NB*, a dummy variable that equals one if the proposal is implemented via resignation policy or other non-binding obligations and zero if implementation occurs via strict majority voting. The dependent variable in columns 2 and 4 is *IMP_NB*, a dummy variable that equals one if the proposal is implemented via other non-binding obligations and zero if via resignation policy or strict majority voting. *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted in the state where the firm is incorporated and zero otherwise. *MGT_Proposal* equals one if it is a management proposal and zero otherwise. *SHD_Proposal* equals one if it is a shareholder proposal and zero otherwise. Columns 1 and 2 include passed proposals, while columns 3 and 4 include both passed and failed proposals. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable	IMP_RES_NB	IMP_NB	IMP_RES_NB	IMP_NB
	(1)	(2)	(3)	(4)
	Passed proposals		All proposals	
MGT_proposal	0.014 (0.054)	-0.056 (0.091)	-0.021 (0.063)	-0.036 (0.074)
DIR_Staggered×MGT_Proposal	0.536*** (0.099)	0.427*** (0.129)	0.546*** (0.089)	0.403*** (0.109)
DIR_Staggered×SHD_Proposal	0.330*** (0.099)	0.246* (0.131)	0.307*** (0.084)	0.251** (0.112)
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes
R-squared	0.454	0.242	0.477	0.235
N	323	323	373	373

Table 9. RDD&DiD of Implementation and Abnormal Returns

This table presents RDD&DiD regressions for implementation and abnormal returns on whether the proposal is passed. The dependent variable in Panel A is *IMP*, a dummy that takes a value of 1 if the proposal is implemented. The dependent variables in Panel B are *CARs*, cumulative abnormal returns for the (-3, +3) window, estimated using the Fama–French and momentum factors from Carhart (1997). We introduce polynomials, different for treated and control, also different on each side of the threshold, up to order 1 in columns 1 and 2, order 2 in columns 3 and 4, order 3 in columns 5 and 6, and order 4 in columns 7 and 8, respectively. We introduce polynomials of order 1, that are different for each year but the same on each side in columns 1, 3, 5 and 7 and that are different on each side in columns 2, 4, 6 and 8. All models from columns 1 to 4 use the bandwidths generated by the non-parametric approach proposed by Calonico, Cattaneo, and Titiunik (2014) with uniform kernel functions and take the minimum bandwidths of implementation and *CARs*. Columns 5 to 8 use the full sample. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	(-8;+8)		(-10;+10)		All		All	
<i>Panel A: Implementation</i>								
Pass	-0.001 (0.180)	-0.005 (0.200)	0.009 (0.187)	0.006 (0.149)	-0.071 (0.221)	-0.031 (0.210)	-0.060 (0.235)	-0.077 (0.226)
Dir_staggered	-0.090 (0.137)	-0.191 (0.153)	-0.149 (0.166)	-0.214 (0.162)	-0.270 (0.224)	-0.212 (0.164)	-0.145 (0.222)	-0.111 (0.204)
Pass×DIR_Staggered	0.373* (0.204)	0.552*** (0.188)	0.340* (0.191)	0.557*** (0.175)	0.568** (0.270)	0.554** (0.264)	0.568** (0.253)	0.597** (0.241)
State fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummy×Same for two sides	Yes	No	Yes	No	Yes	No	Yes	No
Year dummy×Different for two sides	No	Yes	No	Yes	No	Yes	No	Yes
Order poly	1	1	2	2	3	3	4	4
Cluster at state level	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R-squared	0.089	0.205	0.119	0.200	0.217	0.236	0.222	0.240
N	170	170	212	212	416	416	416	416
<i>Panel B: CARs (-3, +3)</i>								
Pass	-0.021 (0.017)	-0.020 (0.021)	-0.041** (0.015)	-0.033 (0.020)	-0.001 (0.014)	-0.003 (0.012)	-0.009 (0.019)	-0.009 (0.019)
Dir_staggered	0.031** (0.014)	0.031 (0.026)	0.026 (0.025)	0.034 (0.032)	0.009 (0.006)	0.010 (0.007)	0.021** (0.008)	0.023*** (0.007)
Pass×DIR_Staggered	-0.041*** (0.012)	-0.051*** (0.015)	-0.045* (0.023)	-0.040 (0.026)	-0.070*** (0.016)	-0.070*** (0.016)	-0.050* (0.026)	-0.053* (0.027)
State fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummy×Same for two sides	Yes	No	Yes	No	Yes	No	Yes	No
Year dummy×Different for two sides	No	Yes	No	Yes	No	Yes	No	Yes
Order poly	1	1	2	2	3	3	4	4
Cluster at state level	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R-squared	0.092	0.149	0.142	0.227	-0.007	-0.009	-0.006	-0.007
N	170	170	212	212	416	416	416	416

Appendix A: Variable Definitions

Variable	Definition
Adopt_MGT	Dummy variable that equals one if the proposal is brought by management and 0 if it is brought by shareholders and zero otherwise
Average director tenure	The average number of years of directors serving in a firm
Board size	The number of directors in the board
Busy board	The average number of directorships owned by outside directors
CARs	Cumulative abnormal returns for the (-3,+3) window, estimated using the Fama–French three factors and the momentum factor from Carhart (1997)
CEO-director ties	The median of number of overlapping years between the CEO and the directors from past employment, charity, and education
DIR_Staggered	Dummy variable that equals one for the years after the regulation is enacted in the state where the firm is incorporated and zero otherwise
DIR_Staggered_lead1	Dummy variable that equals one for the year before the regulation is enacted in the state, and zero otherwise
DIR_Staggered_lag0	Dummy variable that equals one for the year when the regulation is enacted in the state, and zero otherwise
DIR_Staggered_lag1/2/3	Dummy variables that equal one in one year, two years and three years after the regulation is enacted respectively, and zero otherwise
Duality	Dummy variable that equals one if the CEO of a firm is also the chairman of the board and zero otherwise
IMP	Dummy variable that equals one if the management changes the voting standard to majority voting via bylaw, charter, or guideline and zero otherwise
IMP_Charter_Guideline	Dummy variable that equals one if the proposal is implemented via charter or guideline and zero if implementation occurs via bylaw
IMP_Guideline	Dummy variable that equals one if the proposal is implemented via guideline and zero if implementation occurs via bylaw or charter
IMP_RES_NB	Dummy variable that equals one if the proposal is implemented via resignation policy or other non-binding obligations and zero if implementation occurs via strict majority voting

IMP_NB	Dummy variable that equals one if the proposal is implemented via other non-binding obligations and zero if implementation occurs via resignation policy or strict majority voting
Leverage	Total debt (dltt+dlc) divided by equity (ceq)
Log(Market Cap)	Log of equity market value (prcc_f*csho)
Log(Population)	Log of the population in each state
Log (Real GDP)	Log of real GDP
Log(Total Assets)	Log of total assets (at)
MGT_Proposal.	Dummy variable that equals one if it is a management proposal, 0 otherwise
MV	Dummy variable that equals one if the voting standard in director elections follows majority voting in that year, and zero otherwise
NUM_MGT	Total number of proposals brought by management for each state and in each year
NUM_SHD	Total number of proposals brought by shareholders for each state and in each year
Pass	Dummy variable that equals one if a proposal is passed by shareholders
ROA	Return on assets, calculated by net income (ni) divided by total assets (at)
Real GDP Per Capita	Real GDP divided by population
Republican Governor	Dummy variable that equals one if the governor is a Republican and zero otherwise
Sales Growth	One year growth in sales (sale)
SHD_Proposal	Dummy variable that equals one if it is a shareholder proposal, and zero otherwise
SHD_Proposal_1/2/3	Dummy variables that equals one if shareholders submit a proposal in the first, second, or third year after the enactment of the regulation, respectively, and zero otherwise
SHD_Proposal_1/2/3_All	Dummy variables that equal one if shareholders submit a proposal within one, two, or three years after implementation of a voting standard proposal from management, and zero otherwise
Tobin's Q	Market value of the firm (at-ceq+csho*prcc_f) over asset value of the firm (at)
Vote for Percentage (%)	Votes “for” as a percentage of all votes cast. If abstention is counted as no, the base is For+Against+Abstention. If abstention is count as non-votes, the base is For+Against.
Voting Participation	(Votes For+votes Against+votes Abstain)/total votes outstanding

Appendix B: Additional Tables

Table B.1. The Adoption of Majority Voting Legislation across States

Table B.1 shows the years in which MV legislation is passed in ten U.S. states and Washington, D.C. as part of their state corporation laws. We also present the sections for this legislation in the state corporate law.

State	Year	Sections
Delaware	2006	§8.1.206
California	2006	<i>S.B.1027</i>
Florida	2006	§33.607.728
Washington	2007	§23B.10.205
Utah	2008	§16-10a-102
Hawaii	2009	§23.414.149
Indiana	2010	§23.1.39
Wyoming	2010	§17-16-1022
Connecticut	2011	§33.601.809
District of Columbia	2012	§29.308.22
New Hampshire	2013	§27.293A.10

Table B.2: Number of Proposals by Year without Delaware

This table provides the number of proposals brought by management and shareholders regarding voting requirements in director elections for Russell 3000 firms from 2005 to 2015 but excluding firms that are incorporated in Delaware. The proposals are further categorized by those that fail or pass by shareholder voting.

Year	Management			Shareholder			Total		
	Pass	Fail	Total	Pass	Fail	Total	Pass	Fail	Total
2005	1	0	1	3	5	8	4	5	9
2006	1	0	1	12	19	31	13	19	32
2007	24	0	24	8	10	18	32	10	42
2008	25	0	25	9	6	15	34	6	40
2009	21	0	21	20	10	30	41	10	51
2010	17	1	18	8	6	14	25	7	32
2011	13	0	13	12	5	17	25	5	30
2012	15	2	17	14	6	20	29	8	37
2013	14	2	16	11	7	18	25	9	34
2014	11	2	13	6	6	12	17	8	25
2015	15	0	15	5	1	6	20	1	21
Total	157	7	164	108	81	189	265	88	353

Table B.3: Number of Proposals by State

The table provides the number of proposals brought by management and shareholders regarding voting requirements in director elections for Russell 3000 firms by state. The proposals are further categorized by those that fail or pass by shareholder voting.

	Management			Shareholder			Total		
	Pass	Fail	Total	Pass	Fail	Total	Pass	Fail	Total
California	0	0	0	1	0	1	1	0	1
Colorado	2	1	3	1	0	1	3	1	4
Connecticut	1	0	1	0	0	0	1	0	1
Delaware	66	10	76	83	126	209	149	136	285
Florida	2	0	2	1	1	2	3	1	4
Georgia	5	0	5	2	3	5	7	3	10
Indiana	8	0	8	2	2	4	10	2	12
Iowa	2	0	2	0	0	0	2	0	2
Kentucky	2	0	2	1	1	2	3	1	4
Louisiana	0	0	0	1	0	1	1	0	1
Maine	2	0	2	0	0	0	2	0	2
Maryland	3	0	3	21	7	28	24	7	31
Massachusetts	11	0	11	5	4	9	16	4	20
Michigan	4	0	4	3	6	9	7	6	13
Minnesota	11	0	11	4	0	4	15	0	15
Nevada	0	0	0	1	1	2	1	1	2
New Jersey	1	1	2	3	8	11	4	9	13
New York	7	0	7	6	5	11	13	5	18
North Carolina	6	0	6	2	3	5	8	3	11
Ohio	14	2	16	10	0	10	24	2	26
Oregon	4	0	4	1	0	1	5	0	5
Pennsylvania	17	0	17	10	3	13	27	3	30
Tennessee	7	0	7	6	2	8	13	2	15
Texas	1	0	1	2	1	3	3	1	4
Utah	1	0	1	4	0	4	5	0	5
Virginia	3	0	3	2	1	3	5	1	6
Washington	1	0	1	2	3	5	3	3	6
Wisconsin	12	0	12	4	6	10	16	6	22
Total	193	14	207	178	183	361	371	197	568

Table B.4: Predicting Enactment

All models are estimated with a probit model. The dependent variable in all models is DIR_Staggered, a dummy variable that equals one if the regulation is enacted in a given state and year. In Model (1), we do not control for year fixed effects; in Models (2) and (3), we control for year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	DIR_Staggered		
	(1)	(2)	(3)
Log(Population)	-0.346 (-0.79)	-0.483 (-1.53)	-0.712 (-1.26)
Employment Rate	-1.350* (-1.70)	-1.077 (-1.34)	-0.944 (-1.39)
Log(Real GDP)	0.329 (0.82)	0.473* (1.69)	0.709 (1.32)
Real GDP Per Capita	6.567 (0.96)		-8.820 (-0.66)
Republican Governor	-0.017 (-0.36)	-0.027 (-0.56)	-0.033 (-0.70)
Intercept	1.923 (0.77)	2.262 (1.15)	3.134 (1.11)
State fixed effects	No	No	No
Year fixed effects	No	Yes	Yes
Adjusted R-squared	0.066	0.083	0.088
N	500	500	500

Table B.5: Manipulation Test

Panels A and B provide manipulation test statistics based on Cattaneo, Jansson, and Ma (2016) and McCrary (2008), respectively.

	Before enactment	After enactment
	(1)	(2)
<i>Panel A: Cattaneo, Jansson and Ma (2016a) test</i>		
T	0.3458	-1.1919
P>T	0.730	0.233
Effective # of obs	173	88
<i>Panel B: McCrary (2008) test</i>		
Log difference in height	-0.121	-0.730
Standard error	0.372	0.531

Table B.6: RDD Estimates of Implementation and Abnormal Returns

This table reports the results of RDD estimates of implementation and abnormal returns. All models use the non-parametric approach proposed by Calonico, Cattaneo, and Titiunik (2014) with uniform kernel functions. The dependent variable in Panel A is a dummy that takes a value of 1 if the proposal is implemented. Dependent variables in Panel B are abnormal returns for the (-3,+3) window. Abnormal returns are computed using the Fama–French and momentum factors from Carhart (1997). Columns 1 and 2 restrict the sample to observations before the regulation is enacted. Columns 3 and 4 restrict the sample to observations after the regulation is enacted. Columns 1 and 3 introduce a polynomial in the vote share of order 1. Columns 2 and 4 introduce a polynomial in the vote share of order 2. Standard errors are given in parentheses.

	Before enactment		After enactment	
	(1)	(2)	(3)	(4)
<i>Panel A: IMP</i>				
Pass	-0.166 (0.186)	-0.217 (0.213)	0.395 (0.271)	0.452 (0.305)
BW loc. poly. (h)	6.689	10.979	9.364	13.753
Order poly	1	2	1	2
Observation	110	174	51	73
<i>Panel B: CARs (-3,+3)</i>				
Pass	0.023 (0.015)	0.027 (0.020)	-0.073 (0.054)	-0.066 (0.081)
BW loc. poly. (h)	6.264	6.576	6.18	7.689
Order poly	1	2	1	2
Observation	103	109	41	45

Table B.7: Selection

This table reports the characteristics of firms and boards that receive shareholder proposals before the legislative change to firms and boards that receive post-change shareholder proposals. Panel A reports the results for firm characteristics; Panel B does so for board characteristics. *DIR_Staggered* is a dummy variable that equals one for the years after the regulation is enacted. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Panel A: Selection on firm financials</i>						
Dependent variable	Tobin's Q	Sales Growth	Log(Total Assets)	Log(Market Cap)	ROA	Leverage
DIR_Staggered	-0.073 (0.257)	-0.162 (2.522)	-0.443 (0.413)	-0.177 (0.585)	0.073 (0.071)	0.004 (0.053)
State fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.206	0.352	0.318	0.436	0.202	0.237
N	179	203	203	203	203	203
<i>Panel B: Selection on firm governance</i>						
Dependent variable	Board size	Duality	CEO-director ties	Busy board	Average director tenure	Voting participation
DIR_Staggered	-1.607* (0.906)	-0.327* (0.159)	13.625* (6.580)	-0.016 (0.088)	0.346 (0.272)	0.062*** (0.015)
State fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.334	0.302	0.234	0.286	0.446	0.215
N	163	168	168	168	168	192

about ECGI

The European Corporate Governance Institute has been established to improve *corporate governance through fostering independent scientific research and related activities*.

The ECGI will produce and disseminate high quality research while remaining close to the concerns and interests of corporate, financial and public policy makers. It will draw on the expertise of scholars from numerous countries and bring together a critical mass of expertise and interest to bear on this important subject.

The views expressed in this working paper are those of the authors, not those of the ECGI or its members.

ECGI Working Paper Series in Finance

Editorial Board

Editor	Ernst Maug, Professor of Corporate Finance, Mannheim Business School, University of Mannheim
Consulting Editors	Franklin Allen, Nippon Life Professor of Finance, Professor of Economics, The Wharton School of the University of Pennsylvania Julian Franks, Professor of Finance, London Business School Marco Pagano, Professor of Economics, Facoltà di Economia Università di Napoli Federico II Xavier Vives, Professor of Economics and Financial Management, IESE Business School, University of Navarra Luigi Zingales, Robert C. McCormack Professor of Entrepreneurship and Finance, University of Chicago, Booth School of Business
Editorial Assistants	Alison Schultz, University of Mannheim Julian Hanf, University of Mannheim

Electronic Access to the Working Paper Series

The full set of ECGI working papers can be accessed through the Institute's Web-site (www.ecgi.global/content/working-papers) or SSRN:

Finance Paper Series	http://www.ssrn.com/link/ECGI-Fin.html
-----------------------------	---

Law Paper Series	http://www.ssrn.com/link/ECGI-Law.html
-------------------------	---