

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

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Abstract: This paper studies how managers react to shareholder empowerment that makes the votes on shareholder proposals regarding majority-voting director elections binding. Exploiting staggered legislative changes that introduce such empowerment, we find that managers become more responsive to shareholder requirements by initiating majority voting through either management proposals or governance guidelines. Further results suggest compromised implementation: managers adopt provisions that give them greater control over the channel of implementation and allow them to retain directors who fail in elections. Managers show the greatest resistance to implementing majority-voting standards when shareholder value is likely to suffer more or benefit less from the legislation.

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1. Introduction

Shareholders can influence firms through two distinct voting mechanisms. The first is an indirect democracy mechanism analogous to the election of political representatives. Under this mechanism, shareholders elect directors, who then make decisions about who runs the firm and how it is managed. The second is a direct democracy channel that requires a shareholder referendum on specific proposals submitted either by shareholders or by management. While an indirect democracy confers authority on the board of directors (Bainbridge, 2005), a 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 democracies to improve the effectiveness of voting and to adjust managerial authority.

Managers are responsive to shareholder proposals even when they are purely advisory (Cuñat, Gine, Guadalupe, 2012). However, given that managers have ways to adjust specific details and conditions of such implementation, the possibility of a compromised implementation (Bebchuk, 1989; Min, 2017) could modify the impact of shareholder proposals. The increased managerial responsiveness could, therefore, reflect not only managers' will to follow shareholders' requirements, and a higher degree of compromise, but also possibly their incentives to moderate and modulate shareholders' demands by keeping control over implementation timing and details. While this moderation could have the objective of maximizing shareholder value by including the point of view of better-informed managers, it could just as well be the result of managerial objectives being misaligned with those of shareholders.

This paper studies how managers react to stronger shareholder influence in a direct democracy. We use as a quasi-natural experiment the staggered passage of a new legislation that makes the vote of a subset of shareholder-initiated proposals binding. Incidentally, this specific subset of proposals pertains to changing the voting standard in director elections, so it also reinforces an indirect shareholder democracy. While the effect of binding shareholder proposals has been studied theoretically (Levit and Malenko, 2011), we are the first to empirically investigate the managerial response to this form of strengthened direct shareholder democracy.

The legislative change provides a suitable setting for understanding how managers react to shareholder empowerment in a direct democracy. Before the new legislation, plurality voting was the default standard in director elections in nearly all U.S. states and came under increasing criticism for its disregard of withheld votes.¹ The new legislation empowers shareholders by making the shareholder approval of a majority-voting standard via a bylaw amendment binding, so managers cannot unilaterally repeal or amend it.² More broadly, the law fosters stricter voting rules in director elections and can create peer pressure via other firms that adopt majority-voting standards.

We exploit the staggered enactment of the new law in a difference-in-differences (DiD) setting to causally explore a broad set of managerial responses to shareholder empowerment:

First, we focus on managers' own implementation of the majority-voting standard as a response to shareholder empowerment. We document that, since the legislation's enactment, managers have increased their submission of relevant proposals by up to 24.2%. Managers have also increased the direct implementation of the majority-voting standard through internal governance guidelines, which do not require a vote. At a firm level, we show that the submission of a management proposal is associated with a subsequent decrease in the likelihood of a shareholder proposal being submitted. On aggregate, despite shareholder proposals being made more attractive by the legislation, their number does not significantly change. Overall, the implementation of a majority-voting standard significantly increases, but most of this increase is due to the management's initiative. This is in contrast to management's previous, almost universal, rejection of majority-voting standards. Hence, managers take early action rather than passively waiting for shareholder proposals on bylaw amendments that are strengthened by the new legislation.

¹ Plurality voting has come under increasing criticism for its disregard of withheld votes, as, in an uncontested board election, a single vote in favor can be sufficient to ensure success. In contrast, a majority standard requires that the majority of the votes support the elected director. Managers have been under increasing pressure to change the voting standard to a majority-voting standard, including initiatives made by the Council of Institutional Investors and the International Corporate Governance Network. For example, the Council of Institutional Investors launched a letter-writing campaign to 1,500 of the largest U.S. corporations, urging them to consider adopting majority voting to elect their boards of directors. These initiatives predate our natural experiment and affect both treatment and control firms in our sample, so they do not participate in our identification strategy.

² In 2006, the Delaware legislature and the American Bar Association (ABA) passed new amendments to the Delaware General Corporation Law (DGCL) and Model Business Corporation Act (MBCA), respectively. Since 2006, several states that use the MBCA as the basis for their own state laws subsequently changed their corporate law provisions to facilitate majority voting.

Second, while the above results suggest that managers become more responsive to shareholder empowerment, and more willing to accommodate the shareholder's previous demands, we also show evidence of compromised implementation following the legislative changes. When adopting majority-voting standards, managers try to retain control over the specific channel by which the standards are implemented. Managers are more likely to initiate management proposals related to majority voting through a charter amendment than through a bylaw amendment. This is consistent with some of the existing literature (e.g., Bebchuk, 1989, 2004; Min, 2017) showing how directors can opportunistically use their exclusive right to initiate a charter amendment, paired with the fact that a charter, as a company's primary document, can supersede any other internal rules if they conflict with it. Also, as mentioned previously, we find that managers are more likely to adopt majority voting directly through governance guidelines, which do not require shareholder approval. In other words, while the legislative changes effectively make bylaw amendments a more attractive option for shareholders, managers lock in governance changes through channels by which shareholders lack comparable legal influence.

The compromised implementation of shareholders' demands is not easy to amend by subsequent shareholder proposals and can potentially deter future shareholder activism. As mentioned earlier, a management proposal implemented via charter is difficult for shareholders to change without management's collaboration. Moreover, an early action by management (vis either a management proposal or guidelines) disincentivizes future shareholder proposals for several additional reasons: shareholders would still face substantial costs in proxy contests (Gantchev, 2013) to implement marginal improvements; it is also more difficult to rally other shareholders if the new shareholder proposal brings only limited changes;³ moreover, the SEC can grant a no-action letter that precludes the vote on a shareholder proposal when a related management proposal has been proposed or implemented (Matsusaka, Ozbas, and Yi, 2019).⁴ We also find evidence that managers become more contentious in arguing against shareholder proposals after the legislation.

³ A similar argument can be found in Donaldson, Malenko, and Piacentino (2018).

⁴ See Matsusaka, Ozbas, and Yi (2019) for a detailed description of how no-action letters work. The SEC accepts an argument to validate a management no-action letter against a shareholder proposal for the existence of a contemporaneous related management proposal or a previously implemented related management proposal. The two proposals need to be related but can also differ substantially. Some of the most common valid reasons

Third, we find other dimensions of compromised implementation related to the specific way in which majority voting is implemented. We examine how managers implement the majority-voting standard after receiving shareholder or management proposals. We find that managers implement weaker versions of the majority-voting standard both when they submit their own proposals and when they implement shareholder proposals. In particular, we show that managers add management-friendly resignation policies for holdover directors, allowing for a period of transition after directors lose the election and providing the board with discretion when accepting director resignations.

Finally, we explore the reasons why managers resist the implementation of majority voting in some firms but not in others. We do so by measuring the change in the market reaction to the exogenous implementation of majority voting before and after the legislation. As management-initiated implementation renders shareholder proposals unnecessary in some firms, the selection of the firms that have yet to implement majority voting may change. We take advantage of this selection to assess managers' motives for voluntarily implementing majority voting in some firms and resisting it in others. Specifically, we combine the DiD setting with a regression discontinuity design (RDD) event study based on votes on shareholder proposals. We find that, after the legislation, the market reaction to the forced implementation of majority voting becomes more negative (or less positive) for those firms that have not yet implemented a majority standard. These results suggest that managers of firms on which the new legislation is likely to impose the greatest cost or bestow the least benefit tend to show the greatest reluctance to implementing the new standard. The findings indicate that managers do care about shareholder value and that the new legislation induced them to reach a higher level of compromise with shareholders in those firms for which majority voting was better suited. The results also suggest that majority voting can be detrimental to some firms in the sample.

Overall, this paper presents the first evidence of managerial response to strengthened direct shareholder democracy. While managers become more responsive to shareholder

for the SEC to accept a no-action letter are that it “conflicts with company’s own proposal,” that the “company has already substantially implemented a proposal,” that it “substantially duplicates another proposal” or that it “deals with substantially the same subject as another proposal from previous years that received (specified) low support from shareholders.” A no-action letter allows management to exclude a shareholder proposal from the vote.

demands after shareholder voice becomes binding, they also try to moderate the implementation of a new standard by initiating changes that help them control the terms and specifics of the implementation of the standard. We also show that managers exhibit the greatest reluctance to implement any form of a majority-voting standard precisely in those firms in which shareholder value is likely to suffer the greatest or benefit the least from the new legislation.

Our paper contributes to the existing literature in several dimensions. It is the first paper to explore the reaction of managers to enhanced direct democracy that makes shareholder proposals binding. Prior literature (Cuñat, Gine, Guadalupe, 2012; Denes, Karpoff, and McWilliams, 2017) that studies direct democracy focuses primarily on advisory proposals brought up by shareholders. We contribute to this literature by showing that managers respond to binding shareholder proposals by initiating governance changes before shareholders even express their views and by modulating the specific implementation of majority voting.

Second, our paper emphasizes that management exercises their discretionary power when implementing proposals. We caution that managers' early actions may compromise the implementation of shareholder demands and, consequently, undermine shareholder power. By initiating the changes in voting standards, managers can control the channel by which the standard is implemented (e.g., guidelines or charter amendments) and its specific terms (e.g., resignation or no-resignation policies). Thus, we contribute to the shareholder activism literature showing that compromised implementation might alter the intended effect of such activism. Our findings are consistent with those of Bebchuk (2004) and Min (2017) and highlight the importance of taking into account managerial incentives and actions when considering the effectiveness of shareholder activism. For example, such incentives could weaken shareholders' incentives to propose further changes on the same topic (Matsusaka, Ozbas, and Yi, 2019).

Our paper also contributes to the debate on shareholder empowerment in the law and finance literature. Prior studies have discussed the benefits and costs of shareholder empowerment. For example, Bebchuk (2004) argues that shareholders' existing power to replace directors is insufficient to secure the adoption of the value-increasing governance arrangements; other scholars (Easterbrook and Fischel, 1989; Pozen, 2003; Bainbridge, 2005;

Gillan and Starks, 2007) reason that shareholder empowerment could be potentially costly and even a deterrent to managerial efficiency and long-term strategic stability. More specific to our setting of binding votes, Levit and Malenko (2011) argue that non-binding votes may fail to adequately convey shareholder information, whereas Arrow (1974) posits that binding votes make it harder to incorporate management information into decision-making. We contribute to this debate by showing that making shareholder proposals binding can indeed be effective in encouraging the management to accommodate shareholder demands. However, we also show that managers retain flexibility to moderate shareholder proposals and potentially compromise their implementation. Our results on the market reaction to close-call votes suggest that this flexibility can be value-creating and that the board is able to identify situations in which majority voting does not enhance shareholder value. More generally, our paper can inform regulators about how managers, through their actions, adjust the effectiveness of a new legal standard of shareholder empowerment.

Finally, our paper is related to the literature on majority-voting systems. Prior studies (Ertimur, Ferri, and Oesch, 2015; Cai, Garner, and Walkling, 2009, 2013) typically focus on the association between adopting a majority-voting standard in director elections and the response of the market to such an adoption, and they find mixed evidence.⁵ These mixed findings suggest that there is, perhaps, substantial heterogeneity in the value of majority voting across different samples. To investigate managers' motives for resisting majority voting in some firms but not in others, the last part of the paper focuses on this heterogeneity and the selection of firms into not implementing majority voting.

2. The Staggered Enactment of the Legislation

Director elections are an important way in which shareholders hold directors accountable and make sure that they monitor and advise managers. When it comes to electing directors, however, state laws have merely required a plurality shareholder vote, and, thus, incumbent directors have rarely failed to get reelected due to the disregard of withheld votes.

⁵ For example, Ertimur, Ferri, and Oesch (2015) show that, on average, shareholder proposals related to majority voting in director elections receive positive market reaction and that firms adopting majority voting are more responsive to shareholder demands. Cai, Garner, and Walkling (2013) find that the announcement returns surrounding the actual adoption of majority voting are insignificant, on average, and that the adoption of majority voting has little effect on director votes, director turnover, or improvement of firm performance.

Shareholder activists have criticized the plurality-voting standard for its futility in holding directors accountable for their performance. As a consequence, two amendments, the Delaware General Corporation Law (DGCL) and the Model Business Corporation Act (MBCA), were passed in 2006 to facilitate the adoption of a majority-voting standard in director elections. The amendments state that if shareholders approve the adoption of the majority-voting standard through bylaws, managers cannot unilaterally repeal it, thus making such changes binding.

Over time, other states that use the MBCA as the basis for their state corporation laws have followed suit. Figure 1 is a geographical presentation of the states that enacted the legislative changes. In Table C.1, we provide the years when majority-voting legislation was passed in ten U.S. states plus the District of Columbia as part of their state corporate laws, as well as the sections for this legislation in the state corporate law. Appendix B provides more details on the background of the majority-voting legislation.

2.1. Nature of the Legislation: Empowering Shareholders via Bylaw

Amendments

In this section, we provide a discussion of the nature of the two amendments, with a focus on how these legislative changes empower shareholders.

Before the legislative changes, shareholders had limited power to change the voting standard in director elections. First, they needed to file a shareholder proposal in order to change the voting standard. However, even after a shareholder proposal was approved by a majority of shareholders, the managers had discretion over its implementation, as it was only advisory. Prior to the new legislation, the implementation of majority voting standards was rare, even among those shareholder proposals that passed.

Second, bylaw amendment is one of the few corporate actions that shareholders are entitled to initiate (Bainbridge, 2002), in contrast with changes in the corporate charter that need to be initiated by the board. However, before the legislative changes, directors had the option to propose further bylaw amendments that can amend the effects of shareholder-initiated bylaw changes. The right of directors to amend bylaws may be authorized by state laws (as in the MBCA §10.20(b)) or by a specific firm provision (as in DGCL §109(a)).

Third, as charters are the primary set of rules of a corporation, proposed bylaw changes by shareholders could be invalid if they conflict with an article of incorporation that states

the opposite (Min, 2017).^{6,7} For example, shareholders, when amending a bylaw related to the voting standard in director elections, can expressly provide that the board may not amend or repeal that bylaw. However, such a bylaw that prohibits board amendment would be invalid if the article of incorporation grants the board the power to adopt or amend bylaws. Effectively, almost all publicly held corporations incorporated in Delaware have the express provision in their charters granting the right to amend bylaws to the directors.

The legislative changes substantially empowered shareholders to change the voting standard in director elections. As mentioned in the previous section, DGCL and MBCA pioneered the legislative change across different states—a change that prescribes a set of rules to facilitate the adoption of a majority-voting standard in director elections. More specifically, the Delaware Amendments §216 (effective from August 1, 2006) provide that the board of directors may not repeal or amend any bylaw amendment that shareholders adopt and that specifies the votes needed for the election of directors. Amendments to the MBCA §10.22 (effective from June 20, 2006) establish that the board of directors cannot repeal or amend any bylaw amendment that requires directors elected in plurality voting to serve for no more than 90 days if the director receives more votes “against” than “for.” The legislative changes of DGCL and MBCA essentially cleared up the significant legal uncertainty when shareholders amend the bylaw to adopt the majority-voting standard in director elections: subsequent unilateral board action cannot undercut such bylaws. In this sense, the two legislative changes empower shareholders to amend bylaws related to the voting standard in director elections.

From the perspective of the implementation of shareholder proposals, these legislative changes increase management’s non-compliance costs for failing to implement a passed proposal that requests the implementation of the majority-voting standard through bylaw amendments and, consequently, increases the implementation probability of such passed

⁶ More precisely, Delaware law (DGCL §109(a)) provides that, by default, only shareholders have the power to amend bylaws. However, the articles of incorporation may also expressly confer this power on the board of directors to amend the bylaws, which is the case for most corporations incorporated in Delaware (Min, 2018). In contrast, the MBCA (§10.20(b)) allows the directors to amend the bylaws unless (1) the articles of incorporation give that power solely to the shareholders; or (2) the shareholders amend the bylaw in question and provide that the directors cannot thereafter further amend the bylaw. By implication, MBCA authorizes the shareholders to amend the bylaws even though the directors also have that power.

⁷ For a summary of who can amend corporate bylaws, more details can be found at <https://www.professorbainbridge.com/professorbainbridge.com/2006/01/who-can-amend-corporate-bylaws.html>.

proposals. Hence, we should expect the implementation rate of such proposals to increase after the legislative changes.

2.2. Compromised Implementation of the Majority-voting Standard

In this subsection, we discuss the different implementation aspects that affect the effectiveness of the majority-voting standard.

First, management can influence whether the majority-voting standard is implemented via guideline, bylaw, or charter. Each version differs in the degree of control that management has in initiating and amending it. Before the legislative changes, all three options constrained shareholders to some extent: for bylaws, the board could make them either invalid under DGCL or costly through counter-amendments under MBCA, as discussed in Section 2.1; for charters, the board had the exclusive right to initiate charter amendments; for guidelines, the board could always unilaterally change them without shareholder approval, whereas changes to either bylaws or charters required shareholder approval. After the legislative changes, shareholder-initiated bylaw amendments became more attractive to shareholders, as they are binding and cannot be amended or repealed by the board.

In response to the legislative changes, managers may have an incentive to strategically secure core corporate governance arrangements by initiating amendments to charters or guidelines rather than to bylaws (Min, 2017). The existing literature (e.g., Bebchuk (1989, 2004)) on corporate charters has also expressed concerns over managers' opportunistic charter amendments.⁸ Such concerns are bolstered by two important observations. First, directors' exclusive right to initiate a charter amendment allows them to pursue an amendment only when it favors them. Even if a company were to embrace a charter amendment that reflects shareholders' demands, the actual terms of the amendment are largely up to management's discretion. Second, once the initial charter provisions (that likely favor managers) are set, managers rarely fail to summon the majority support of shareholders to pass the charter amendments.⁹ In addition, as charters are the primary set of rules of a

⁸ Thus, as Bebchuk (2004) points out, "Management's control over charter amendments, as we have seen, distorts the evolution of charter provisions in management's favor."

⁹ As nicely summarized by Min (2017), first, when it comes to the issue of granting a new right to shareholders, proxy advisory firms have not sufficiently alerted shareholders to vote against management proposals that place

corporation, proposed bylaw changes by shareholders could be invalidated if they are in conflict with charters.

Second, management can choose to embed certain provisions into a majority-voting standard that provide more leniency when directors actually fail to get elected through a resignation policy. This policy is intended to address the issue of “holdover directors” who fail reelection under a majority-voting standard but hold the board seat until a new director is elected. A director resignation policy usually permits a period of transition after directors lose the election and tender their resignations and, more importantly, provides the board with discretion regarding the acceptance of their resignations. Thus, even if an incumbent director is not reelected to the board under the majority-voting standard, she may still serve on the board until a new director is elected or even stay on the board if the board does not find a new director. In general, managers can implement a strict majority-voting standard, a rejectable majority-voting standard by combining majority voting with a resignation policy, or a plurality-plus standard under which a director is duly elected by a plurality vote but is expected to submit a resignation letter to the board in the event that she receives more votes “withheld” than votes cast in favor.¹⁰ These three systems differ in their leniency towards directors, and we expect that managers are more likely to prefer plurality-plus and rejectable majority voting, as they provide more leniency for directors who might fail in elections.

2.3. Data Description

We obtain the data on proposals related to voting requirements for 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 236 management proposals and 436 shareholder proposals voted on at annual meetings from 2005 until 2015. Second, from Schedule 14A, we manually collect information on the

onerous restrictions on that right. For instance, ISS consistently recommends voting for management-modified proposals. Second, no-action letters can be used to ex post support compromised implementation should shareholders raise objections. Third, shareholders cannot effectively prevent amendments that destroy shareholder value from being adopted due to problems of information asymmetry and collective action, as well as a voting system that favors management. Most proposals traditionally receive shareholder approval even when they favor management. One can also find similar arguments in Bebchuk (1989).

¹⁰ Under plurality-plus, a director is duly elected by a plurality vote but is expected to submit a resignation letter to the board in the event that she receives more votes “withheld” than votes cast in favor, which is the “plus” part of the standard.

implementation and proposal content, such as whether shareholders demand changes in resignation policies and whether management implements changes via bylaw or charter. We also manually collect legislative changes vis-à-vis majority voting from each state's corporation laws.

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

Table 1 shows the number of majority-voting proposals voted on and the subsequent voting outcomes by year. While the number of management proposals increased from one in 2005 to 26 in 2015, the number of shareholder proposals declined steadily from 59 in 2005 to ten in 2015. As indicated in Table 1, the passage rate for management proposals is 100% (i.e., all the 236 management proposals are passed), while for shareholder proposals it is 49.8% (i.e., 214 out of 430 shareholder proposals are passed). Notably, over the 11-year period, the percentage of shareholder proposals that passed increased from around 25.4% to more than 80.0%.¹¹

Our identification strategy relies on the absence of pre-existing differences across treated and non-treated states before the law's enactment. Identification could, in principle, be achieved even if we use the legislation's enactment in a single state. However, the law's staggered enactment increases the power of our tests and attenuates any concerns about potential confounding factors.¹² In Appendix Table C.2, we present additional statistics for firms incorporated outside of Delaware. We observe a similar trend. Appendix Table C.3 presents additional information on the number of proposals and voting outcomes by state.

Table 2 presents the descriptive statistics for the main variables that we use in our empirical analyses. Variable definitions are included in Appendix A. For all panels, columns (1) to (4) report the summary statistics for firms that submit management proposals or for the management proposals themselves; columns (5) to (8) do so for firms that receive shareholder

¹¹ Relatedly, ISS recommendations are almost always supportive of shareholder proposals (with only 7 exceptions) and, hence, with no change in pattern before and after the enactment of the legislation.

¹² Because many of the firms are incorporated in Delaware, we perform robustness checks of our state-level regressions that exclude that state.

proposals or for the shareholder proposals themselves; and columns (9) to (12) present these data for all firms or all proposals. Panel A reports the summary statistics for firm characteristics. Our firms have an average asset size of four billion U.S. dollars, ROA of 7.6%, and sales growth of 13.3%.

Panel B of Table 2 reports the summary statistics for our sample of management and shareholder proposals. We have 666 proposals in total: 236 management and 430 shareholder proposals. All of the management proposals passed, as did 49.8% of the shareholder proposals. The vote percentage in favor of the management proposals has a mean of 96.3%, compared to 54.0% for the shareholder proposals.¹³ Next, we collect information on the implementation for each proposal in our sample and construct the dummy variable *Implemented*, which equals one if majority voting is implemented within one year after the annual meeting, and zero otherwise. We find that 91.1% of the management proposals were implemented, compared to 39.3% of the shareholder proposals that were implemented. In untabulated summary statistics, we find that across all vote outcomes, 37.9% of the shareholder proposals were implemented before the legislative changes, compared to 42.3% after enactment.

Panel B also reports information on the proposal characteristics. We find that 33.5% of the management proposals demand adoption of the majority-voting standard via bylaw, while 79.3% of the shareholder proposals do so. This stark contrast reflects shareholders' incentives to adopt the majority-voting standard via bylaw when such an option is made binding by the legislation. Second, to understand how the narratives of management and shareholder proposals change after the legislation, we collect information on the length of both shareholder and management proposals and the length of the managerial recommendation section in both types of proposals. For the empirical analysis, we construct *Rank proposal length* and *Rank management recommendation length*, which are the rankings of the length of the proposal statement and the management recommendation section in a proposal,

¹³ We match our shareholder proposal data to ISS Voting Analytics data in order to obtain the base by which the Vote for Percentage (%) is calculated. We get 410 matched proposals out of 430. For matches, we take the base variable in Voting Analytics to calculate the Vote for Percentage (%). If an abstention counts as a no vote, the base is For+Against+Abstention. If an abstention counts as a non-vote, the base is For+Against. For unmatched cases that are all under the rule of "majority of votes cast," we use For/(For+Against+Abstention) to be conservative.

respectively.¹⁴ In particular, for the shareholder proposals, we count the reasons managers give when recommending against a proposal and construct the variable *Number of reasons against*. Common reasons include the risk of potential corporate governance complications arising from failed elections.¹⁵ On average, we find that managers use approximately five reasons to argue against the implementation of a majority-voting standard.

In Panel C, based on Section 2.2, we collect other proposal characteristics that may reflect changes in how agents act to take advantage of or moderate the effect of the legislative changes. We focus on the subsample of proposals that are implemented as a majority-voting standard. In particular, we take a closer look at bylaw-amendment shareholder proposals in columns (5)-(8), as the legislative changes make these proposals binding. We construct a dummy variable *Implement via bylaw* that equals one when the proposal is implemented via bylaw and zero otherwise. We find that, conditional on implementing a majority-voting standard, 52.1% of the management proposals and 92.1% of the shareholder proposals adopt the standard via bylaw. We also construct a dummy variable *Implement via charter* that equals one when the proposal is implemented via charter and zero otherwise. We find that 47.9% of the management proposals and 6.5% of the shareholder proposals do so via charter.¹⁶

In Panel D, we focus on the sample of proposals implemented as either majority voting or plurality plus. We construct three dummy variables, *Plurality Plus*, *Rejectable MV*, and *Strict MV*, that equal one when the proposal is implemented as a plurality-plus system, a rejectable majority-voting standard, and a strict majority-voting standard, respectively. We find that 4.4% of the management proposals and 37.1% of the shareholder proposals are implemented as plurality plus; 35.1% of the management proposals and 26.2% of the shareholder proposals are implemented as rejectable majority voting; and 60.4% of the

¹⁴ These variables are constructed as a word count ranking over the whole sample, normalized between 1 and 100. 1 indicates the lowest word count and 100 the highest.

¹⁵ For example, First Solar, Inc. stated in the DEF 14A filed on 5/23/2012 that “the majority voting standard suggested by the Proponent creates the potential for ‘failed elections’ in an uncontested election where a nominee does not receive a majority of the votes cast. [...] It is possible that the Board could be faced with a potentially large number of vacancies at one time that could adversely affect our ability to comply with applicable NASDAQ listing standards or federal securities law requirements regarding qualified Audit and Compensation Committees, the number of independent directors and financial experts. Similarly, a majority-voting standard could leave the Board with an insufficient number of directors to conduct business or perform its duties. We do not believe such a result furthers shareholder democracy.”

¹⁶ Only two shareholder proposals are implemented via guideline. As the number is too small, we focus on implementation via bylaw vs. charter.

management proposals and 36.7% of shareholder proposals are implemented as strict majority voting.

3. Managerial Response to Shareholder Empowerment

In this section, we examine empirically how managers respond to shareholder empowerment by using the options available before and after the legislation. We focus on the filing of management and shareholder proposals that seek to change the voting standard in director elections to majority voting. We also explore how managers voluntarily adopt the majority-voting standard through internal guidelines that do not require a vote.

3.1. Empirical Strategy: Staggered DiD

To obtain causal estimates of the managerial response to the legislation, we take advantage of different US states enacting it in a staggered way to implement a DiD estimation. Consider the following specification:

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

where Y_{ist} is an outcome variable for proposal i , in state s , measured in period t . The variable Enactment_{st} takes a value of one if state s enacts the legislation before period t and 0 otherwise. That is, the year in which the law is enacted for only some months is still considered as non-treated. We introduce state-group fixed effects δ_s and year dummies λ_t to complete the difference-in-differences estimation. Specifically, states that enact the legislation in the same year are considered one group, while those that never enacted the legislation comprise another group. The coefficient of interest, β_1 , measures the effect of the legislation, controlling for any cross-sectional and time-series variation. The estimate of β_1 can be interpreted as causal, as long as the dependent variables for 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 lagged dummy variables of the treatment variable to show that the parallel trends assumption holds in the years before the law's enactment. Note that, in parts of the paper we aggregate Y_{ist} at the firm or state level.

3.2. *Submission of Management and Shareholder Proposals*

3.2.1. *Main results*

In Table 3, we report the results for the number of management and shareholder proposals before and after enactment. In columns (1) and (2) of Table 3, Panel A, the dependent variables are the natural logarithm of one plus the number of management proposals in a state in a given year. In columns (3) and (4), the dependent variables are the natural logarithm of one plus the number of shareholder proposals in a state in a given year.

In columns (1) and (3), we report standard equally-weighted regressions. We find that under all specifications, the enactment of legislative changes leads to more management proposal submissions. Column (1) of Panel A shows that the enactment of legislative changes leads to a 24.2% increase in management proposals; the effect is statistically significant at the 5% level. In column (3), we find no statistically significant change in the number of shareholder proposals after the legislation's enactment. Because the legislation empowers shareholders to change the voting rule, the results suggest that managerial actions might offset the shareholders' additional incentives created by the legislation to submit shareholder proposals.

In principle, one could use any single wave of legislation enactment for identification in a standard difference-in-differences specification. The staggered nature of the legislation further allows us to control for cohort-specific effects. However, it is useful to understand whether the results are driven by a few states or are widespread. To address the possibility that a few states with a lot of firms are driving the results, in columns (2) and (4), we report regressions in which states are reverse-weighted, giving more weight to those that are underrepresented in the Russell 3000, finding similar results.¹⁷ Moreover, in Panel B, we exclude Delaware and conduct the same analysis as in Panel A. We find that the effect of the enactment of the legislation is robust to excluding Delaware, indicating that the enactment of the legislation also causes increases in management proposals in other treatment states. The magnitude of the effect is, nevertheless, smaller in other states.

¹⁷ More specifically, the weights are 3000 minus the number of Russell 3000 firms incorporated in the state. Our results are robust to other weights that downplay the effect of major incorporated states, such as the inverse of the logarithm of the number of firms.

In a staggered difference in difference design both treated and non-treated states act as controls. This yields unbiased and efficient estimators if the treatment effect is homogeneous across treatments. However, when the treatment effect is heterogeneous having treated states as controls can yield estimators that do not reflect an average treatment effect (Goodman-Bacon, 2019; Baker, Larcker, and Wang, 2021). To address this concern we conduct several robustness tests. First, in Panel C of Table 3, we conduct a stacked difference-in-differences test. Specifically, following Cengiz et al. (2019), for each state-group, we construct a “database” in which the observations are the state-group as the treated and all the never-enacted states as the control. We create relative year dummies to indicate the time difference between each year and the year of enactment and a cohort dummy for each database. We then stack all databases and run a difference-in-differences regression with a common treatment variable and with cohort specific relative year fixed effects and state-group fixed effects. Second, in Panel C of Appendix Table C.4, we conduct a two-stage difference-in-differences test following Gardner (2021) that is robust to treatment-effect heterogeneity when treatment is staggered.¹⁸ Our results suggest that the effect is driven by never treated states acting as controls. Finally, we conduct a Bacon decomposition of difference-in-differences estimation (Goodman-Bacon, Goldring, and Nichols, 2019) and find that 93% of the effect is estimated on enacted versus the never-enacted states.

Overall, our results suggest that managers respond to shareholder empowerment by submitting more management proposals to adopt majority voting after the new legislation’s enactment.

3.2.2. Validation of the DiD Design

In this section, we conduct analyses to show that the enactment of the legislation is a valid DiD design.

We start by reporting the results of the pre-trend analysis in Table 4. For each state-year combination, we define year t as the year in which the legislation is enacted in that state. Then, we create the lag indicator variables *Enactment-1* and *Enactment-2* for years $t-1$ and

¹⁸ We first regress logarithms of management and shareholder proposals on year and state-group dummies using only the never-enacted states’ observations, and predict on the whole sample (including enactment and never-enacted states) the outcome using the previous results. We then subtract the predicted values from the raw logarithms of management and shareholder proposals to get a residual outcome. Finally, we regress the residual outcomes on the treatment variable.

t-2, and *Enactment*-3 for year t-3 or earlier. We also create lead indicator variables *Enactment*+1, *Enactment*+2, and *Enactment*+3, for years t+1, t+2, and t+3 and, finally, *Enactment*+4 for year t+4 or later.

Across all columns, we find that, before the enactment of the law, the trend of management and shareholders submitting proposals in treated states follows a similar pattern to that in control states. We also find a surge in the number of management proposals in the third and fourth years after enactment. In addition, the *cumulative* increase in the number of proposals is statistically different from zero starting in year two.¹⁹ In other words, one year after the legislative change, management initiates governance changes in response to shareholder empowerment in director elections. In contrast, the post-enactment coefficients for shareholder proposals are not statistically significant.

One might argue that the increased submission of management proposals and even the changes to state laws could be driven by shareholder activism or macroeconomic conditions. To address these concerns, in Appendix Table C.4, Panel A, we run hazard regressions that relate how long it takes for the state to enact the new legislation to state-level macroeconomic variables. We also include as explanatory variables the number of management proposals and the number of shareholder proposals in column (1) to reflect the call for governance reforms to the voting standard in each state, and we further include state-level macroeconomic variables, such as employment, in column (2). None of these variables seems to be strongly correlated with the legislative changes.

To further address the concern that the increase in majority-voting management proposals may be correlated with a general trend of managerial responsiveness, we conduct a placebo test to examine the submission of a different type of shareholder proposals. Specifically, we analyze the number of executive compensation proposals before and after the legislation's enactment. In Appendix Table C.4, Panel B, we find that the submission of compensation-related proposals initiated by either management or shareholders does not change after enactment. This suggests that the legislative change is unlikely to be driven by a wider call for corporate governance reforms.²⁰

¹⁹ The cumulative effect after two years is statistically significantly different from 0 at a 7.4% level, 2.2% after three years, and 3.1% after four years.

²⁰ In an unreported test, we also find that other types of proposals, such as declassifying the board of directors, are not affected by the legislation.

Finally, because our sample starts from 2005, just one year before the first legislative change occurred, we provide a robustness check using an extended sample that begins in 2003. We supplement our sample with proposals from a second source, ISS Voting Analytics.²¹ Appendix Table C.5 reports the results. We find consistent results: the number of management proposals increases significantly, while the number of shareholder proposals shows no significant change.

3.2.3. The Effect of Management Proposals on Shareholder Proposals

In this subsection, we provide evidence supporting early management proposals' possible effects on future shareholder proposals. More specifically, we examine, at the firm level, whether the submission of a management proposal further reduces the likelihood of a shareholder proposal being submitted after the enactment of the legislation. Our conjecture is that managers might view shareholder and management proposals differently and might seek to implement their own version of the majority-voting standard through management proposals. A necessary condition for this strategy to work is that management proposals "crowd out" future shareholder proposals. We test this premise empirically by focusing on all the firm-year observations belonging to firms for which we observe at least one management or shareholder proposal on majority voting in the sample. Table 5 reports the results.

Dependent variables *Shareholder Proposal t+1*, *Shareholder Proposal t+2*, and *Shareholder Proposal t+3* in columns (1), (2), and (3) are dummy variables that equal one if shareholders submit a proposal within one, two, and three years, respectively, and zero otherwise. *Management proposal* is a dummy variable that equals one if a management proposal is submitted in that year, and zero otherwise.

We find that, before the legislative change, the introduction of a management proposal in a given firm will reduce the demand for a shareholder proposal, as indicated by the negative and significant coefficient on *Management proposal*. Moreover, we find that in all columns in Table 5, the submission of a management proposal leads to a *further* decrease in the chance of a shareholder proposal being submitted *after* the legislative changes. Given that the

²¹ As the ISS Voting Analytics classifies proposals that require majority voting in director elections under several categories (M0230, M0605, S0212, and S0810), we first include all proposals under these categories and then retain those with an item description that contains "Majority."

legislation's intention is to reinforce the implementation of shareholder proposals (via bylaw), the post-legislation increase in management proposals appears to offset the additional incentives to submit shareholder proposals.

These results suggest that an existing management proposal might disincentivize shareholder proposals and that the legislation could make this effect more relevant. The channels for this effect include that contemporaneous or existing management proposals can be explicitly used as an argument to request that the SEC preclude a shareholder vote (Matsusaka, Ozbas, and Yi, 2019). More generally, shareholders may be discouraged to file proposals if they find it costly to win (Gantchev, 2013), as these proposals might bring only limited change.

3.3. The Prevalence of the Majority-voting Standard

As managers become more willing to submit their own proposals to adopt the majority-voting standard, we might also expect them to implement a majority-voting standard voluntarily and directly, without bringing it to a vote. Thus, we might observe that the majority-voting standard is adopted by a bigger sample of firms for which no proposals are submitted. In this section, we analyze the overall prevalence of the majority-voting standard among Russell 3000 firms before and after the regulatory change. We obtain the voting standard in director elections from ISS.²² Table 6 reports the results.

In Panels A and B of Table 6, the dependent variable *Majority voting in place* is a dummy variable that equals one if the firm has a majority-voting standard in place and zero otherwise. Columns (1) to (3) are based on the full sample of Russell 3000 firms; columns (4) to (6) include only the full panel of firms that are present through our sample period. Panel A uses the full sample of firms, and Panel B includes only those for which we do not observe a shareholder or management proposal on majority-voting standards in director elections. For all panels, we use a linear probability model. We control for state-group and year fixed effects in columns (1) and (4); state-group, year, and industry fixed effects in columns (2) and (5); and state-group, year, industry fixed effects, and firm controls in columns (3) and (6). Firm controls include assets, leverage, and ROA.

²² ISS Voting Analytics covers the company vote results for Russell 3000 firms from 2003 onward.

All columns of Panel A show that the likelihood of establishing a majority-voting standard significantly increases after enactment of the legislation. In Panel B, when we exclude firms that do not have either management or shareholder majority-voting proposals, we find that the likelihood of installing a majority-voting standard also significantly increases after enactment. This result indicates that installing majority voting via guidelines, which does not require shareholder approval, becomes more prevalent after enactment.

Finally, in Panel C, we focus on the sample of firm-years when a majority-voting standard is established, so as to examine whether the increase in the prevalence of the majority-voting standard is driven by managers (via guidelines or proposals) or shareholders (via proposals). The dependent variables in columns (1) to (3) are *Management-initiated change* a dummy variable that equals one if the majority-voting standard is brought by management, and zero if by shareholders. Overall, we find that after the adoption of the legislation, the likelihood of managers introducing the majority-voting standard significantly increases, which also implies that the likelihood of shareholders being the ones that initiated the change significantly decreases.

In Appendix Table C.6, we also examine the dynamic effect of the new legislation on the prevalence of majority voting among Russell 3000 firms. We find that the likelihood of installing a majority-voting standard increases significantly in the first year after the enactment of the legislation. Thus, the legislation caused a faster response from management through direct implementation of majority voting via guidelines than via proposals, possibly due to a lower setup cost. Taken together, our findings in this section indicate that the legislation leads to broader implementation of the majority-voting standard. Managers are more likely to initiate governance changes by either putting forward their own proposals or directly implementing majority voting through guidelines in response to shareholder empowerment that makes majority-voting shareholder proposals binding.

Note that our estimate of the DiD coefficient captures only the intent-to-treat effect—that is, the average relationship between the regulation and managerial responses through different channels. However, the specific intensity of and channels through which managers respond to shareholder empowerment may vary across firms. In some firms, managers may initiate the adoption of a majority-voting standard that is management-friendly. In other firms, managers may simply follow the guidance provided by the legislative change and voluntarily

adopt majority voting. To investigate these channels, in the next section, we present two pieces of evidence that suggest that, apart from catering to shareholder demands, managers may have other incentives—i.e., to retain control of the implementation details of the voting standard.

4. Details of Proposal Implementation

Previous analysis suggests that majority voting becomes more prevalent after the legislative change, even among firms that do not receive any shareholder or management proposals. In this section, we analyze changes in the *composition* of the different versions of majority voting among the firms that implemented a majority-voting proposal.

As noted in Section 2.2, there is still leeway for management to deviate from shareholders' precise requests to implement majority voting. Specifically, we document how management's implementation of a majority-voting standard includes specific characteristics that appeal to managers. For example, managers may change the firm's charter to exploit their exclusive right to initiate a charter amendment. Managers can also choose to implement a weaker version of majority voting by embedding a resignation policy. While we focus on characteristics that are important and easy to code, the results presented in this section should be seen as indicative of a broader phenomenon, as there are numerous legal details that may lead to differences in the implementation of each type of proposal.

4.1. Modulating Direct Shareholder Democracy: Bylaw vs. Charter

As explained in Section 2.2, the legislative changes increase the relative attractiveness of bylaw amendments to shareholders, as the board is precluded from repealing them. However, the board has the exclusive right to make charter amendments. Therefore, if the board wishes to influence the specific way in which majority voting is implemented, the charter option helps managers lock in the specific implementation. Moreover, as a corporate charter supersedes a bylaw, managers can effectively overrule any future revisions by shareholders through a bylaw if they contradict the existing charter. Thus, to managers, the new legislation makes implementation via charter more attractive than implementation via bylaw. In this

section, we contrast bylaw-adopted versus charter-adopted majority-voting standards to study how managers modulate direct shareholder democracy.²³

Because the legislation makes the implementation of bylaw-amendment shareholder proposals binding, we first examine whether bylaw implementation, among all *implemented* shareholder proposals that request bylaw amendment, indeed increases. Panel A of Table 7 focuses on implemented majority-voting shareholder proposals that specifically request bylaw amendment. In columns (1) and (3), the dependent variables are a dummy variable that equals one if the majority-voting standard is implemented via bylaw and zero otherwise. In columns (2) and (4), the dependent variables are a dummy variable that equals one if the majority-voting standard is implemented via charter and zero otherwise. Columns (1) and (2) use passed proposals, while columns (3) and (4) include both passed and failed proposals.

Column (1) shows that, conditional on implementation, majority voting is more likely to be adopted via bylaw after the legislative change, suggesting that the legislation indeed has teeth. The result is also robust to the inclusion of both passed and failed proposals. In contrast, column (2) shows that managers are less likely to implement majority voting via charter after the legislative change. However, after failed proposals are included in column (4), the proportion of charter implementation is higher. This result is driven by management implementing failed shareholder proposals via charter. As the legislation has no impact on failed proposals, when management implements the majority-voting standard after a failed proposal, it does so via a charter amendment that cannot be further amended by shareholders and discourages future shareholder proposals.

Panel B uses implemented management proposals. Note that all management proposals were passed; thus, we report only columns (1) and (2). We find that in column (2), when management initiates voting-standard changes, they are more likely to change the standard via charter following the legislative change. Again, this is quite possibly motivated by their exclusive right to make charter amendments, which gives them control over the specific implementation and future modification of the voting standard. The coefficient in column (1) is exactly the opposite of that in column (2), as no management proposals are implemented

²³ We do not examine guidelines in this section, given that implementing a majority-voting standard via guideline after a vote is very rare (see Panel C of Table 2).

via guideline. This finding suggests that managers, when implementing the majority-voting standard, prefer to retain greater influence.

4.2. Modulating Indirect Shareholder Democracy: Resignation Policy

In previous subsections, we showed that managers take advantage of guidelines and charters to modulate the empowerment of direct shareholder democracy, as shareholders lack comparable legal power to influence the firm through these channels. In this subsection, we investigate how managers moderate indirect shareholder democracy by retaining discretion over the actual terms of majority voting. Management can implement a weaker version of majority voting by introducing resignation policies that provide leniency to directors who fail to get elected. More specifically, they can implement a resignation policy that allows for a transition period for holdover directors and gives the board discretion regarding the acceptance of their resignations, thus limiting the effectiveness of majority voting. As explained in Section 2.2, we examine three versions of the majority-voting standard: plurality-plus, rejectable majority voting, and strict majority voting.

Table 8 reports the results. Panel A uses a sample comprised of bylaw-amendment shareholder proposals that are implemented with either a plurality-plus or a majority-voting standard. In columns (1) and (4), the dependent variable is *Plurality Plus*; in columns (2) and (5), the dependent variable is *Rejectable MV*; and in columns (3) and (6), the dependent variable is *Strict MV*. Columns (1) to (3) include only passed proposals, while columns (4) to (6) include both passed and failed proposals.

We find that when conditional on either a majority-voting (regardless of the form) or plurality-plus implementation, the coefficient on *Plurality Plus* in column (1) is insignificant, while in column (4), it is significant at the 1% level. However, the establishment of a plurality-plus system serves mainly as a response to bylaw-amendment shareholder proposals that fail. It is possible that management adopts the plurality-plus standard as a partial response to shareholders who lose the vote, which potentially preempts them from submitting another shareholder proposal later. Note that less than 5% of the shareholder proposals include a resignation policy. However, Table 8 shows that when managers implement majority voting following shareholder proposals that fail, in most cases, they include some form of a resignation policy—that is, a version of the standard that is weaker than the shareholders' proposed standard. Columns (2) and (5) show that following the legislative change,

managers are more likely to implement a majority-voting standard combined with a resignation policy that provides leniency when directors lose their election. Columns (3) and (6) show that following the legislative change, managers are less likely to implement a strict majority-voting standard. Overall, while managers are more likely to implement majority voting as intended by the legislation, they are also more likely to attenuate its impact by adding a resignation policy following the legislative change,

Panel B uses a subsample of management proposals that implement either a majority-voting or a plurality-plus standard. In this subsample, all proposals are passed. Column (1) shows that, although implementation through plurality-plus decreases after the legislative changes, the magnitude is close to 0 and only marginally significant. Column (2) shows that when managers initiate the change, they are more likely to add a resignation policy and implement rejectable majority voting. Column (3) shows that implementation through strict majority voting decreases after the legislative changes. Because management proposals are usually passed, managers do not need to implement the plurality-plus standard to accommodate shareholders who lose the vote, as indicated by column (1).

Overall, our results in this section suggest that following the legislative change, managers are more likely to implement a majority-voting standard alongside a resignation policy that gives them leeway when a director does not win the election, as, ultimately, the board has the discretion over whether or not to accept the resignation. Moreover, managers implement plurality-plus more often, possibly as a way to appease the proponents of shareholder proposals when the proposals fail to pass.

When combined with the results in Sections 3 and 4.1, our results suggest that in the majority-voting standard's implementation process, managerial incentives differ when they implement shareholder versus management proposals. The legislative change empowers shareholders to propose bylaw amendments that adopt a majority-voting standard. When shareholders do so, managers comply with the legislation. However, because they are aware of such empowerment, managers may undermine such empowerment, either by initiating the changes to the voting standard through management proposals or by implementing shareholder proposals in such a way that it gives management greater control over the specific implementation and future modifications.

4.3. *Changes in the Narrative of Proposals*

In this subsection, to capture other aspects of managerial responses, we use information on the proposals' length and management's recommendation. To the extent that the legislation empowers shareholders and provides a new standard for majority voting, we should observe that the proponents of shareholder proposals make less of a persuasive effort to articulate the requested change, as the legislative changes are common knowledge to both shareholders and managers. Conversely, managers need to be more persuasive when inducing shareholders to vote against these proposals. To explore the changes in the narrative of proposals, we introduce three new dependent variables: the proposal's length, *Rank proposal length*; the length of management's recommendation portion of the proposal, *Rank management recommendation length*; and the difference between the two, *Difference in ranks*.²⁴ We also introduce a fourth dependent variable, the number of reasons that management gives in arguing against passage of a shareholder proposal, *Number of reasons against*.

Panels A and B of Table 9 report the results for shareholder and management proposals, respectively. We find that after the legislative changes, the number of words in the proponent statement decreases, but the management recommendation becomes lengthier. This result suggests that managers become more contentious when opposing shareholder proposals. This interpretation is further supported by column (4), where we find that managers cite more reasons when arguing against passage of shareholder proposals.

5. **Shareholder Value and Selection: Insight into Managerial Objectives**

The aim of this section is twofold: to analyze the value implications of implementing a majority-voting standard in director elections; and to gain insight into what drives managers to avoid, amend, or replace such a standard.

One way to gain insight into management's motives for moderating majority voting is to measure the shareholder value of exogenously implementing a majority-voting standard before and after enactment of the legislation. The key insight from this exercise is that the selection of firms that have not yet implemented majority voting changes after the legislation.

²⁴ These variables are constructed as a word count ranking over the whole sample, normalized between 1 to 100. 1 indicates the lowest word count and 100 the highest.

As opposing the implementation of majority voting becomes more costly to managers, firms that have yet to implement majority voting are also those with managers who act more strongly against implementation. These firms are more likely to be a select subset: firms in which managers find majority voting less desirable in terms of either shareholder value or the negative impact on their own private benefits. By comparing the shareholder value of majority voting before and after the staggered enactment of the legislation, we can measure whether managerial resistance is linked to shareholder value or whether it is driven mainly by other motives. Appendix D provides a more detailed discussion of the theoretical framework for this selection effect.

5.1. Empirical Specification: Combining a DiD with an Event Study-RD Design

To investigate how non-implementing firms are selected, we assess the market returns around close-call shareholder proposal votes to implement a majority-voting standard. We perform the analysis for firms both before and after the staggered enactment of majority-voting legislation. In particular, we combine in a single specification an event study-RDD design on shareholder votes with a DiD structure. The RDD structure is useful in determining the shareholder value of majority voting because it treats firms that pass or reject a shareholder proposal by a small margin as akin to being randomly allocated on either side of the threshold.²⁵ When combined with an event study, this quasi-random allocation provides a simple way to handle the pervasive problem in event studies of dealing with pre-existing expectations. At the same time, the DiD approach, when applied to shareholder votes, entails comparing firms that select themselves into the sample of firms that have not yet implemented majority voting. We use this selection to our advantage to shed light on managers' motivation to avoid a majority-voting standard.

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, 2013)).

$$CAR_{it} = \beta_1 Pass_{it} + f(Vote) + \varepsilon_{it},$$

where CAR_{it} is the cumulative abnormal returns on a window around a shareholder vote; $Pass_{it}$ takes a value of one if a proposal passes and zero otherwise; and $f(Vote)$ is a flexible function that absorbs any continuous relationship between the dependent variable and the

²⁵ See Cuñat, Gine, and Guadalupe (2012, 2013).

vote. We use a linear function over an optimally calculated narrow window around the majority threshold (Calonico, 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 linked to the vote outcome in a continuous way is absorbed by $f(Vote)$, and the only characteristic that jumps discontinuously at the majority threshold is the probability of implementing the proposal.

The coefficient β_1 measures the effect of passing a proposal and is the intent-to-treat (ITT) estimator of the proposal's value.²⁶ 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. Therefore, we run the following specification:

$$\text{Implemented}_{it} = \beta_2 \text{Pass}_{it} + f(\text{Vote}) + \varepsilon_{it},$$

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

With two different coefficients for proposals that pass before or after the treatment (law enactment) and different $f(Vote)$ structures per year and for treated and non-treated firms,²⁷ the staggered DiD structure can be combined with the RDD in a nested specification:

$$\text{CAR}_{it} = \gamma_1 \text{Pass}_{it} + \gamma_2 \text{Pass}_{it} \times \text{Enactment}_{jt} + f(\text{Vote})_t + f(\text{Vote})_{\text{treated}} + f(\text{Vote})_{\text{non-treated}} + \varepsilon_{it}.$$

For treated states, the implementation probability of a proposal that passes changes substantially. For this reason, it is important to rescale both γ_1 and γ_2 by the jump in probability at the majority threshold for treated and non-treated state-year combinations. The nested specification for the implementation probability is:

$$\text{Implemented}_{it} = \gamma_3 \text{Pass}_{it} + \gamma_4 \text{Pass}_{it} \times \text{Enactment}_{jt} + f(\text{Vote})_t + f(\text{Vote})_{\text{treated}} + f(\text{Vote})_{\text{non-treated}} + \varepsilon_{it}.$$

²⁶ Note that 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. Intuitively, the estimation of β_1 is, therefore, unaffected by pre-existing expectations – see Section I.b in Cuñat et al. (2012).

²⁷ Specifically, this is achieved by introducing polynomials that are different for each side for both treated and non-treated firms. We also introduce polynomials that are different for each side and for each year.

We can then recover the TOT for non-treated firms as $TOT_{Treated=0} = \gamma_1/\gamma_3$ and compute the difference in the effect between treated and non-treated firms as $\Delta TOT = \gamma_2/\gamma_4$.

5.2. Results

In Table 10, we implement the specification using vote polynomials that differ for treated and control states and differ for each side of the threshold, up to order 1 in all columns. We introduce a linear vote control that is different for each year. In columns (1) and (3), this control is the same on each side of the threshold; in columns (2) and (4), it differs on each side. All models from columns (1) to (4) follow a non-parametric estimation using the bandwidths generated by the approach with uniform kernel functions proposed by Calonico, Cattaneo, and Titiunik (2014).²⁸

The results in Panel A of Table 10 focus on the implementation probabilities before and after the enactment of state laws. In line with pre-existing shareholder claims, the adoption of majority voting was very low prior to the legislation, even following a successful shareholder proposal (Cai et al., 2009). This can be seen in the table in a coefficient for the variable *Pass*, which is statistically indistinguishable from zero. The coefficient measures the discrete change in implementation probabilities at the majority threshold before states enacted the legislation. However, the coefficient on *Pass* × *Enactment* is positive and large and 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 the new legislation. The jump in probability after the legislation can be obtained by adding the coefficients on *Pass* and *Pass* × *Enactment*, with a range between 50% and 60%.³⁰

In Panel B, we report the same specification, now applied to *CAR* on a window that starts three trading days before and ends three days after the vote. The results show point estimates of *Pass* before the enactment of the legislation that are positive, but not statistically different from zero. Given that both the baseline *CAR* and the changes in implementation probabilities are indistinguishable from zero, it is difficult to economically interpret them. The model is

²⁸ To validate our use of the RDD design, we conduct manipulation tests following Cattaneo, Jansson, and Ma (2016) and McCrary (2008) in Table C.7. Recent literature shows evidence of voting manipulation for some proposals and periods (Bach and Metzger, 2019; Babenko et al., 2019). For example, Bach and Metzger (2019) show potential vote manipulation issues for the top ten most voted shareholder proposals. We explicitly test that this is not the case in our sample.

³⁰ The implementation jump is not 100% because managers implement some proposals that do not pass by a small margin and because some of the proposals that pass are contested via litigation.

also very saturated in levels, and this may absorb part of the baseline effect. This is intentional, as our main interest is in the change in abnormal returns before and after the enactment of the legislation.

We find that after the staggered enactment of the legislation, the market reactions to the passage of the shareholder proposals ($Pass \times Enactment$) become more negative or less positive. This effect is informative about those firms whose managers do not proactively respond to shareholder empowerment. It indicates that managers resist implementation of a majority-voting standard precisely in firms for which implementation would be most value-destroying or least value-enhancing. 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. Take column (4) as an example, for the interaction of interest, $Pass \times Enactment$, the rescaling factor is 1.7 ($1/0.605$), which implies that the abnormal returns of implementing a proposal is 8.7% (0.051×1.7) lower post enactment.

We also provide the analysis of a non-nested model in Table C.8, which separately investigates the effect of passing a proposal on implementation and CAR, for the two periods before and after the enactment of the legislation. We find largely consistent results. The implementation probability of a majority-voting standard at the threshold increases from 0.06 before the enactment of the new legislation to 0.54 after the enactment of the new legislation, with the latter effect being significant at 5%. And the market reactions to the passage of the shareholder proposals changes from significantly positive to significantly negative.

The enforced implementation of a majority-voting standard after the staggered enactment of state laws may be positive for some firms but negative for others. The market regards majority-voting standards as detrimental to those firms with managers who show the greatest resistance to implementation or who avoid introducing their own version of the standard. In Table C.9 in Appendix C, we compare the characteristics of firms (Panel A) and boards (Panel B) that receive shareholder proposals before and after the legislative changes. Consistent with our starting premise of the changing selection of firms that face shareholder proposals, we find that these firms differ on some observables. Firms that resist the new legislation have better ROA, weaker CEO entrenchment as indicated by duality, and a smaller board size. Thus, firms that resist majority voting are not financially worse off and do not

exhibit worse governance. It is also intuitive that, as firms with a smaller board size are more likely to be negatively affected by the issue of holdover directors, they likely resist the new legislation the most. This result is, therefore, consistent with our conclusion that managers resist the new legislation selectively and that they do so in firms in which implementation of majority voting is likely to be either more value-destroying or less value-enhancing.³¹

Although a full analysis of managers' motives is not feasible here given our approach, 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 the implementation of shareholder proposals can create shareholder value.

6. Conclusion

This paper studies the managerial reaction to shareholder empowerment—more specifically, to legislation that strengthens direct shareholder democracy by making shareholders' votes on majority-voting standards in director elections binding and harder to reverse. While most of the previous literature that examines the proxy voting process focuses on the effectiveness of shareholder proposals, little is known about management's role in modulating and moderating the effect of shareholder voting.

We document that, after the legislation's enactment, managers make more proposals. Managers also increase the direct implementation of the majority-voting standard. Overall, the implementation of a majority-voting standard significantly increases, and most of the implementation is done on management's initiative. Hence, managers take early action rather than passively waiting for shareholder proposals on bylaw amendments that are strengthened by the new legislation.

While our results suggest that managers become more responsive to shareholder empowerment, we also show evidence of compromised implementation following the legislative changes. Even under a direct democracy, managers have substantial leeway in

³¹ Although it is difficult to pin down the precise mechanism for this selection, it seems that majority vote outcomes would be hardest for these firms to achieve. These results also have to be viewed in relation to the findings in Table 10, lending further support to our conclusion that managers resist implementation of the standard precisely in firms in which doing so would be more value-destroying or less value-enhancing.

handling shareholder pressure. Indeed, management can file proposals that compete with shareholder proposals and differ in relevant terms. More importantly, they have significant power in choosing which parts of a proposal to implement and what form the implementation will take. One possible motivation for such a response is that a management proposal has characteristics that make it more management-friendly, and it is put forth with the intent of precluding future alternative shareholder proposals. Having in place a majority-voting standard that may not fully match with what shareholders request may discourage shareholders from requesting further changes, and it can also be used to sustain no-action letters that would prevent future shareholder votes.

Consistent with this idea, we first find that after the legislative change, the number of shareholder proposals does not increase. Whenever implementation is done through proposals, managers tend to adopt the majority-voting standard via charter (which they have the exclusive right to initiate or amend) or corporate guidelines (the change of which does not require a shareholder vote) and tend to use only bylaws when forced by shareholders and the new legislation. Management also strategically chooses the specifics of the implementation: they tend to not implement the majority-voting standard strictly, preferring a more management-friendly version with, for example, director resignation policies. As a consequence of the increase in shareholder empowerment, we also find that, after the legislative change, managers change their rhetoric to persuade shareholders to vote against the shareholder-initiated majority-voting proposals.

Finally, we show that, although managers try to reduce shareholder influence by adopting the majority-voting standard through more management proposals, they are not solely self-interested. We find that firms that do not voluntarily adopt the majority-voting standard experience a more negative market reaction if they are subsequently forced to do so by a shareholder vote. 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 growing trend, 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 that their methods can be value-creating. 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 whose managers care about shareholder value and are able to identify value-enhancing proposals.

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Figures and Tables

Figure 1. States that enacted legislative changes

This figure presents the states that enacted legislative changes that make bylaw amendments to voting standards in director elections binding. The years when the new laws were enacted are marked with different colors.

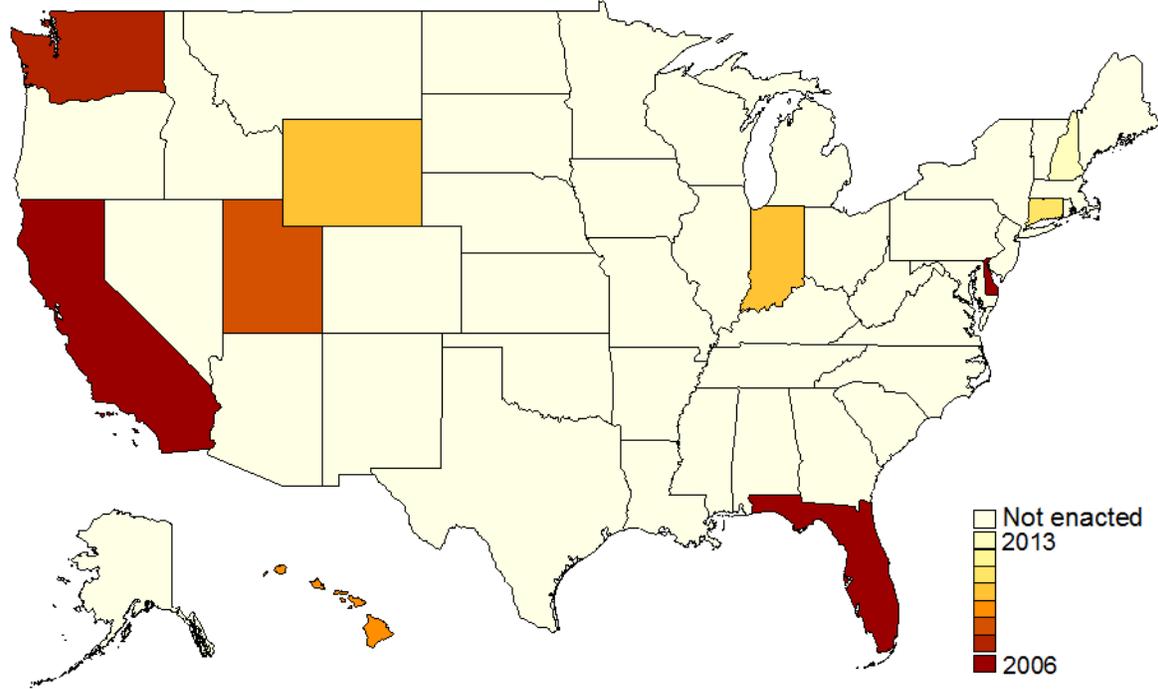


Table 1. Number of Proposals by Year

This table provides the number of proposals brought by management and shareholders about voting requirements for director elections for Russell 3000 firms between 2005 and 2015. The proposals are further categorized by the voting results.

Year	Management proposals			Shareholder proposals			Management and shareholder proposals		
	Pass	Fail	Total	Pass	Fail	Total	Pass	Fail	Total
2005	1	0	1	15	44	59	16	44	60
2006	1	0	1	37	51	88	38	51	89
2007	34	0	34	17	23	40	51	23	74
2008	32	0	32	11	12	23	43	12	55
2009	26	0	26	30	18	48	56	18	74
2010	31	0	31	19	13	32	50	13	63
2011	20	0	20	21	15	36	41	15	56
2012	25	0	25	23	13	36	48	13	61
2013	24	0	24	18	15	33	42	15	57
2014	16	0	16	15	10	25	31	10	41
2015	26	0	26	8	2	10	34	2	36
Total	236	0	236	214	216	430	450	216	666

Table 2. Descriptive Statistics

The table provides the summary statistics for firms and proposals in our sample. For all panels, columns (1) to (4) report the summary statistics for management proposals or for the firms that submitted them; columns (5) to (8) do so for shareholder proposals or for the firms that received them; and columns (9) to (12) do so for all proposals or firms. Panel A reports summary statistics for firm characteristics; Panel B does so for proposal characteristics; Panel C does so for proposals implemented as majority voting; and Panel D does so for proposals implemented as either majority voting or plurality-plus.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Variables	N	Mean	Median	Std.	N	Mean	Median	Std.	N	Mean	Median	Std.
	Management proposals				Shareholder proposals				Management and shareholder proposals			
<i>Panel A: Firm characteristics</i>												
Log(Total Assets)	236	8.314	8.248	1.756	430	8.992	9.083	1.829	666	8.752	8.848	1.831
Log(Market Cap)	236	7.991	8.049	1.806	430	8.774	8.964	1.718	666	8.497	8.712	1.788
Leverage	235	0.227	0.211	0.178	430	0.262	0.236	0.187	665	0.250	0.229	0.185
ROA	236	0.087	0.072	0.081	430	0.069	0.070	0.205	666	0.076	0.071	0.172
Sales Growth	235	0.081	0.066	0.227	430	0.162	0.083	0.370	665	0.133	0.079	0.329
Tobin's Q	215	1.787	1.362	1.183	383	1.965	1.397	2.015	598	1.901	1.390	1.763
CAR3	236	0.000	0.003	0.056	430	0.000	0.001	0.052	666	0.000	0.001	0.053
<i>Panel B: Proposal characteristics</i>												
Pass	236	1.000	1.000	0.000	430	0.498	0.000	0.501	666	0.676	1.000	0.468
Vote for Percentage (%)	236	96.261	98.500	8.100	430	54.017	50.150	17.524	666	68.986	65.850	25.104
Implemented	236	0.911	1.000	0.285	430	0.393	0.000	0.489	666	0.577	1.000	0.494
Amendment_bylaw	236	0.335	0.000	0.473	430	0.793	1.000	0.406	666	0.631	1.000	0.483
Proposal length	236	812	754	402	430	385	400	75	666	536	412	320
Management recommendation length	236	4	0	39	430	698	668	376	666	452	435	449
Number of reasons against	-	-	-	-	399	4.566	4.000	2.115	399	4.566	4.000	2.115
<i>Panel C: Proposals conditional on majority-voting implementation</i>												
Implement via bylaw	215	0.521	1.000	0.501	139	0.921	1.000	0.271	354	0.678	1.000	0.468
Implement via charter	215	0.479	0.000	0.501	139	0.065	0.000	0.247	354	0.316	0.000	0.466
<i>Panel D: Proposals conditional on either majority-voting or plurality-plus implementation</i>												
Plurality Plus	225	0.044	0.000	0.207	221	0.371	0.000	0.484	446	0.206	0.000	0.405
Rejectable MV	225	0.351	0.000	0.478	221	0.262	0.000	0.441	446	0.307	0.000	0.462
Strict MV	225	0.604	1.000	0.490	221	0.367	0.000	0.483	446	0.487	0.000	0.500

Table 3. Legislation Enactment and the Number of Proposals

This table reports the analysis of the legislation’s enactment and the number of proposals. *Enactment* equals one for the years after the legislation is enacted and zero otherwise. The dependent variables *Log management proposals* in columns (1) and (2) and *Log shareholder proposals* in columns (3) and (4) are, respectively, the natural logarithm of one plus the number of management proposals and the natural logarithm of one plus the number of shareholder proposals related to a majority-voting standard in director elections per state per year. In Panel A, we include all states of incorporation. In Panel B, we exclude Delaware from our analysis. In columns (2) and (4), we weight each observation based on 3000 minus the number of Russell 3000 firms incorporated in the state; we use no weighting in columns (1) and (3). All models control for state-group fixed effects and year fixed effects in Panels A and B. In Panel C, we conduct a stacked diff-in-diff test. Specifically, following Cengiz et al. (2019), for each state-group, we construct a “database” in which the observations are the state-group as the treated and all the never-enacted states as the control. We create relative year dummies to indicate the time difference between each year and the year of enactment and a cohort dummy for each database. We then append all databases and run a diff-in-diff regression by controlling relative year fixed effects and state-group fixed effects. In columns (1) and (3), we keep all years; in columns (2) and (4), we only years that are within three years to the year of enactment. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dependent variable	Log management proposals		Log shareholder proposals	
Panel A: Full Sample				
Enactment	0.242** (0.104)	0.186** (0.062)	-0.08 (0.111)	-0.052 (0.107)
Weights	No	Yes	No	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.118	0.064	0.205	0.125
N	668	668	668	668
Panel B: Excluding Delaware				
Enactment	0.111** (0.041)	0.112** (0.041)	0.015 (0.117)	0.015 (0.117)
Weights	No	Yes	No	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.027	0.027	0.039	0.04
N	657	657	657	657
Panel C: Stacked DiD				
	All years	[-3, +3]	All years	[-3, +3]
Enactment	0.299** (0.129)	0.320** (0.130)	-0.052 (0.123)	-0.103 (0.132)

Relative year fixed effects	Yes	Yes	Yes	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
R-squared	0.02	0.009	0.051	0.057
N	4602	2432	4602	2432

Table 4. Legislation Enactment and the Number of Proposals: Pre-trend Analysis

This table reports the pre-trend analysis of the effect of the legislation's enactment on the number of proposals. The dependent variables are the natural logarithms of one plus the number of management and shareholder proposals related to a majority-voting standard in director elections per state per year in columns (1) and (2) and columns (3) and (4), respectively. We take the year when the legislation is enacted as the basis for comparison. *Enactment-1*, *Enactment-2*, and *Enactment-3*, respectively, take the value of one for one, two, and three years or more before the legislation is enacted in the state and zero otherwise. *Enactment+1*, *Enactment+2*, *Enactment+3*, and *Enactment+4*, respectively, equal one for one, two, three, and four years or more after the legislation is enacted in the state and zero otherwise. We weight each observation based on 3000 minus the number of Russell 3000 firms incorporated in the state in columns (2) and (4). All models control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dependent variable	Log management proposals		Log shareholder proposals	
Enactment-3	0.086 (0.109)	0.035 (0.084)	-0.141 (0.079)	-0.113 (0.072)
Enactment-2	0.125 (0.101)	0.072 (0.071)	0.005 (0.082)	0.032 (0.074)
Enactment-1	-0.057 (0.072)	-0.060 (0.073)	0.087 (0.080)	0.094 (0.080)
Enactmen+1	0.167 (0.128)	0.103 (0.101)	-0.037 (0.129)	-0.003 (0.135)
Enactment+2	0.162 (0.122)	0.105 (0.104)	-0.192 (0.129)	-0.141 (0.120)
Enactment+3	0.457** (0.164)	0.399** (0.136)	-0.016 (0.195)	0.024 (0.188)
Enactment+4	0.305 (0.165)	0.198* (0.099)	-0.108 (0.126)	-0.072 (0.119)
Weights	No	Yes	No	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.118	0.063	0.202	0.121
N	668	668	668	668

Table 5. The Effect of Management Proposals on Shareholder Proposals

This table analyzes the effect of management proposals on the submission of shareholder proposals, using the sample of firms that have had at least one management or shareholder proposal related to majority voting in director elections in our sample. The dependent variables are *Shareholder Proposal t+1*, *Shareholder Proposal t+2*, and *Shareholder Proposal t+3*, dummy variables that equal one if shareholders submit at least one proposal within, respectively, one, two, and three years in columns (1), (2), and (3) and zero otherwise. *Enactment* equals one for the years after the legislation is enacted in the state where the firm is incorporated and zero otherwise. *Management proposal* is a dummy variable that equals one if there is a management proposal submitted in that year, and zero otherwise. All models control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
Dependent variable	Shareholder Proposal t+1	Shareholder Proposal t+2	Shareholder Proposal t+3
Enactment	-0.089*** (0.019)	-0.064* (0.028)	0.008 (0.025)
Management proposal	-0.095*** (0.005)	-0.185*** (0.007)	-0.268*** (0.009)
Enactment × Management proposal	-0.045** (0.012)	-0.100*** (0.021)	-0.182*** (0.017)
State-group fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
R-squared	0.030	0.020	0.016
N	2,516	2,313	2,083

Table 6. Prevalence of the Majority-voting Standard

This table analyzes the majority-voting standard’s prevalence among Russell 3000 firms over the sample period. Panel A uses the full sample of firms; Panel B uses the sample of firms without proposals; Panel C uses the sample of firm-years when the majority-voting standard was implemented. In Panels A and B, the dependent variable *Majority voting in place* is a dummy variable that equals one if the firm has a majority-voting standard in place and zero otherwise. In Panel C, the dependent variable in columns (1) to (3) is *Management-initiated change*, a dummy variable that equals one if the management adopts a majority-voting standard and zero otherwise. In all panels, *Enactment* equals one for the years after the legislation is enacted in the state where the firm is incorporated and zero otherwise. In Panels A and B, columns (1) to (3) are based on the full sample of Russell 3000 firms; columns (4) to (6) include firms that survive through our sample period. For all panels, we use a linear probability model and control for state-group and year fixed effects in columns (1) and (4); for state-group, year, and industry fixed effects in columns (2) and (5); and for state, year, industry fixed effects, and firm characteristics in columns (3) and (6). These firm characteristics include assets, leverage, and ROA. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable:						
Majority voting in place		All firms			Full-panel firms	
	<i>Panel A: Firms with and without proposals</i>					
Enactment	0.025*** (0.006)	0.021*** (0.006)	0.014** (0.006)	0.042*** (0.008)	0.042*** (0.008)	0.041*** (0.009)
State-group fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	No	Yes	Yes	No	Yes	Yes
Firm controls	No	No	Yes	No	No	Yes
Observations	36,600	36,600	36,274	19,778	19,778	19,703
R-squared	0.085	0.114	0.249	0.127	0.165	0.308

<i>Panel B: Firms without proposals</i>						
Enactment	0.031***	0.029***	0.022***	0.052***	0.052***	0.051***
	(0.005)	(0.005)	(0.006)	(0.008)	(0.008)	(0.008)
State-group fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	No	Yes	Yes	No	Yes	Yes
Firm controls	No	No	Yes	No	No	Yes
Observations	32,291	32,291	31,977	16,401	16,401	16,335
R-squared	0.074	0.100	0.205	0.110	0.153	0.266

<i>Panel C: Firm-years when a majority-voting standard is implemented</i>			
Dependent variable	Management-initiated change		
Enactment	0.236***	0.217***	0.196***
	(0.076)	(0.071)	(0.068)
State-group fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
Industry fixed effect	No	Yes	Yes
Firm controls	No	No	Yes
Observations	1,432	1,432	1,423
R-squared	0.065	0.126	0.168

Table 7. Implementation via Bylaw vs. Charter

This table analyzes the implementation patterns of the majority-voting standard. Panel A uses a sample of shareholder proposals that propose a change to the majority-voting standard via bylaw and are implemented with majority voting; Panel B uses a sample of management proposals that are implemented with majority voting. In both panels, columns (1) and (2) use a sample of passed proposals; columns (3) and (4) include both passed and failed proposals. In both panels, the dependent variable in columns (1) and (3) is *Implement via bylaw*, a dummy variable that equals one if the proposal is implemented via bylaw and zero if it is implemented via charter or corporate governance guidelines. The dependent variable in columns (2) and (4) is *Implement via charter*, a dummy variable that equals one if the proposal is implemented via charter and zero if it is implemented via bylaw or by corporate governance guidelines. *Enactment* equals one for the years after the legislation is enacted in the state where the firm is incorporated. For both panels, we control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dependent variable	Implement via bylaw	Implement via charter	Implement via bylaw	Implement via charter
<i>Panel A: Bylaw-amendment shareholder proposals implemented as majority voting</i>				
	Passed proposals		Passed and failed proposals	
Enactment	0.196** (0.043)	-0.365*** (0.003)	0.126** (0.031)	-0.292*** (0.004)
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.329	0.350	0.242	0.296
N	101	101	139	139
<i>Panel B: Management proposals implemented as majority voting</i>				
	Passed/Passed and failed proposals			
Enactment	-0.187** (0.049)	0.187** (0.049)		
State-group fixed effects	Yes	Yes		
Year fixed effects	Yes	Yes		
R-squared	0.253	0.253		
N	215	215		

Table 8. Implementation through Resignation Policies

This table analyzes the implementation of resignation policies. Panel A uses a sample of bylaw-amendment shareholder proposals that are implemented with either a plurality-plus or a majority-voting standard. Panel B uses a sample of management proposals that are implemented with either a majority-voting or a plurality-plus standard. In columns (1) and (4), the dependent variable is *Plurality Plus*, a dummy variable that equals one if the version of majority voting implemented is plurality-plus, and zero if it is rejectable or strict majority voting. In columns (2) and (5), the dependent variable is *Rejectable MV*, a dummy variable that equals one if the version of majority voting implemented is rejectable majority voting, and zero if it is plurality-plus or strict majority voting. In columns (3) and (6), the dependent variable is *Strict MV*, a dummy variable that equals one if the version of majority voting implemented is strict majority voting, and zero if it is plurality-plus or rejectable majority voting. Columns (1) to (3) include passed proposals, and columns (4) to (6) include both passed and failed proposals. For all columns, we control for state-group and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable:	Plurality Plus	Rejectable MV	Strict MV	Plurality Plus	Rejectable MV	Strict MV
<i>Panel A: Bylaw-amendment shareholder proposals implemented as majority voting or plurality plus</i>						
	Passed proposals			Passed and failed proposals		
Enactment	0.022 (0.018)	0.478*** (0.006)	-0.500*** (0.013)	0.390*** (0.015)	0.042*** (0.007)	-0.431*** (0.008)
State-group fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.087	0.173	0.161	0.092	0.098	0.106
N	118	118	118	221	221	221
<i>Panel B: Management proposals implemented as majority voting or plurality plus</i>						
	Passed/Passed and failed proposals					
Enactment	-0.009* (0.004)	0.103*** (0.009)	-0.094*** (0.009)			
State-group fixed effects	Yes	Yes	Yes			
Year fixed effects	Yes	Yes	Yes			
R-squared	0.028	0.103	0.103			
N	225	225	225			

Table 9. Length of Proposal Terms

This table reports the results for the analyses of the terms of shareholder and management proposals in Panels A and B, respectively. In column (1), the dependent variable is *Rank proposal length*, the ranking based on the word count of the proposal among shareholder proposals in Panel A and among management proposals in Panel B. In column (2), the dependent variable is *Rank management recommendation length*, the ranking according to the word count of the management recommendation in the proposal among shareholder proposals in Panel A and among management proposals in Panel B. These variables are so constructed that 1 indicates the lowest and 100 the highest word count. In column (3), the dependent variable is *Difference in ranks*, the difference between *Rank proposal length* and *Rank management recommendation length*; in column (4), the dependent variable *Number of reasons against* is the number of reasons management gives in arguing against adoption of a shareholder proposal. We control for state-group fixed effects and year fixed effects in all models. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dependent variable	Rank proposal length	Rank management recommendation length	Difference in ranks	Number of reasons against
<i>Panel A: Shareholder proposals</i>				
Enactment	-12.612** (2.811)	2.728** (0.865)	-15.340*** (3.268)	0.358*** (0.061)
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.541	0.095	0.354	0.046
N	430	430	430	399
<i>Panel B: Management proposals</i>				
Enactment	-13.151*** (2.659)	-0.741 (0.580)	-12.410*** (2.080)	
State-group fixed effects	Yes	Yes	Yes	
Year fixed effects	Yes	Yes	Yes	
R-squared	0.098	0.033	0.099	
N	236	236	236	

Table 10. 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 *Implemented*, a dummy that takes a value of one if the proposal is implemented, and zero otherwise. The dependent variable in Panel B is *CAR*, the cumulative abnormal returns for the [-3, +3] window, estimated using the Fama–French and momentum factors from Carhart (1997). We introduce vote polynomials of order one, which are different for treated and control groups, and also on each side of the threshold in all columns. We introduce a linear vote control different for each year, albeit the same on each side in columns (1) and (3), indicated as “Same on two sides,” and different on each side in columns (2) and (4), indicated as “Different on two sides.” All models from columns (1) to (4) use the bandwidths generated by the non-parametric approach with uniform kernel functions proposed by Calonico, Cattaneo, and Titiunik (2014); bandwidths (-9, +9) and (-10.7, +10.7) are the optimal bandwidths generated for variables *CAR* and *Implemented*, respectively. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. We control for state-group fixed effects and year fixed effects in all models. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Bandwidths	(-9;+9)		(-10.7;+10.7)	
<i>Panel A: Implementation</i>				
Pass	-0.015 (0.142)	-0.038 (0.143)	-0.06 (0.116)	-0.089 (0.113)
Enactment	-0.1 (0.087)	-0.066 (0.042)	-0.141 (0.093)	-0.084* (0.035)
Enactment×Pass	0.505** (0.148)	0.521** (0.145)	0.582*** (0.123)	0.605*** (0.116)
R-squared	0.099	0.089	0.15	0.143
N	197	197	232	232
<i>Panel A: CARs [-3,+3]</i>				
Pass	0.004 (0.016)	0.003 (0.016)	0.011 (0.013)	0.011 (0.013)
Enactment	0 (0.007)	-0.006 (0.003)	-0.004 (0.006)	-0.002 (0.003)
Enactment×Pass	-0.049** (0.013)	-0.051** (0.016)	-0.051*** (0.010)	-0.056** (0.013)
R-squared	0.018	0.078	0.039	0.094
N	197	197	232	232
State-group×Same on two sides	Yes	No	Yes	No
State-group ×Different on two sides	No	Yes	No	Yes

Internet Appendix

Appendix A: Variable Definitions

Variable	Definition
Amendment_bylaw	Dummy variable that equals one when a proposal proposes to amend the bylaws to adopt the majority-voting standard
Average director tenure	The average number of years directors serve at a firm
Board size	The number of directors on the board
Busy board	The average number of directorships held by outside directors
CAR	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 the number of overlapping years between the CEO and the directors from previous employment, charity involvement, and education
Duality	Dummy variable that equals one if the CEO of a firm also chairs the board and zero otherwise
Employment rate	The rate of employment in a state
Enactment	Dummy variable that equals one for the years after the legislation is enacted in the state in which the firm is incorporated and zero otherwise
Enactment-1/2/3	Dummy variable that equals one for the 1 st /2 nd /3 rd year before the regulation is enacted in the state and zero otherwise
Enactment+1/2/3/4	Dummy variable that equals one for the year the legislation is enacted in the state and zero otherwise
Implemented	Dummy variable that equals one if the management changes the voting standard to majority voting via bylaw, charter, or guideline and zero otherwise
Implement via bylaw	Dummy variable that equals one if the proposal is implemented via bylaw and zero otherwise
Implement via charter	Dummy variable that equals one if the proposal is implemented via charter and zero otherwise
Plurality Plus	Dummy variable that equals one if the proposal is implemented as a plurality-plus system, and zero if it is implemented as rejectable or strict majority voting
Strict MV	Dummy variable that equals one if the proposal is implemented as a strict majority-voting system, and zero if it is implemented as a rejectable majority-voting or a plurality-plus system
Rejectable MV	Dummy variable that equals one if the proposal is implemented as a rejectable majority-voting system, and zero if it is implemented as a plurality-plus or strict majority-voting system

Leverage	Total debt (dltt+dlc) divided by equity (ceq)
Log(Market Cap)	Log of equity market value (prcc_f*csho)
Log(Real GDP)	Log of real GDP
Log(Total Assets)	Log of total assets (at)
Management proposal	Dummy variable that takes the value of one if there is a management proposal submitted in that year and zero otherwise
Management recommendation length	The word count of the management recommendation portion of a shareholder or management proposal
Majority voting in place	Dummy variable that equals one if the firm has a majority-voting standard in place and zero otherwise
Management-initiated change	Dummy variable that equals one if the majority-voting standard is brought by management, zero if it is brought by shareholders
Number of reasons against	Number of reasons management gives in arguing against implementation of a majority-voting standard
Log management proposals	$\ln(1 + \text{Total number of proposals brought by the management})$ for each state and in each year
Log shareholder proposals	$\ln(1 + \text{Total number of proposals brought by shareholders})$ for each state and in each year
Pass	Dummy variable that equals one if a proposal is passed by shareholders
Proposal length	The word count of a shareholder (management) proposal
Difference in ranks	Difference between the rank variable of the number of words in a proposal statement and the rank variable of the number of words in the management recommendation section of a proposal
Rank proposal length	The word count ranking of a shareholder (management) proposal over the whole sample of shareholder (management) proposals, normalized between 1 to 100. Thus, 1 indicates the lowest and 100 the highest word count
Rank management recommendation length	The word count ranking of the management recommendation portion of a shareholder (management) proposal over the whole sample of shareholder (management) proposals, normalized between 1 to 100. Thus, 1 indicates the lowest and 100 the highest word count
Real GDP Per Capita	Real GDP divided by population
ROA	Return on assets, calculated by net income (ni) divided by total assets (at)
Sales Growth	One year's growth in sales (sale)

Shareholder Proposal t+1/2/3	Dummy variables that equal one if shareholders submit a proposal within one, two, or three years, and zero otherwise
Tobin's Q	Market value of the firm (at-ceq+csho*prcc_f) over its asset value of the firm (at)
Votes for Percentage (%)	Votes “for” as a percentage of all votes cast. If an abstention is counted as no, the base is For+Against+Abstention. If an abstention is counted as a non-vote, the base is For+Against
Voting Participation	(Votes For+votes Against+votes Abstain)/total votes outstanding

Appendix B: Legal Background of Majority-voting Legislative Changes

Director elections are an important way in which shareholders hold directors accountable and ensure that they monitor and advise managers. When it came to electing directors, however, state laws required merely a plurality shareholder vote. Delaware General Corporation Law (DGCL) § 216(3) formerly provided, for example, that “directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.” The Model Business Corporation Act (MBCA), as the basis for the corporate laws of most states also set plurality voting as the default standard, according to the § 7.28(a).

In plurality voting, incumbent directors rarely fail to get reelected due to its disregard of withheld votes, as a single vote in favor can be sufficient to ensure success in an uncontested board election. Hence, shareholder activists have criticized the plurality-voting standard for its futility in holding directors accountable for their performance. For example, in 2004, shareholder activists opposed the election of CEO Michael Eisner and certain other candidates at the Walt Disney Company. Under the then-existing plurality standard, Eisner would have been reelected even if holders of a majority of the shares had withheld authority for their shares to be voted for him.

Two major legislative amendments pioneered legislative change across different states—a change that prescribes a set of rules to facilitate the adoption of a majority-voting standard in director elections. These two amendments were the DGCL and the MBCA in 2006. After 2006, both laws allowed shareholders to opt out of the default plurality-voting system through a bylaw amendment that the board could not repeal. Over time, other states that used the MBCA as the basis for their state corporation laws followed suit by facilitating the implementation of majority-voting proposals related to director elections; these states include Connecticut, the District of Columbia, Florida, Hawaii, Indiana, New Hampshire, Utah, Wyoming, California and Washington.

Appendix C: Additional Tables

Table C.1. The Adoption of Majority-voting Legislation across States

Table C.1 shows the years when majority-voting legislation passed in ten U.S. states and Washington, D.C. as part of their state corporate laws. It also presents the sections for this legislation in the relevant state corporate law.

State	Year	Sections
Delaware	2006	§8.1.206
California	2006	<i>S.B.</i> 1027
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 C.2: Number of Proposals by Year without Delaware

This table provides the number of proposals brought by management and shareholders on voting requirements for director elections for Russell 3000 firms from 2005 to 2015, excluding firms incorporated in Delaware. The proposals are further categorized by the voting results.

Year	Management proposals			Shareholder proposals			Management and shareholder proposals		
	Pass	Fail	Total	Pass	Fail	Total	Pass	Fail	Total
2005	1	0	1	3	5	8	4	5	9
2006	1	0	1	13	18	31	14	18	32
2007	25	0	25	8	10	18	33	10	43
2008	23	0	23	9	6	15	32	6	38
2009	20	0	20	20	11	31	40	11	51
2010	16	0	16	8	6	14	24	6	30
2011	12	0	12	11	6	17	23	6	29
2012	16	0	16	14	6	20	30	6	36
2013	15	0	15	11	7	18	26	7	33
2014	10	0	10	8	5	13	18	5	23
2015	15	0	15	5	1	6	20	1	21
Total	154	0	154	110	81	191	264	81	345

Table C.3: Number of Proposals by State

The table provides the number of proposals brought by management and shareholders regarding voting requirements for director elections for Russell 3000 firms by state. The proposals are further categorized by voting results.

	Management proposals			Shareholder proposals			Management and shareholder proposals		
	Pass	Fail	Total	Pass	Fail	Total	Pass	Fail	Total
California	0	0	0	3	3	6	3	3	6
Colorado	3	0	3	1	0	1	4	0	4
Delaware	82	0	82	104	135	239	186	135	321
Florida	4	0	4	2	1	3	6	1	7
Georgia	5	0	5	3	3	6	8	3	11
Indiana	8	0	8	2	3	5	10	3	13
Iowa	2	0	2	0	0	0	2	0	2
Kansas	0	0	0	1	0	1	1	0	1
Kentucky	1	0	1	1	1	2	2	1	3
Louisiana	0	0	0	1	0	1	1	0	1
Massachusetts	11	0	11	5	4	9	16	4	20
Maryland	5	0	5	23	7	30	28	7	35
Maine	2	0	2	0	0	0	2	0	2
Michigan	7	0	7	4	11	15	11	11	22
Minnesota	14	0	14	4	0	4	18	0	18
Nebraska	1	0	1	0	0	0	1	0	1
Nevada	0	0	0	1	2	3	1	2	3
New Jersey	3	0	3	4	9	13	7	9	16
New York	8	0	8	7	5	12	15	5	20
North Carolina	10	0	10	2	3	5	12	3	15
Ohio	19	0	19	12	10	22	31	10	41
Oklahoma	1	0	1	1	0	1	2	0	2
Oregon	5	0	5	2	0	2	7	0	7
Pennsylvania	18	0	18	10	3	13	28	3	31
Tennessee	8	0	8	6	2	8	14	2	16
Texas	1	0	1	2	1	3	3	1	4
Utah	1	0	1	5	0	5	6	0	6
Virginia	3	0	3	2	1	3	5	1	6
Washington	1	0	1	2	6	8	3	6	9
Wisconsin	13	0	13	4	6	10	17	6	23
Total	236	0	236	214	216	430	450	216	666

Table C.4: Validating the DiD Design

Panel A reports the hazard model estimations of the timing for enacting the legislation across different states. In column (1), we include only *Log management proposals* and *Log shareholder proposals*, the natural logarithm of one plus the number of management proposals and shareholder proposals, respectively. In column (2), we include state-level macroeconomic variables: Employment rate, Ln(Real GDP) and Real GDP Per Capita. Panel B reports the analysis of the legislation’s enactment and the number of proposals related to executive compensation. The dependent variable *Log management proposals* is the natural logarithm of one plus the number of management proposals related to executive compensation per state per year in columns (1) and (2). In columns (3) and (4), *Log shareholder proposals* is the natural logarithm of one plus the number of shareholder proposals related to executive compensation per state per year. We weight each observation based on the number of Russell 3000 firms incorporated in the state in columns (2) and (4). All models in Panel B control for state-group fixed effects and year fixed effects. In Panel C, following Gardner (2021), we first regress logarithms of management and shareholder proposals on year and state-group dummies using only the never-enacted states’ observations, and predict on the whole sample (including enactment and never-enacted states) the outcome using the previous results. We then subtract the predicated values from the raw logarithms of management and shareholder proposals to get a residual outcome. Finally, we regress the residual outcomes on the treatment variable. Standard errors in both panels are clustered at the state-group level and are given in parentheses ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

<i>Panel A: Predicting Enactment</i>				
	(1)	(2)		
Log management proposals	0.552 (0.673)	0.47 (0.701)		
Log shareholder proposals	0.705 (0.526)	0.754 (0.531)		
Employment rate		5.478 (7.930)		
Log(Real GDP)		0.16 (0.421)		
Real GDP Per Capita		-35.911 (67.757)		
N	445	445		
<i>Panel B: Placebo test</i>				
Dependent variable	Log management proposals		Log shareholder proposals	
	(1)	(2)	(3)	(4)
Enactment	-0.023 (0.099)	-0.002 (0.087)	-0.102 (0.145)	-0.042 (0.099)
Weights	No	Yes	No	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.149	0.072	0.119	0.067
N	668	668	668	668

<i>Panel C: Two-stage DiD</i>		
	(1)	(2)
Enactment	0.350***	-0.049
	(0.091)	(0.056)
R-squared	0.073	0.001
N	668	668

Table C.5: Legislation Enactment and the Number of Proposals: Extended Sample

This table presents robustness analyses of the effect of the legislation's enactment on the number of proposals, using a sample of proposals starting from 2003. *Enactment* equals one for the years after the legislation is enacted and zero otherwise. In columns (1) and (2), the dependent variable *Log management proposals* is the natural logarithm of one plus the number of management proposals related to a majority-voting standard in director elections per state per year. In columns (3) and (4), *Log shareholder proposals* is the natural logarithm of one plus the number of shareholder proposals related to a majority-voting standard in director elections per state per year. In Panel A, we include all states of incorporation. In Panel B, we exclude Delaware from our analysis. We weight each observation based on 3000 minus the number of Russell 3000 firms incorporated in the state in columns (2) and (4). All models control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dependent variable	Log management proposals		Log shareholder proposals	
<i>Panel A: Full Sample</i>				
Enactment	0.260*	0.184**	-0.010	-0.002
	(0.130)	(0.077)	(0.068)	(0.072)
Weights	No	Yes	No	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.125	0.075	0.214	0.136
N	767	767	767	767
<i>Panel B: Excluding Delaware</i>				
Enactment	0.083*	0.084*	0.042	0.042
	(0.042)	(0.042)	(0.090)	(0.090)
Weights	No	Yes	No	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.042	0.041	0.056	0.056
N	754	754	754	754

Table C.6: The Dynamic Effect of Legislation Enactment on the Prevalence of the Majority-voting Standard

This table reports the dynamic effect of the legislation on the majority-voting standard's prevalence among Russell 3000 firms. The dependent variable *Majority voting in place* is a dummy variable that equals one if the firm has a majority-voting standard in place and zero otherwise. We take the year when the legislation was enacted as the basis for comparison. *Enactment-1*, *Enactment-2*, and *Enactment-3*, respectively, take the value of one for one, two, and three years or more before the legislation is enacted in the state and zero otherwise. *Enactment+1*, *Enactment+2*, *Enactment+3*, and *Enactment+4*, respectively, equal one for one, two, three, and four years or more after the legislation is enacted in the state and zero otherwise. We use a linear probability model and control for state-group and year fixed effects in column (1); for state-group, year, and industry fixed effects in column (2); and for state, year, industry fixed effects, and firm characteristics in column (3). These firm characteristics include assets, leverage, and ROA. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable: Majority voting in place	(1)	(2)	(3)
Enactment-3	0.058 (0.033)	0.036 (0.025)	0.066* (0.031)
Enactment-2	0.005 (0.047)	-0.016 (0.041)	0.006 (0.045)
Enactment-1	0.002 (0.003)	-0.008 (0.006)	0.002 (0.003)
Enactment+1	0.022*** (0.003)	0.014* (0.006)	0.020*** (0.002)
Enactment+2	0.039*** (0.006)	0.029** (0.010)	0.032*** (0.007)
Enactment+3	0.045*** (0.008)	0.034** (0.011)	0.033*** (0.008)
Enactment+4	0.021*** (0.003)	0.012* (0.005)	0.008** (0.003)
State-group fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
Industry fixed effect	No	Yes	Yes
Firm controls	No	No	Yes
Observations	36,599	36,599	36,275
R-squared	0.085	0.114	0.250

Table C.7: Manipulation Test

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

	(1)	(2)
	Before enactment	After enactment
<i>Panel A: Cattaneo, Jansson and Ma (2016) test</i>		
T	0.800	-0.741
P>T	0.424	0.459
Effective # of obs	177	82
<i>Panel B: McCrary (2008) test</i>		
Log difference in height	-0.034	-0.846
Standard error	0.379	0.522

Table C.8: 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 with uniform kernel functions, proposed by Calonico, Cattaneo, and Titiunik (2014). The dependent variable in Panel A is *Implemented*, a dummy that takes a value of 1 if the proposal is implemented. The dependent variable in Panel B is *CAR3*, cumulative abnormal returns for the [-3, +3] window around the annual meeting date. 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 legislation was enacted. Columns 3 and 4 restrict the sample to observations after the legislation was enacted. All columns introduce a polynomial in the vote share of order 1. In all columns, we calculate the optimal bandwidth following Calonico, Cattaneo, and Titiunik (2014). Standard errors are given in parentheses.

	Before enactment	After enactment
	(1)	(2)
<i>Panel A: Implementation</i>		
Pass	0.064 (0.179)	0.540** (0.216)
BW loc. poly. (h)	5.941	10.748
Observation	95	66
<i>Panel B: CARs [-3,+3]</i>		
Pass	0.029** (0.013)	-0.106*** (0.040)
BW loc. poly. (h)	8.978	8.536
Observation	144	53

Table C.9: Selection

This table reports the characteristics of firms and boards that received shareholder proposals before the legislative change and those that received post-enactment shareholder proposals. Panel A reports the results for firm characteristics; Panel B reports the results for board characteristics. *Enactment* is a dummy variable that equals one for the years after the legislation was enacted in the state in which the firm is incorporated. We control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and 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
Enactment	0.215 (0.137)	-0.658 (0.361)	-0.485 (0.316)	0.0394 (0.419)	0.041** (0.012)	-0.017 (0.029)
State-group fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.158	0.344	0.168	0.274	0.061	0.089
N	160	181	181	181	181	181
<i>Panel B: Selection on firm governance</i>						
Dependent variable	Board size	Duality	CEO-director ties	Busy board	Average director tenure	Voting participation
Enactment	-2.384** (0.683)	-0.132** (0.0287)	18.38 (11.87)	0.028 (0.061)	0.215 (0.167)	-0.091 (0.051)
State-group fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.138	0.149	0.176	0.197	0.355	0.023
N	175	181	181	181	181	181

Appendix D: *A Simple Analytical Framework of the 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 firm value under majority voting as π_{mi} . Under each of the two voting standards, firm values π_{mi} and π_{pi} each follow a distribution across firms $g_j(\pi_j)$, $\pi_j \in (\pi_l, \pi_h)$ for $j \in \{p, m\}$. The manager cares about 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' benefits. 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 obtain 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 equivalent "director" proposals. In other words, we can measure only the 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 that the legislative change will result in directors whose interests are not aligned with theirs.

When making the decision about 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 that shareholders would otherwise have initiated.

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

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 a 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 a majority-voting standard is now lower.

This result has two empirical implications. First, part of the managerial response 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 they had before.

Finally, we compute the reaction of the firm's shareholder value 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 it. According to the selection process illustrated above, 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 legislation's enactment. We take into account this effect to adequately rescale our results. Also note that, in practice, the threshold of implemented proposals may be fuzzier than it is in this analytical illustration. However, the same intuition follows as long as, after the enactment of the legislation, managers put more weight on shareholder value relative to private benefits. Ultimately, this is an empirical question, which is the objective of the analysis in our paper.