Why Do Shareholder Votes Matter?

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Abstract

Analyzing voting behavior on shareholder-sponsored proposals, we show that shareholder voting has effects on corporations beyond the implementation of these proposals. We first document that in two-thirds of the cases the passing threshold determined by the corporate charter -the "official passing threshold"- is different from a simple "majority passing threshold" of 50% of the sum of votes expressed "for" and "against" which has been advocated by Institutional Shareholder Services (ISS), for instance. Using a Regression Discontinuity Design we then show that the effect of passing the two thresholds by a small margin has very different effects. At the majority threshold, we find a positive valuation effect and higher pressure on the board, as inefficient CEO turnovers and votes against directors increase very sharply following the passage of a proposal. We do not observe a higher likelihood of management implementing the proposals. Passing the official threshold, on the contrary, almost triples this likelihood but we do not find any valuation effect. Interestingly and against widespread belief, we also provide evidence of vote manipulation around the official threshold by the management.

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1 Introduction

According to corporate charters, voting at general assemblies is one of the essential rights given to shareholders of U.S. corporations. Nonetheless, the effectiveness of the voting mechanism as a governance tool is doubtful to many observers of corporate life (Bebchuk (2007)). One of the main arguments for this view is that U.S. corporate law provides that votes on proposals made to the board by shareholders cannot bind the board's actions no matter how favorable the shareholder vote is towards such proposals. Despite this, the outcome of the vote on shareholder proposals is taken more and more seriously by management since the early 2000s (Ertimur, Ferri and Stubben (2010)), and there is recent evidence that stock prices react positively to the announcement of majority votes for heavily contested proposals (Cuñat, Giné, and Guadalupe (2012)). In this paper, we provide a simple answer to this apparent paradox: approval of shareholder proposals by a majority matters to both management and stock markets because it triggers intense scrutiny of the board's actions by institutional investors. In other words, voting by shareholders may be an indirect and yet effective governance tool in that it sends a call for action on the management to blockholders.

As we will show, once the outcome of the vote on a shareholder proposal is revealed, many institutional investors indeed rely on a simple rule-of-thumb: vote against the board in the future if and only if the proposal a) reaches 50 % of the sum of votes expressed for or against it and b) it is not implemented by the board. This decision rule was first put forward in guidelines to member institutions by the Council of Institutional Investors (CII) in the early 1990s. It became even more widespread once the main proxy advisory company, Institutional Shareholder Services (ISS), included the rule-of-thumb in its own guidelines for director voting recommendations starting in 2003. Using data on shareholder proposals in the U.S. between 1997 and 2010, we find that this rule-of-thumb gives the actual voting result on proposals a very significant impact on future director elections. As soon as a proposal reaches 50 % of votes for and against it but the board does not feel compelled to implement it, the number of votes against incumbent directors suddenly rises by more than a third the following year. Another way of documenting the pressure then put on boards and management is to look at CEO turnover. We find that as soon as a proposal reaches the majority threshold prescribed by the rule-of-thumb, the likelihood that CEOs subsequently leave the firm to the detriment of

firm value, i.e., with a significant stock price decline on the day of announcement of the CEO departure, increases by more than 10 points.

Notwithstanding the resulting stir in the boardroom, abnormal returns on the day of the meeting are 1% bigger after the passage of a shareholder proposal and the subsequent investor reaction. Surprisingly, we show that this stock market reaction is not driven by the expected implementation of the proposal: managers implement the proposals only when votes for it reach a threshold determined by the corporate charter, which we show is higher than the one chosen by institutional investors in about two-thirds of the cases. In other words, what makes the voting result on a shareholder proposal so important is not the actual content of the proposal but the fact that it might increase the threat of future votes against incumbent directors by institutional investors.

Consistent with the fact that managers only feel compelled to take action following a proposal when it has officially passed, we find that managers significantly manipulate the votes around the official threshold: there is a very significant and discontinuous drop in the density of vote shares around the passage threshold set by the corporate charter. This in itself is a new finding in that only votes on management proposals had been previously shown to be manipulated (Listokin (2008)). However, there is no such detectable manipulation around the passage threshold as defined by CII and ISS, just as in Cunat et al. (2012). Our interpretation is that, while active shareholders do not care about whether or not a shareholder proposal has officially passed, they do closely monitor whether it has passed according to their own standard and are, therefore, much more likely to fight any manipulation attempt by management around this threshold.

Because we question the governance role of non-binding proposals, we see our contribution as the first empirical counterpart to the theory of shareholder proposals articulated by Levit and Malenko (2011). Their model concludes that such proposals should have no significant governance impact unless a shareholder activist can seize the voting outcome as an opportunity to replace current management. Our results confirm this prediction, as voting results seem to matter only because some intermediary (a group of institutional investors or a proxy advisor) threatens board members with their removal upon learning the result of the

vote. One point of divergence is that, while theory suggests there is no pre-determined voting threshold that triggers action by activists, we find that most of the investor reaction to the vote takes place around a unique threshold, e.g., 50% of votes ”for” and “against” the proposal. This suggests that many institutional investors, either due to agency reasons, optimization costs, or regulatory incentives, use rule-of-thumbs when choosing where to take a stance against management. Our work also fits into the literature on corporate voting rules and their impact on governance quality. Maug and Rydqvist (2009) show that shareholders tend to vote more aggressively when the corporate charter imposes a super-majority threshold, in such a way that the super-majority requirement tends to be a poor way of entrenching management. We go further and find that even the consequences of a given voting result are not fully controlled by the corporate charter, so that management cannot rely on internal laws of the firm to dismiss the outcome of a vote.

Because we identify the exact mechanism assigning real effects to voting results, we are also able to clarify the impact of governance provisions included in shareholder proposals on firm value. On this topic, the existing literature has so far delivered ambiguous evidence. Cunat et al. (2012) show that the passage of a closely-contested shareholder proposal delivers positive abnormal returns on the day of the shareholder meeting, without any subsequent reversal, and argue that this reflects the intrinsic value of governance provisions included in the proposals. Reversely, Popadak (2014) finds the opposite result that the passage of proposals strengthening governance is bad for firm value. We argue that those studies have diverging conclusions because they focus on different concepts of proposal passage: Cunat et al. (2012) focus on passage according to CII and ISS (i.e., 50% of votes for and against), while Popadak (2014) focuses on passage according to the corporate charter, which generally requires a higher amount of votes for the proposal. Due to this, the results obtained by Cunat et al. (2012) do not in fact come from the implementation of the governance provisions, but from the pressure exerted on the board by CII and ISS. Reversely, the finding in Popadak (2014) that the implementation of governance proposals has a negative effect on firm value is most likely due to the spurious effect of vote manipulation by management around the official passage threshold that we document in this study. In summary, our main conclusion on that issue is that

the governance provisions dealt with in shareholder proposals simply do not significantly matter for firm value.

The remainder of the paper is as follows. Section 2 describes the institutional details of voting on shareholder proposals in the U.S. and presents our empirical methodology. Section 3 presents the data and the variables used in the analysis. Section 4 discusses the internal and external validity of shareholder proposals as a quasi-experiment. Section 5 presents the results. Section 6 concludes.

2 Institutional Background and Empirical Methodology

Our empirical analysis and the interpretation of our results regarding the impact of shareholder votes rely heavily on a few specific features of shareholder voting in the U.S.. Therefore, a detailed explanation of the voting process is in order.

What do Shareholders Vote on?

On the occasion of general assemblies, shareholders can be asked to vote on many different matters. They may elect directors or vote on specific proposals, sponsored either by the management or by a shareholder. While the content of most of those proposals is related to the organization of governance within the firm, our study is centered on shareholder-sponsored governance proposals. Those are different in several dimensions from management-sponsored proposals that have been studied in related papers (e.g., Popadak, 2014). The main difference is that shareholder-sponsored proposals are usually not binding to the management. This means that even if the approval threshold set by the corporate charter has been passed, the board of directors has discretion over whether or not to implement the proposal. Management-sponsored proposals, on the contrary, are usually binding. The paradox that shareholder proposals are officially non-binding and yet have been shown to carry real effects (Cunat et al. (2012)) is what motivates our focus on this type of governance proposal.

How Are Votes Counted?

Even though shareholder proposals are not binding the board's final decision regardless of the vote outcome, corporate charters always specify a threshold that the number of votes for the proposal needs to reach before it is considered "approved". We collected data on the voting rule that is used by each firm from proxy statements and the corresponding descriptive statistics are presented in Section 3. They show a very significant dispersion of voting methods across firms. There should not be this much dispersion since state corporate law sets a default rule regarding when proposals are considered to be passed. However, firms are always set free to opt out of the state default and choose a different approval threshold and this is an option that they seem to exercise very often. Indeed, while the corporate charter typically specifies that votes for should represent more than 50% of votes cast, there are many degrees of freedom in the definition of a cast vote. The most natural definition and the one present by default in most state corporate laws (but not in Delaware) would be that it is a proxy sent with either a "For" or "Against" choice, so that a proposal is approved if votes for it represent more than 50% of votes "For" or "Against". More frequent, though, is the case in which proxies sent with an "Abstain" choice are considered as cast and voted against the proposal, in which case a proposal needs to reach 50% of votes "For", "Against", and "Abstain" in order to be approved, making it harder to pass. More rarely, even shares whose proxy has not been sent are considered as voted against the proposal, and then a proposal should reach 50% of shares outstanding to be approved.

Even though an "approved" proposal is not binding, management very often justifies not implementing a proposal by arguing that the proposal did not reach the official bar for approval. This is probably in large part because some third parties typically push for implementation based on a different, and lower, bar for approval. In particular, since the 1994 proxy season, the Council of Institutional Investors (CII), representing the largest U.S. pension funds, asks its members to withhold their vote in the next director election held by a company if a shareholder proposal made to the company reaches 50% of votes "For" and "Against" and still is not implemented by the board. CII also keeps track of the implementation of majority-supported proposals and regularly issues a list of complying and non-complying firms. This uniform bar for approval chosen by CII was made even more popular in 2004 by the decision

of the main proxy advisor, Institutional Shareholder Services (ISS), to include the exact same decision rule in its voting recommendations for director elections. This move from ISS was spurred by the decision made by the SEC to force mutual funds to disclose a proxy voting policy. Because most mutual funds rely on ISS for their voting decisions, this in turn forced ISS to disclose very clear guidelines regarding their recommendations.

This means that there are essentially two outcomes of the vote that are closely monitored when voting results on a shareholder proposal are disclosed: the first one is whether the number of votes crossed what we will call the "official threshold", set by the corporate charter; the second outcome is whether the number of votes crossed what we will call the "majority threshold", set by CII and ISS and always equal to 50% of votes "For" and "Against". In a minority of cases those two thresholds are identical but in general the "official threshold" is effectively higher than the "majority" threshold.

Can Votes Be Manipulated?

Given that going from 49.9% of votes cast to 50.1% can make a difference between approval and rejection of a proposal, some parties may be interested in trying to manipulate the vote and make sure a proposal is narrowly rejected or approved. Indeed, the existence of vote manipulation by management has already been statistically detected in the context of management proposals (e.g., Listokin (2008)). However, one specificity of shareholder-sponsored proposals is that, once on the agenda, they cannot be strategically removed by the management, while management can always choose to remove its own proposals if they seem to be lacking shareholder support. For this reason, earlier research (e.g., Cunat et al. (2012)) usually assumes that the votes in shareholder-sponsored proposals cannot be manipulated, which allows them to proceed with a regression discontinuity analysis of the voting results.

However, we will show in Section 4 evidence of vote manipulation by management even in the context of shareholder proposals. At this stage, we feel it is important to explain how such manipulation can happen. This would indeed be extremely difficult if dispersed individual shareholders were still voting their shares directly without using any kind of intermediary. It turns out however that nowadays there is most of the time a single intermediary, called a proxy

services firm, in charge of both making a census of all potential voters for a given general assembly and processing the proxy cards sent by the voters (Kahan and Rock (2008)). Because it centralizes the votes as they are issued by shareholders, the proxy services firm is able to run interim vote tallies before the general assembly for all matters to be put to the vote during that assembly. Very importantly for our purpose, those interim tallies are routinely sent to interested parties, most often the company management but also sometimes the shareholders who sponsored a proposal. This means that if management is slightly behind as the voting nears an end, it can try to campaign heavily (e.g., calling investors) or slightly adjust the poll-closing time to its advantage, thus effectively leading to a fine-tuned manipulation of the vote in its favor, even in cases when the proposal cannot just be removed from the agenda of the meeting. However, since active shareholders can also get hold of those interim vote tallies (at least until recently), it is also possible that in some cases votes are manipulated in the opposite direction, thus making the final voting outcome less predictable.

Using Close-Call Votes to Uncover Causal Effects of Voting Results

Because proposals are considered passed by either managers or shareholders only if they reach some pre-established thresholds, an analysis of proposals whose voting result is very close to one of the approval thresholds is of particular interest. Provided that actual passage of a proposal in such close contests is as good as random, an assumption that we will put to the test later on, this type of analysis (entitled Regression Discontinuity Design (RDD) in the econometrics literature) may deliver causal estimates of approval of a proposal on a whole series of outcomes (Cunat et al. (2012)). However, such a methodology also brings a series of concerns about estimation and its efficiency (Lee and Lemieux (2010)). The reason is that, unless the sample of close-call votes has infinite size, there never are enough instances in which vote shares are just at one and the other border of the 50% majority threshold to guarantee a reasonable level of statistical power for tests of the significance of governance proposals. With a finite sample, it is therefore necessary to use information far away from the threshold and compensate for the potential extrapolation bias by modeling the continuous relationship with polynomials of the vote share. The corresponding specification is as follows:

$$Y_i = \alpha + \beta . 1_{V_i \geq 50} + \sum_{j=1}^{n} \gamma_{1j} (V_i)^j . 1_{V_i < 50} + \sum_{j=1}^{n} \gamma_{2j} (V_i)^j . 1_{V_i \geq 50} + \epsilon_i \ (1)$$

where Y_i is a set of outcomes such as the number of votes withheld in the next director election, the likelihood that a well-performing CEO leaves the firm, the abnormal returns on meeting day, and the likelihood that the board decides to implement the proposal; V_i is the vote share attained by a governance proposal in firm i, and n is the polynomial degree chosen to estimate the relationship between Y_i and V_i. However, adding ever more polynomial terms is not a panacea because it will add noise to the estimation and it will put ever greater identification weight to observations very far away from the majority threshold. To guard us against this problem, it is generally advised to be cautious in extending the window of observation (or, in the words of the RDD literature, the bandwidth) around the treatment threshold. Unfortunately, the literature has not reached a general consensus regarding both optimal bandwidth and polynomial choice. The best practice so far has thus been to produce non-parametric graphs of the relationship between the outcome and the forcing variable V_i and to display estimates of treatment effects under varying bandwidth and polynomial degrees. Confidence in the estimates should then be greatest for those results that vary little from one specification to the other. In the rest of the paper, we will display all results in three different specifications: one in which the treatment effect is estimated with simple averages but with a small bandwidth (45% to 55% in vote share), another in which we allow for a polynomial of degree one but with a larger bandwidth (40% to 60%), and a last one with a polynomial of degree four and the whole sample of proposals.

The last methodological issue we have to resolve is specific to the analysis of shareholder proposals: while vote shares are specific to one proposal, the outcomes of interest are defined at the level of a shareholder meeting (i.e., firm-year level) and it often happens that several governance proposals are put to the vote during the same meeting. In principle, this does not raise an issue of bias: it is unlikely that the proposals of a same meeting exactly reach the 50% threshold simultaneously. However, given the extrapolation we make towards observations far away from the 50% level, voting on different proposals may in the end cancel each proposal's individual effect and lead to an attenuation bias if not properly addressed in the estimation. To

this effect, we follow the approach suggested by Cuñat et al. (2012) and, for large bandwidths we adapt equation (1) as follows:

$$Y_i = \alpha + \beta.SumPass_i + \sum_{j=1}^{n} \gamma_{1j} \left(\sum {V_i}^j \right).1_{V_i<50} + \sum_{j=1}^{n} \gamma_{2j} \left(\sum {V_i}^j \right).1_{V_i\geq 50} + \epsilon_i \quad (2)$$

where $\sum {V_i}^j$ is the sum of polynomial terms of vote shares attained by all proposals put to the vote in a given meeting of firm i and $SumPass_i$ is the number of proposals that were passed in a given meeting of firm i. Only proposals whose individual vote share belong to the chosen bandwidth (40% to 60% in one case, the whole sample in the other one) are including in those meeting-level aggregates. As proved by Cellini et al. (2010), such an aggregated version of the RDD specification guarantees a more consistent estimation of the treatment effect of interest.

3 Data and Descriptive Statistics

The first segment of our data is on shareholder proposals put to the vote during general assemblies held between 1997 and 2010. This dataset is collected by ISS and a thorough description of its content is available in Cuñat et al. (2012). Our sample includes all proposals aiming to lift one of the anti-takeover provisions in place at the time of the shareholder meeting. This definition includes all provisions that belong to the E-index (Bebchuk et al. (2009)): poison pills, golden parachutes, classified boards and supermajority requirements.

The reason we focus on those provisions is three-fold. First, these provisions have been suggested to be the only ones with a confirmed positive impact on firm value (Bebchuk et al. (2009)). Secondly, the content of those provisions is most closely related to CEO and board entrenchment with respect to shareholders, while our own conjecture is that organized shareholders use the passage of shareholder proposals to threaten board members' otherwise entrenched position. Thirdly, over our sample period, those proposals represent the larger part (about two-thirds) of the proposals reaching at least 50% of votes "For" and "Against". Therefore, given our choice to focus on close-call votes, we do not lose much identification power from excluding other types of proposals.

Since we investigate, among other things, the impact of proposals on CEO turnover, the scope of our sampling at firm-level is determined by data availability regarding CEO identity: we must be able to match the proposals dataset with Execucomp, whose coverage is limited to S&P 1500 companies. This means that our sample comprises 1096 proposals discussed in 1085 meetings of 470 different firms. The first row of Table 1 presents the distribution of proposals across time (between 1997 and 2010): There are about 80 proposals per year on average. The distribution is hump-shaped with fewer proposals in the early years, peaking in 2003 (after SOX), and fewer proposals in the recent years.

Our data for the vote count rules comes from different sources for different periods. For the early years in our sample (until 2003), we do not observe the exact voting rule. However, in the ISS data, we observe the fraction of "For" votes using the official denominator and the fraction of "For" votes using the sum of "For" and "Against" as denominator. Comparing these two fractions allows us to see whether the official threshold is the majority threshold or not. For 2004 to 2010 we obtain the data on the voting rules from ISS. The lower part of Table 1 shows the distribution of voting rules over time. Only in 37.4% of the proposals does the official passing threshold correspond to the majority threshold. In the majority of the cases (for years when we have data on the exact voting rule) abstentions are counted as "against" votes, i.e., the voting rule is For/(For+Against+Abstentions).

The voting rules are defined in the corporate state law. However, firms can opt out and change the applied voting rule in their corporate charters. We collect data on the voting rules on state level from LexisNexis. Table 2 shows that in about 20% of the cases the state rule corresponds to the For/(For+Against) rule and in 80% to the For/(For+Against+Abstentions) rule. Companies comply with the state rule in about 70% of the cases and change in about 10% to For/Outstanding and in about 20% to the remaining category.

For the purpose of our analysis, it is essential that there are many disputed votes; it turns out that the average vote share for an E-index-reducing proposal is close to 50%, which is comforting. Table 3 shows the fraction of proposals that pass the majority and official threshold respectively. On average 64% pass the official threshold, strongly increasing from 36.4% in 1997 to 86.4% in 2010. The passing rate at the majority threshold is slightly higher

(69.7%) and increasing as well (43.2% in 1997 to 86.4% in 2010). Using a Regression Discontinuity Design requires data from close to the threshold. Table 3 also shows the number of proposals with voting outcomes close to two thresholds, the "official threshold" and the "F/(F+A) threshold". The "official threshold" is the threshold based on the official voting rule that us stated in in the corporate charter, while the "F/(F+A) threshold" or simple majority threshold is the threshold based on counting for-votes over for plus against votes. (40,60) and (45,55) correspond to the number of proposals with voting outcomes between 40%-60% and 45%-55% using the respective counting rule. We have about 400 proposals in our sample when applying a wider range around the thresholds and about 200 in a 10% percent range.

In order to investigate whether those different forms of proposal passage matter for actual implementation of the proposal, we have hand-collected evidence on the implementation of the proposals from various SEC filings accessible on EDGAR. Table 3 shows a dramatic rise in implementation of the proposals conditional on their passage according to corporate charters: the implementation rate went from about 20% before 2002 to about 60% afterwards. Given that at the same time the number of passed proposals has largely increased, this means that shareholder proposals have largely changed in nature after the Enron scandal and Sarbanes-Oxley: they are now clearly an important instrument for changing the way corporate governance rules are set. We do not see clearly here a difference in implementation conditional on official passage and conditional on passage according to ISS and CII, but this is probably because the number of cases where the two diverge is only a small proportion of the whole sample.

Table 4 displays some firm descriptive statistics at shareholder meeting date. The firms we are dealing with are disproportionately big. It is, however, quite natural that the most active shareholder meetings take place in such firms. As shown in Cuñat et al. (2012), these firms also tend to be more often than not widely-held or have an important share of institutional investors. The announcement return at the day of the meeting is positive on average but quite heterogeneous (e.g., they are -1.0% at the lowest quartile and 1.2% at the highest quartile).

We posit an effect of shareholder proposals on the quantity and quality of CEO turnovers. To this effect, we identify turnovers using changes in the identity of a firm's CEO in

Execucomp. Using this information, we obtain several pieces of information on each turnover from newspaper articles and press releases collected in Factiva: announcement date, whether the turnover is an integral part of a merger, whether the turnover is caused by death or severe health problems of the CEO. We focus our attention on the first turnover announced less than two years after the day of the shareholder meeting. If a turnover has been announced before the meeting but has not yet taken place effectively by that date, we only consider as a turnover event the one that was announced for the CEO-elect at the time of the meeting.

We also restrict our attention to departures unrelated to a merger or bad health. Given the small likelihood of such events (around 10% of all turnovers), none of our results are affected by their inclusion in our sample. After all these data filters, we find that 187 CEOs have announced their departure less than two years after a shareholder meeting in which one of our sample proposals has been put to the vote. For each turnover, we compute announcement abnormal returns using the market model with stock price data from CRSP. The accounting data is drawn from Compustat.

As important is the fact that there are many turnovers quickly after each meeting: on average shareholder meetings are followed by a CEO turnover in the next two years in 22.6% of the cases. CARs on turnover announcement are shown to be centered around zero. This does not mean however that these are irrelevant events; the standard deviation of abnormal returns more than doubles on the day of announcement. This simply suggests that turnovers have very heterogeneous value implications across firms: some are viewed as negative events and some as positive. For that reason, just looking at the effect of governance on the frequency of turnovers might entail a substantial information loss and one should instead consider CEO departures that affect firm value positively (the "good" turnovers) and those that impact stock prices negatively (the "bad" turnovers) as distinct outcomes. Because only a quarter of turnover announcement CARs are below minus 2%, we define all such unambiguously value-decreasing turnover events as our main outcome of interest in the rest of the paper. Considering a slightly upper threshold does not significantly change our results as we will see below. One characteristic that distinguishes such bad events from other turnovers is that the leaving CEO is then younger than usual.

This would fit the idea that "bad" turnovers are such in part because they happen too early in the relationship between the firm and the CEO Moreover, regardless of the stock market reaction to the departure, the likelihood that the leaving CEO finds a similar leadership position in another S&P 1500 firm is extremely slim (around 2% of all turnovers). This is most likely because our sample is biased towards the very biggest firms in the U.S.; in such cases, it is unlikely that CEOs are willing to run another firm once they leave. Interestingly, bad turnovers are preceded on average by an increase in relative accounting performance and followed by a decline. Albeit not statistically significant, this result fits our interpretation that turnover announcement CARs reflect a real effect of the turnover on the value of the firm. Finally, bad turnover events seem to be amplified over time and are not followed by a positive reversal in the price of the stock in the next 20 days. This suggests that the strong stock market reaction on the day of the turnover is not simply the result of some short-term pricing anomaly. Overall, these descriptive statistics comfort us in the belief that our definition of a "bad" turnover outcome has the appropriate economic interpretation, namely that such departures have real negative effects on firm value.

Lastly, we collect data on director elections in the annual meeting following the annual meeting of interest. We obtain the votes on individual directors from 10-Q filings from SEC Edgar. For each director election, we calculate the percentage of votes withheld. We aggregate those votes against directors on corporate level by calculating the average. This percentage is relatively small on average (around 8% of the votes withheld on average), but it is generally recognized that even small yet significant levels of defiance at director elections can be considered a blow to incumbent board members and management. For example, when 23% of votes for AOL's chairman Steve Case were withheld, he felt compelled to resign. Therefore, a large percentage increase in withheld votes following the passage of a proposal may be sufficient to trigger strong decisions from the board.

4 How Informative Are Close-Call Votes?

Internal Validity of the Voting Experiment

The internal validity of our estimates rests on the assumption that small variations in the vote share obtained by a proposal are essentially random. This means in particular that in much contested elections there is not any systematic manipulation of the results. This kind of assumption makes perfect sense in the context of general elections but it has been shown to fail in contexts in which voters are few and may vote strategically such as roll-call votes in U.S. Congress (McCrary (2008)).

Such a possibility can in fact be properly tested in our sample. One such test has been proposed by McCrary (2008) and rests on the assumption that if there was strategic voting, one should observe that the density of proposals subject to a vote should not exhibit a significant jump at the 50% majority threshold. In the upper part of Figure 1, we provide a non-parametric graphical version of such a test. For each one-point interval of proposal vote shares, we count the number of E-index proposals put to the vote in our sample. There is no significant jump in density at the majority threshold, so our claim that voting is random around that 50% zone passes a first important test. We also implemented a density test as suggested by McCrary that estimates two local linear regressions, to the left and right of the cutoff point. The estimated log discontinuity is 6.8% and not statistically significant from zero (t-stat of 0.36).

At the majority threshold, one other test of the randomness of passing a governance proposal in closely-contested votes consists in running placebo experiments with outcomes that cannot possibly be affected by the passing of the proposal because they were measured before the meeting. In Table 5, we run our RDD specifications (3) and (4) on a series of such past outcomes. It is true that, when one considers all proposals indiscriminately (column 3), we do find a significant effect of passing a proposal on some previously determined outcomes. However, such effects lose all their significance when one focuses instead on proposals whose vote share is close to 50% (columns 4, 5 and 6).

However, the picture is very different when we look at the official threshold: The lower part of Figure 1 shows that there is a huge jump at the cut-off value. The estimated log discontinuity is -37.6 with a *t-stat* of 1.9.

Interestingly, the manipulation of the votes only happens very close around the threshold (plus or minus one percent). This suggests that the management must receive very precise information about the likely voting outcome throughout the process. As pointed out by Listokin (2008) in the context of manager-sponsored proposals, management generally receives interim vote tallies from the proxy services firm organizing the vote. If the firm is losing by a small margin, it may campaign more intensively, call investors, or simply adjust the poll-closing time.

Why, then, is it the case that managers do not try to manipulate votes around the threshold closely monitored by activist shareholders? One likely possibility is that those shareholders also receive interim vote tallies and are therefore able to counteract the actions taken by managers in order to manipulate the vote. They may only do this in the case of the majority threshold since it is the only one they pay attention to, at least according to the CII and ISS guidelines.

In sum, vote manipulation exists in our data but only when a proposal's voting results is very close to the official approval threshold. This means the estimates we will construct for the effect of official approval may in fact suffer from a causal bias. Most likely, managers will manipulate more often when it is more difficult not to implement a proposal when it has been officially approved. Due to this, our estimates of the causal impact of official approval on implementation will most likely be biased downwards. In addition, proposals that are most detrimental to management will be more manipulated, thus leading to an under-estimation of the impact of official passage of a proposal on firm value. For those reasons, we feel that we should treat our estimates of the causal impact of the governance provisions on valuation with caution if they turn out to have a negative sign.

External Validity of the Voting Experiment

However, it remains to be seen whether our estimates are representative of a significant share of U.S. companies or not. To this effect, in Table 5, columns 1 and 2, we compare a series of structural firm-level variables measured prior to the meeting in the total sample and in the sample of closely-contested proposals (between 47% and 53% of the vote share). Firms undergoing closely-contested meetings are bigger and better governed than other firms in our sample; however none of those differences reach significant levels. In particular, incumbent CEOs of firms with closely-contested meetings do not exhibit distinct personal characteristics, which comfort us in the belief that our estimates of the effect of governance on CEO turnovers will carry a high level of transposability to other contexts.

5 Results

In our baseline analysis, we focus on proposals in which the official voting rule is different from the "For/(For+Against)" voting rule. This allows us to look at potentially different effects at the two thresholds. One unfortunate consequence is that this setup further reduces the number of observations. Figures 2 to 10 as well as Tables 6 to 9 present our main results. The figures plot the outcome of interest against the vote share received by E-index proposals. Each dot represents the average outcome level for the corresponding vote-share bin. The tables present the corresponding treatment effects of passing an E-index proposal on the different outcomes in the following years results using RDD specifications in a very compact way. Each row shows the results for different dependent variables (turnovers of different qualities). The different columns show the different RDD specifications. Column (1) shows the naive effects, while columns (2) to (4) show the RDD treatment effects. The treatment effect is estimated with a polynomial of degree four and the whole sample of proposals in column (2), with a polynomial of degree one but with a larger bandwidth (40% to 60%) in column (3) and with simple averages but with a small bandwidth (45% to 55% in vote share) in column (4).

Valuation

As a first step, we analyze the effect of passing the majority threshold or official threshold on firm value. Following Cunat et al. (2012) we look at the abnormal stock market reaction at the meeting day. Just as Cunat et al. (2012), we find a significant increase in the stock price as soon as a shareholder proposal reaches 50 % of the votes for or against it (i.e., when looking at the majority threshold). Figure 2 (top) shows this graphically. There is a positive jump of about 0.8% when the majority threshold is passed. Interestingly, we do not find a positive effect when the official threshold is passed. The lower part of Figure 2 actually reveals a negative jump of about 1.0%. Table 6 shows the corresponding RDD analysis. The coefficients of passing the majority threshold are positive and very stable between 0.8% and 1.0% using the contested votes. On the contrary, the coefficients of passing the official threshold are negative between -1.1% and -1.7%.

At this stage, it is unclear why there is a positive valuation effect at the majority threshold. It may well be that, contrary to our hypothesis, this positive valuation by the market comes from the fact that the content of the proposal made by the shareholders, typically the removal of an antitakeover provision, has some intrinsic value. However, the simple fact that there is a negative effect of passing the official threshold is not very consistent with this explanation. In order to shed more light on the mechanism, we therefore analyze the effect of passing the thresholds on the actual implementation of these proposals.

Implementation

Using manually collected data on the implementation of antitakeover provisions following votes on shareholder proposals, we analyze whether the voting outcome has an impact on implementation by management. Our dependent variable is a dummy variable that is equal to 1 if the company has implemented the proposal within a year after the shareholder meeting. Contrary to the results in Section 5.1, we do not find a big effect of passing the majority threshold on implementation. Figure 3 – top shows a small jump of about 7%. However, if the amount of votes for the proposal reaches the threshold required by the corporate charter to consider the proposal “officially” passed there is a large jump of about

25% (Figure 3 – bottom). Table 7 shows the corresponding RDD results. Consistent with the graphical evidence, there is no clear effect on implementation when passing the majority threshold. The specifications (3) and (4) show unstable coefficients. At the official threshold, however, there is a large positive effect between 26.0 and 26.7%.

In other words, a majority approval of a proposal is positively received by the market even though it does not make the proposal more likely to be implemented, while an official approval is not positively received by the market despite causing a very significant increase in the chance that the proposal gets implemented. This clearly suggests that the content itself of the proposals is not relevant to firm value. The question still remains why is there then any reaction at all to the proposal reaching the majority threshold.

[redacted]Board Pressure

In this Section, we aim to explain the seemingly contradicting results of Sections 5.1 and 5.2. As we will show, once the outcome of the vote on a shareholder proposal is revealed, many institutional investors indeed rely on a simple rule-of-thumb to put pressure on the board: vote against the board in the future if and only if the proposal reaches 50 % of the sum of votes expressed for or against it. In order to test this hypothesis, we collect data on director elections in the shareholder meeting following the current one. For each director that is up for vote we collect the fraction of withheld votes. We aggregate the votes against the directors by taking the average over all directors. Figure 4 shows the result. The top part reveals that crossing the majority threshold leads to a significant higher fraction of votes against directors. At the official threshold, however, we do not observe such a jump (see Figure 4 – bottom). Table 8 provides the corresponding estimates. Regarding the impact of the majority threshold, results in the whole sample (columns 1 and 2) are very noisy, probably because over the whole sample the vote withholding rate is very close to one. However, around the majority threshold, which is where causality of the estimates is the most robust, we find very large effects of the passage of a proposal: in the narrowest contests, the number of withheld votes doubles after majority passage of a proposal. To make sense of this number, consider that the average withholding rate is about 8%, so the majority passage of a proposal makes this "defiance" rate climb to about 16%. In comparison, the official passage of a proposal does not seem to have any impact

on director elections. This means that director elections are really only impacted by the guidelines of ISS and CII, not the actual implementation of the governance provisions.

CEO Turnover

Another way of documenting the pressure then put on boards and management is to look at CEO turnover. We start our analysis on CEO turnover by testing whether stricter governance leads to a higher probability that a good CEO leaves a firm. We define the quality of the leaving CEO in terms of how much value is lost upon the announcement of his departure. Figure 5 shows the results. At the majority threshold, there is a large positive jump on the frequency of "bad turnovers", i.e., those that lead to a negative stock market reaction upon turnover announcement. The likelihood of a bad turnover almost triples crossing the majority threshold. Interestingly, at the official threshold, the jump is much smaller. The first row of Table 9 shows the corresponding RDD results. The effect of crossing the threshold is larger (and more significant) at the majority threshold compared to the official threshold. We do not find any big effect for "good" turnovers (Figure 6 and first row of Table 10). If anything, there is a negative jump at the majority threshold and the graph is basically continuous at the official threshold.

Interpreting stock market reactions to CEO turnovers is known to be tricky because a board which does its job by collecting private information on the CEO and taking its decision to fire the CEO based on that piece of information will inevitably reveal some bad news about the firm's prospects at the same time that it is taking a value-enhancing decision for the firm. However, if this were the case, this should often show up in the accounting performance results prior to the firing decision (i.e. the fired CEO consistently underperformed) and after the firing decision (i.e. the firm performance improves in the years following the turnover). This provides a simple test in which we define turnovers based on the performance of the firm in the years preceding the turnover as well as in the years following the turnover. Following Denis and Denis (1995), we define pre-turnover operating performance as the evolution of the ROA from t-3 to t-1 and post-turnover operating performance as the evolution of the same indicator from t-1 to t+3. In order to control for mean-reversion, industry-and-year effects, we follow the

approach by Barber and Lyon (1996): we match each firm in t-4 to a group of firms in the same SIC2 industry and in the same decile of ROA, then for all subsequent years, we subtract the median ROA in this control group from the raw ROA. Once we have defined this industry-and-performance-adjusted ROA, we group turnovers depending on whether this ROA measure increased or decreased both before and after the turnover, and construct four dummy variables for all four cases. We can then use our RDD methodology to look at the causal effect of governance on each kind of turnover. The results are displayed in Table 9 and 10 in rows 2 and 3. At the majority threshold, we do not find that proposal passage increases the probability of turnovers following a bad performance; neither do we observe any impact on the likelihood of a CEO turnover followed by an improvement in operating performance. This is at odds with the story that boards use their private information to make sound firing decisions. More importantly, governance largely increases the probabilities of CEO turnovers that follow good operating performance or are followed by a decline in operating performance. This is very much in line with a story in which it is good CEOs rather than bad ones that leave firms when board members feel pressured by the majority passage of a proposal. Figures 7 to 10 illustrate these findings graphically. While there is a jump around the 50% majority threshold in the case of bad turnovers (i.e., if a good performing is leaving (Figure 7 - top) or if the company is performing badly after the turnover (Figure 9 - top)), the probability of a turnover stays relatively continuous if we consider good turnovers (i.e., if a badly performing CEO is leaving (Figure 8 - top) or if the company's performance is increasing after the turnover (Figure 10 - top)). The pictures change when we look at the official threshold. We do not find any effect on bad turnovers (Figures 7 and 9 - bottom). Analyzing good turnovers (i.e., either a badly performing CEO is stepping down or a well-performing CEO is hired), we observe a positive jump at the official threshold. The RDD is largely consistent with the graphical evidence. In most specifications, we observe positive and larger coefficients of passing at the majority threshold compared with the official threshold when looking at bad turnovers (Table 9). Looking at bad turnovers, however, we find positive and larger coefficients of passing at the official threshold compared to the majority threshold.

Interpretation

Following this review of the results, a clear picture emerges: shareholder proposals do not matter due to the actual content of the proposal, contrary to what the previous literature (Cunat et al. (2012); Popadak (2014)) has been arguing so far. How can the results from the existing literature be then re-interpreted? Cunat et al. (2012) find a positive valuation effect of the passage of a proposal but they implicitly take as a measure of passage the definition used by ISS and CII; we show that this valuation effect is coming in fact from the pressure on the board and the management automatically exerted by CII and ISS due to their director voting guidelines. Popadak (2014) finds a negative valuation effect of the passage of a proposal but she explicitly takes as a measure of passage the definition imposed by the corporate charter; we show that the negative valuation likely comes from a manipulation of the votes by management.

6 Conclusion

In this paper, we explain how shareholder voting on non-binding shareholder proposals can have real effects on the firm. Contrary to previous findings, most of the impact does not come from the actual implementation of those proposals. Rather, those votes matter because they are used as an input by activist shareholder organizations and proxy advisers to put additional pressure on otherwise entrenched boards. This result matters because shareholder proposals have become ever more likely to receive high approval rates since 2002 in the U.S.. It also means that incumbent board members and CEOs cannot fully annihilate the importance of shareholder voting: even when the law does not award it much impact, it might still give enough information to activist shareholders that something wrong is going on with the firm that deserves additional monitoring on their part. However, we also show that this additional pressure on the board has some negative side effects such as the unfortunate departures of well-performing CEOs. We leave the issue of further quantifying this trade-off for future research.

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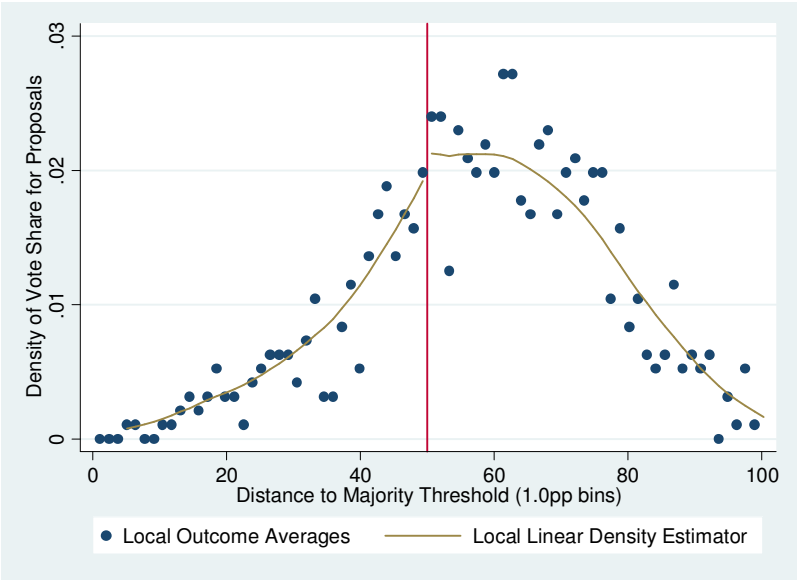
8 Figures

Figure 1: Distribution of Voting Shares Around the Approval Thresholds

Only those proposals purporting to lift E-index antitakeover provisions are considered. Proposals are grouped into one percentage-point bins: proposals that passed by between 0% and 1% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The local linear regression is estimated with a bandwidth equal to one. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).



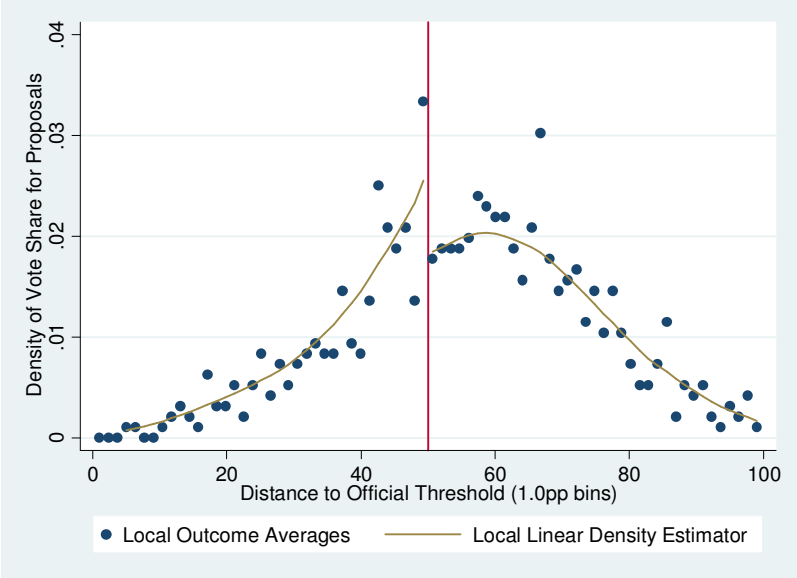
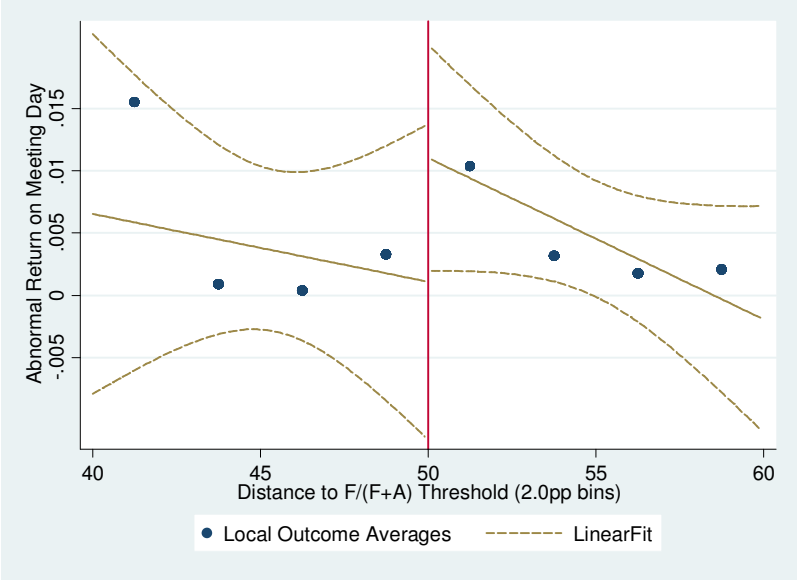


Figure 2: Abnormal Returns and Shareholder Voting

Abnormal returns are measured using the market model on the day of the meeting in which a proposal is put to the vote. Only those proposals purporting to lift E-index antitakeover provisions are considered. Proposals are grouped into two percentage-point bins: proposals that passed by between 0% and 2% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).



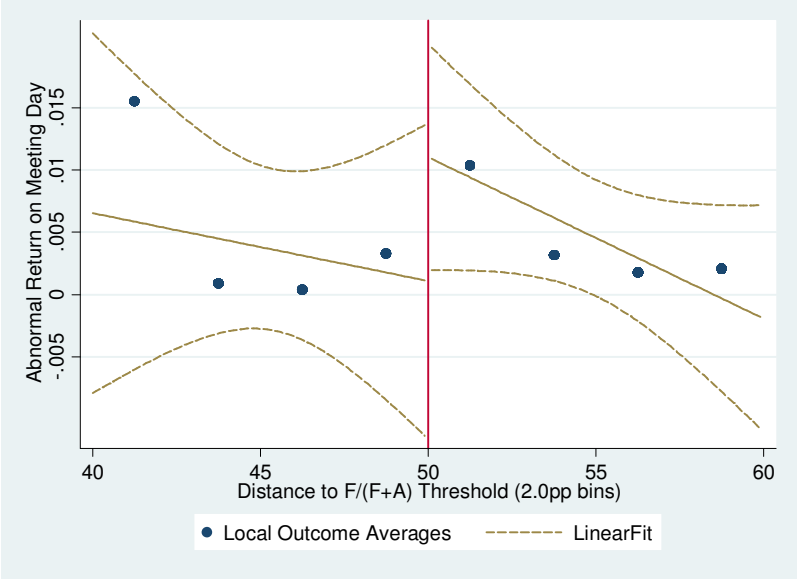
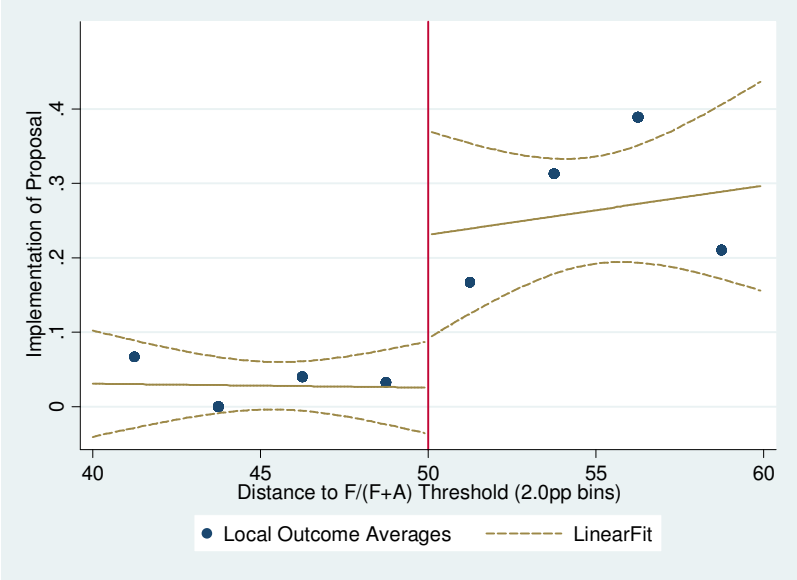


Figure 3: Ex-post Implementation of Shareholder Proposals and Shareholder Voting

Implementation is a dummy variable equal to one if the proposal is implemented within two years after the shareholder meeting in which a proposal is put to the vote. Only those proposals purporting to lift E-index antitakeover provisions are considered The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : DEF 14A filings (1997-2010).



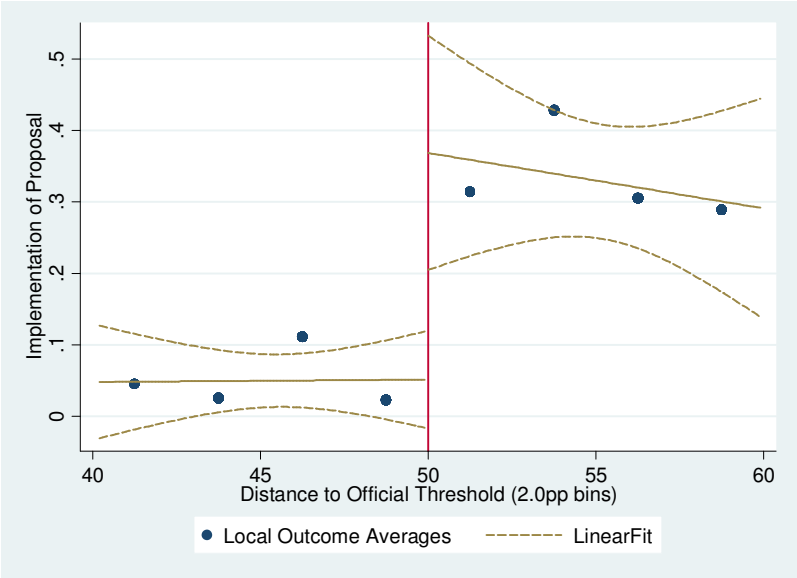
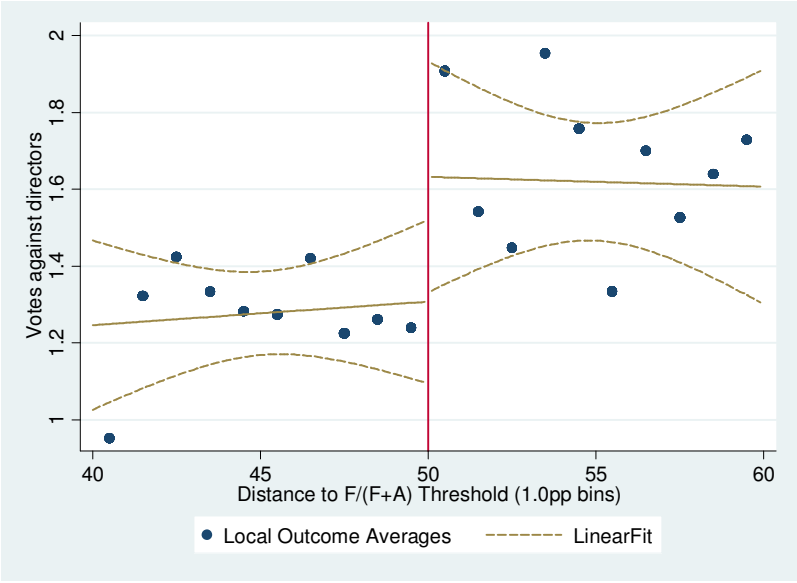


Figure 4: Future Voting against Directors and Shareholder Voting

Votes against directors is the average across all directors of votes against directors at the next shareholder. Only those proposals purporting to lift E-index antitakeover provisions are considered The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : 10-Q (1997-2010).



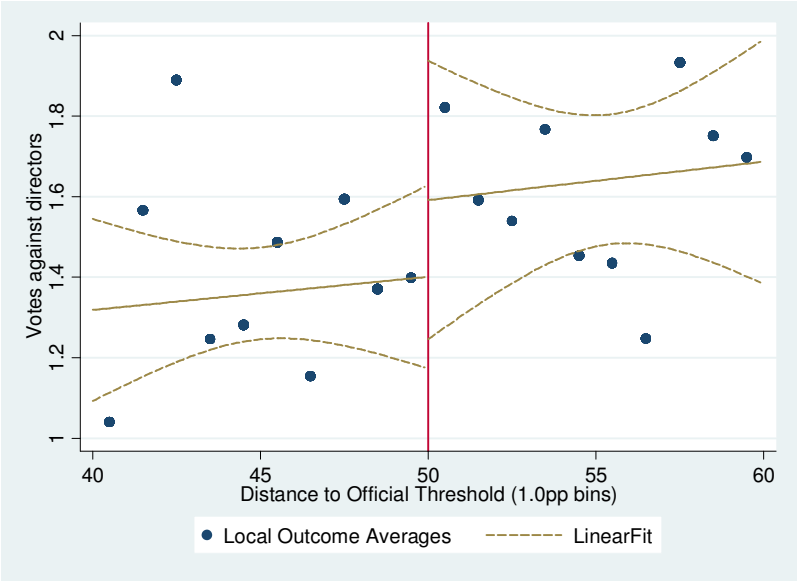
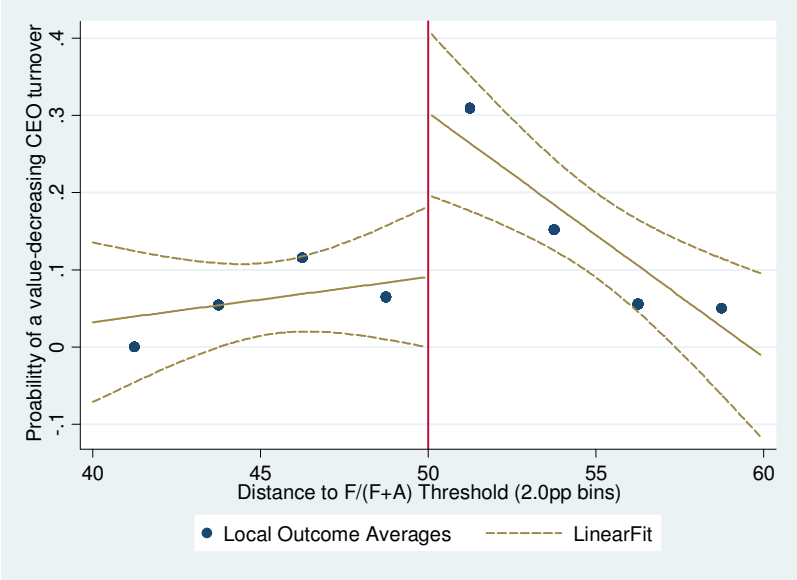


Figure 5: Passing a Governance Proposal Causes "Bad" Turnover Events

Value-destroying turnovers are those that are announced less than two years after the shareholder meeting and lead to an announcement CAR [0;+1] below -2%. CARs are computed using the market model. Only those proposals purporting to lift E-index antitakeover provisions are considered. Proposals are grouped into two percentage-point bins: proposals that passed by between 0% and 2% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).



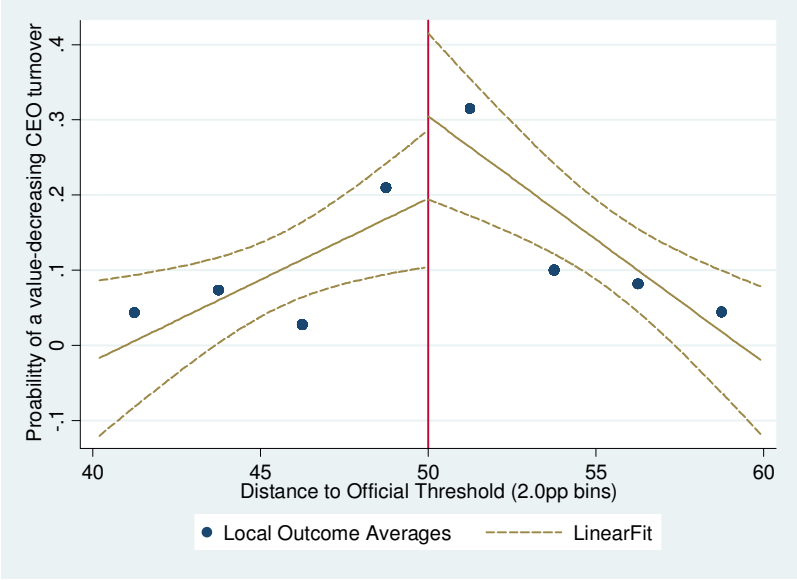
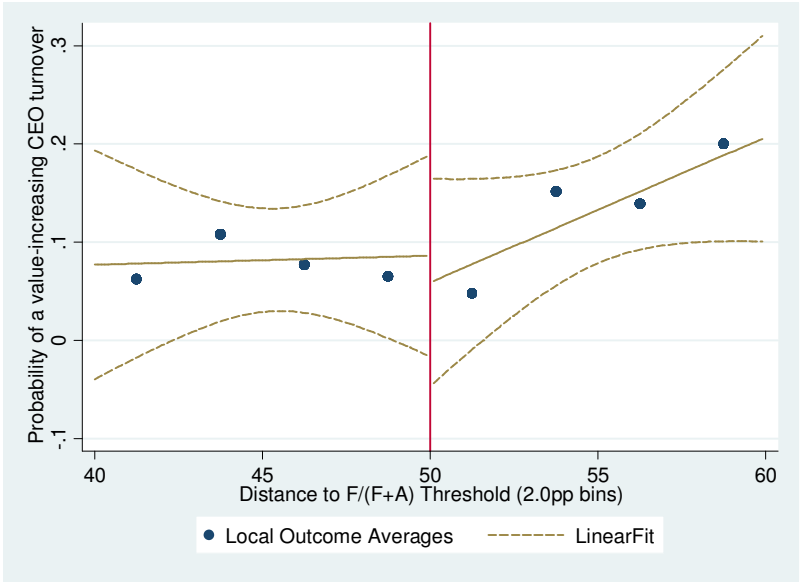


Figure 6: Passing a Governance Proposal Does Not Increase Frequency of "Good" Turnovers

Value-increasing turnovers are those that are announced less than two years after the shareholder meeting and lead to an announcement CAR [0;+1] above 0%. CARs are computed using the market model. Only those proposals purporting to lift E-index antitakeover provisions are considered. Proposals are grouped into two percentage-point bins: proposals that passed by between 0% and 2% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).



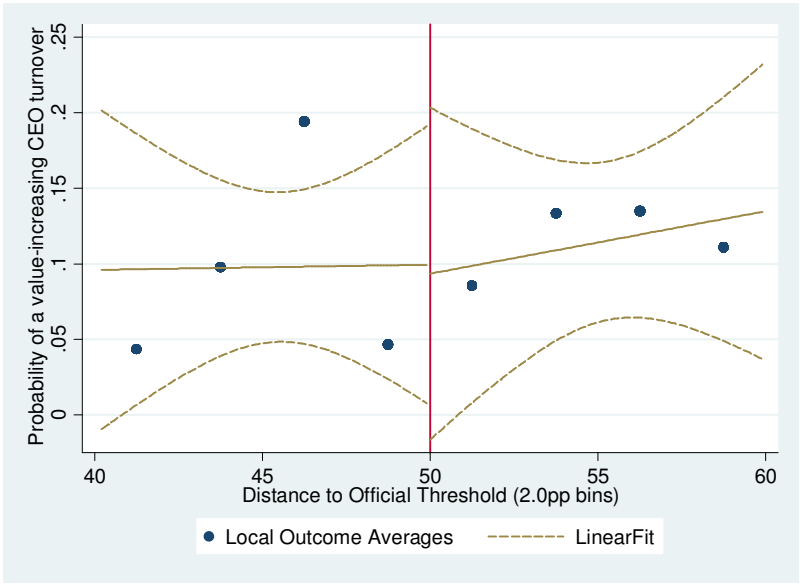
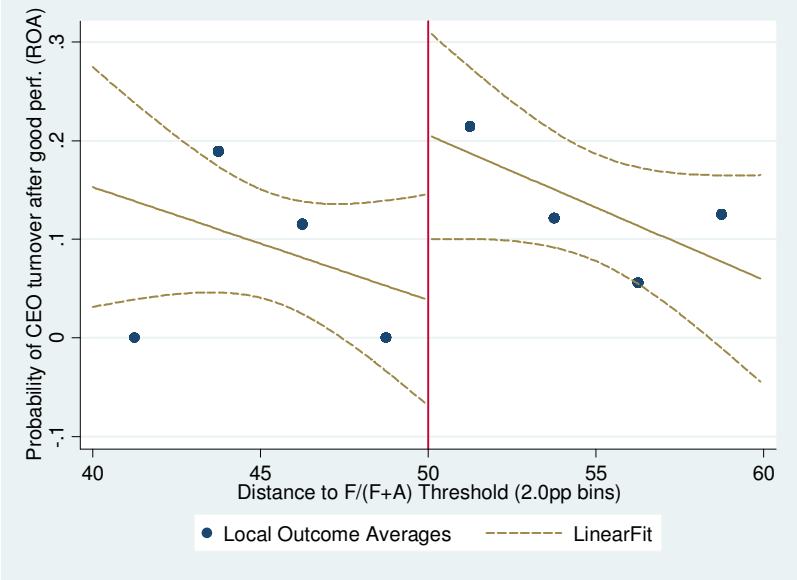


Figure 7: Passing a Governance Proposal Increases Likelihood of Well-Performing CEO Leaving

Good performance prior to turnover means an increase in industry-and-performance-adjusted-ROA from three years to one year before the turnover. Only turnovers announced less than two years after the shareholder meeting are considered. Only those proposals purporting to lift E-index antitakeover provisions are considered. Proposals are grouped into two percentage-point bins: proposals that passed by between 0% and 2% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).



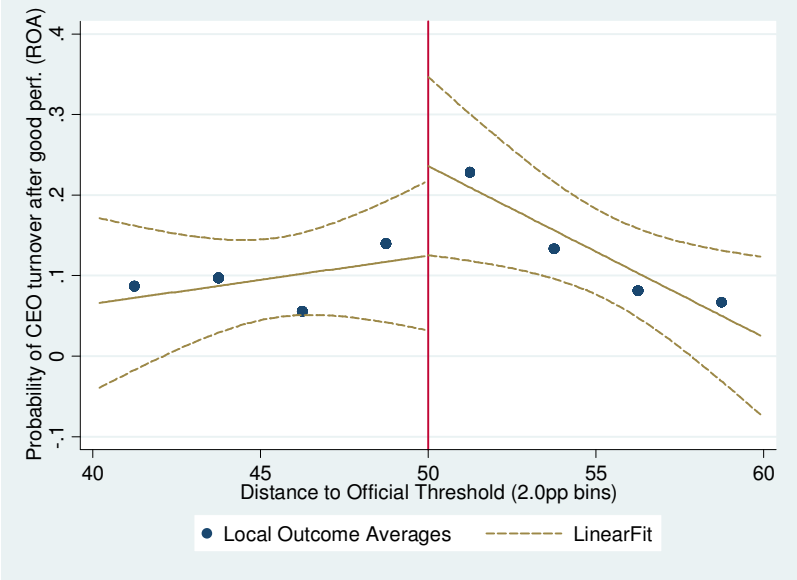
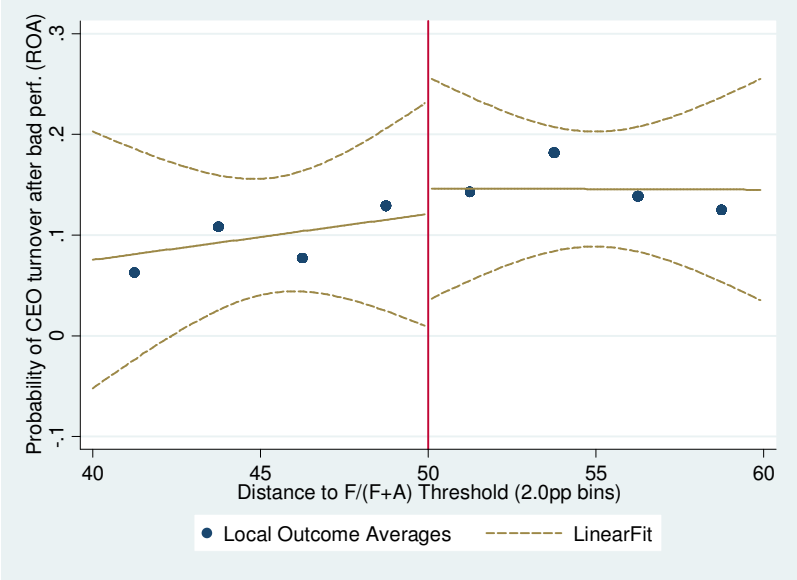


Figure 8: Passing a Governance Proposal Does Not Increase Likelihood of Ill-Performing CEO Leaving

Bad performance prior to turnover means a decrease in industry-and-performance-adjusted-ROA from three years to one year before the turnover. Only turnovers announced less than two years after the shareholder meeting are considered. Only those proposals purporting to lift E-index antitakeover provisions are considered. Proposals are grouped into two percentage-point bins: proposals that passed by between 0% and 2% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).



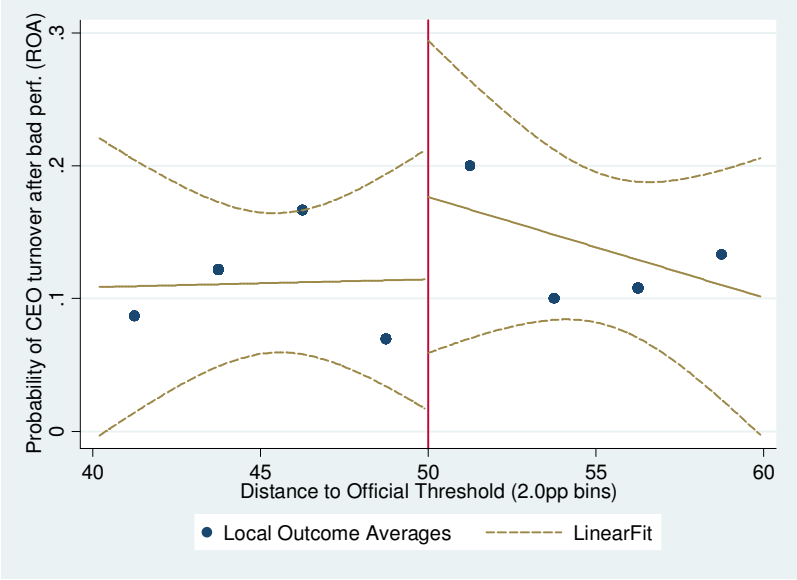
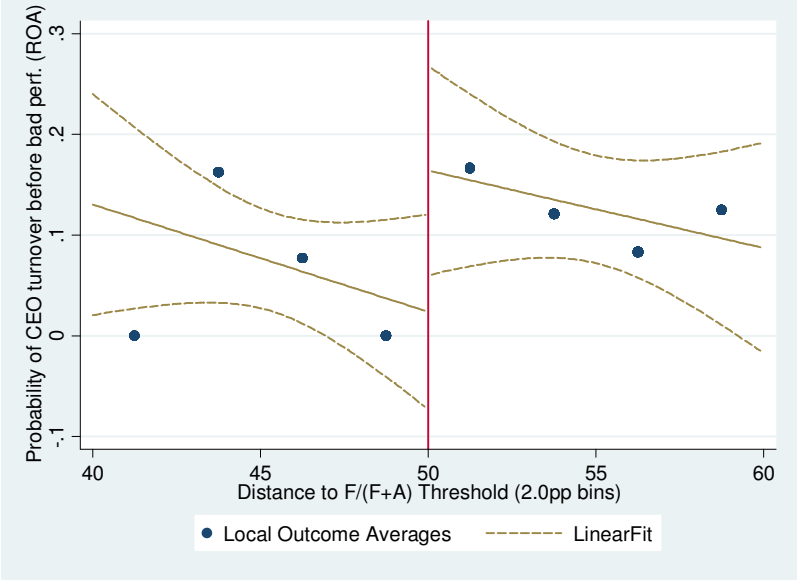


Figure 9: Passing a Governance Proposal Increases Likelihood of a CEO Turnover Followed by Bad Performance

Bad performance after turnover means a decrease in industry-and-performance-adjusted-ROA from one year before to three years after the turnover. Only turnovers announced less than two years after the shareholder meeting are considered. Only those proposals purporting to lift E-index antitakeover provisions are considered. Proposals are grouped into two percentage-point bins: proposals that passed by between 0% and 2% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).



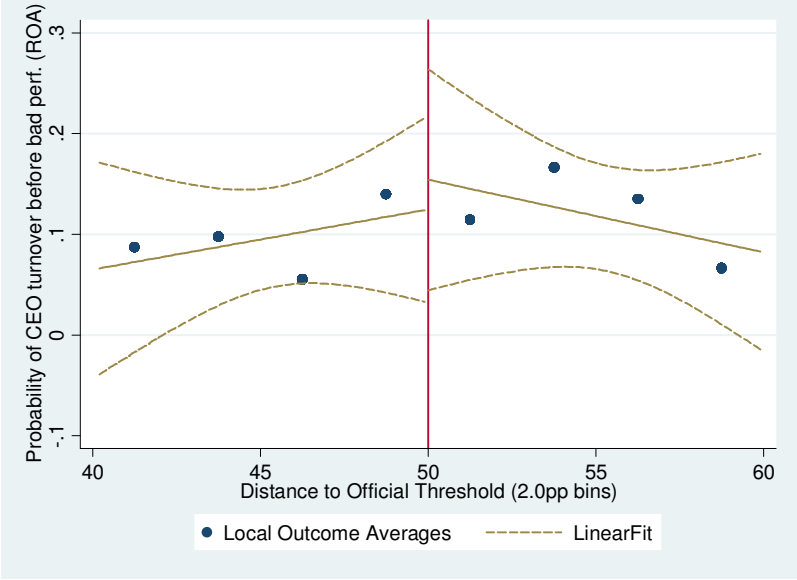
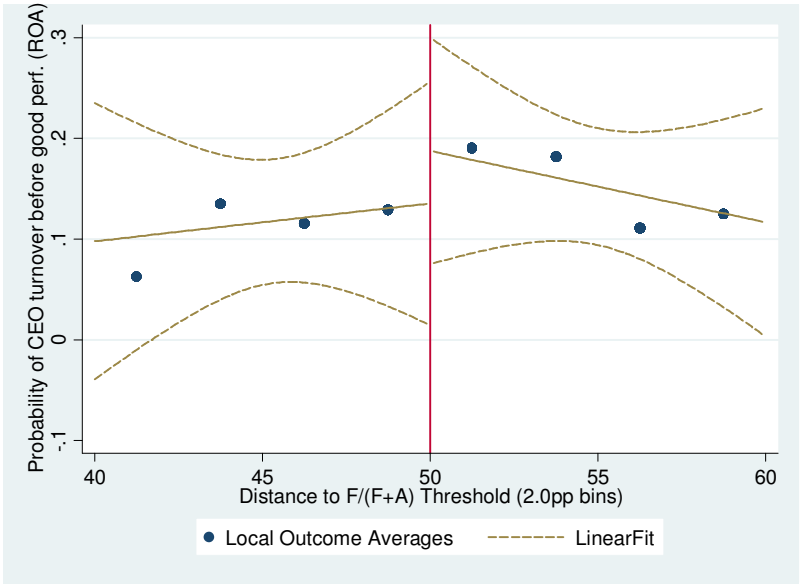
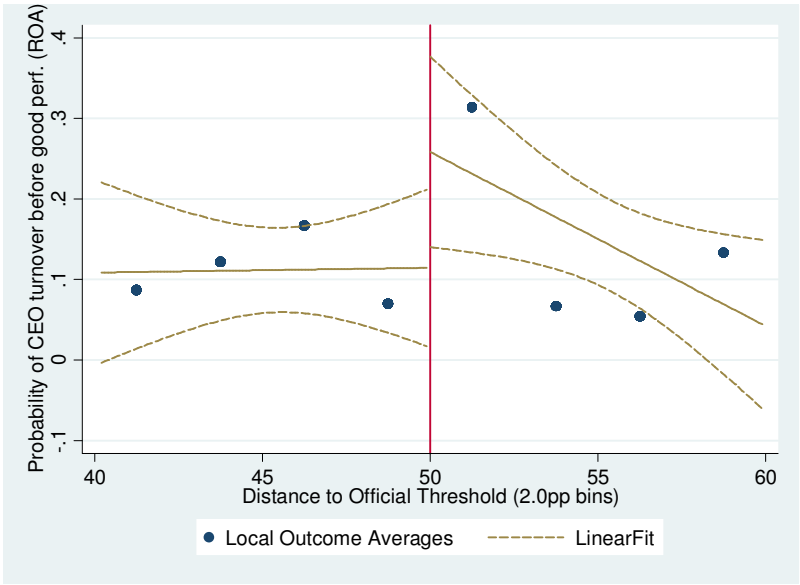


Figure 10: Passing a Governance Proposal Does Not Increase Likelihood of a CEO Turnover Followed by Good Performance

Good performance after turnover means a increase in industry-and-performance-adjusted-ROA from one year before to three years after the turnover. Only turnovers announced less than two years after the shareholder meeting are considered. Only those proposals purporting to lift Eindex antitakeover provisions are considered. Proposals are grouped into two percentage-point bins: proposals that passed by between 0% and 2% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The first figure shows the results for proposals at the majority threshold (voting rule: For/(For+Against), the second figure the equivalent results at the official threshold. Source : ISS (1997-2010).





9 Tables

Table 1: Shareholder Proposals and Voting Rules

This table shows the distribution of E-index proposals and voting rules across time. Only those proposals purporting to lift E-index antitakeover provisions are considered. Shareholders can either vote for (F) or against (A) a proposal but they can also formally abstain (AB) or just not vote (NV). In early years, we do not observe the exact voting rule but the outcome at the majority threshold (F/(F+A)) and at the official threshold – this allows us to determine whether the voting rule is "F/(F+A") or "Unknown (not F/(F+A))". The last row calculates the fraction proposals that do not use the simple majority voting rule.

	Year														
	1997	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***Total***
Number of Proposals	46	55	89	85	87	100	135	97	71	92	70	64	60	45	**1096**
Voting Rules															
F/(F+A)	12	20	39	26	38	33	57	39	26	36	31	18	16	19	**410**
F/(F+A+AB)	0	0	0	27	27	36	55	51	34	50	32	40	39	21	**412**
F/(Outstanding)	0	0	0	5	4	12	9	5	8	4	7	4	5	5	**68**
Unknown (not F/(F+A))	34	35	50	27	18	19	14	2	4	2	0	0	0	0	**205**
% not F/(F+A)	74%	64%	56%	69%	56%	67%	58%	60%	64%	61%	55%	71%	73%	58%	**63%**

Table 2: Voting rule: Corporate Charter vs. State Rule

This table shows the distribution of voting rules across states in corporations. Only those proposals purporting to lift E-index antitakeover provisions are considered. Shareholders can either vote for (F) or against (A) a proposal but they can also formally abstain (AB) or just not vote (NV). The corporate law on state level suggests a voting rule but companies can deviate and choose a different one in their corporate charters. The last two rows calculate the number (percentage) of these deviations.

		State rule		
Corporate rule		***F+A***	***F+A+AB***	**Total**
	F+A	112	162	**274**
	F+A+AB	32	381	**413**
	Outstanding	17	51	**68**
	Total	**161**	**594**	**755**
	Deviations #	49	213	
	Deviations in %	31%	36%	

Table 3: Passing Rates and Contested Votes

This table shows the fraction of proposals that pass the official threshold and the majority threshold across time. Only those proposals purporting to lift E-index antitakeover provisions are considered. The "official threshold" is the threshold based on the official voting rule that is defined in the corporate charter. The majority threshold or "F/(F+A) threshold" is the threshold based on the F/(F+A) voting rule. Regression discontinuity design heavily relies on contested votes, i.e., voting outcomes close to the thresholds. (40,60) counts the number of proposals with voting results between 40% and 60% using the appropriate voting rule. (45,55) counts the number of proposals with voting results between 45% and 55% using the appropriate voting rule.

	Year														
	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*Total*
Implemented	8%	10%	10%	9%	12%	26%	46%	44%	57%	36%	37%	25%	48%	56%	29%
Official Threshold															
Passing rate	36%	33%	39%	53%	60%	66%	76%	74%	82%	69%	61%	75%	76%	86%	64%
Implemented|passing	20%	29%	19%	17%	17%	32%	53%	60%	69%	50%	50%	42%	75%	74%	43%
(40,60)	21	24	45	43	48	44	59	27	21	27	15	23	13	11	422
(45,55)	12	13	30	31	24	22	24	11	5	10	7	9	6	6	209
F/(F+A) threshold															
Passing rate	43%	36%	49%	65%	64%	75%	82%	78%	83%	74%	63%	76%	81%	86%	70%
Implemented|passing	16%	26%	15%	14%	15%	27%	54%	56%	68%	50%	50%	39%	74%	74%	40%
(40,60)	23	26	45	39	47	37	51	25	21	24	12	17	11	10	389
(45,55)	14	14	31	27	27	18	21	12	4	7	5	7	5	5	196

Table 4: Shareholder Meeting Statistics

Definition of variables is in the Appendix. Source: ISS, ExecuComp, CRSP, Compustat (1997-2012).

	mean	sd	p25	p50	p75	N
Age	56.93	6.04	53.00	57.00	61.00	1094
Tenure	5.68	6.23	1.74	3.75	7.56	1077
Total compensation (k$)	8692.76	11712.81	2295.61	5288.40	10796.12	1086
Market cap (M$)	17794.65	30486.63	1932.31	7263.59	18490.99	1092
Tobin's Q	1.65	1.12	1.05	1.28	1.79	1092
Vote share F/(F+A)	58.48	18.11	47.00	59.40	71.74	1094
Vote share official	56.57	18.15	44.50	57.40	69.10	1094
CAR[0,0] meeting	0.16%	2.82%	-0.96%	-0.01%	1.17%	1086
Implementation	28.86%	45.34%				835
Bad turnover (negative CAR)	7.40%	26.20%				1094
Bad turnover (well performing before)	10.88%	31.15%				1094
Bad turnover (bad performing after)	9.87%	29.84%				1094
Good turnover (positive CAR	12.80%	33.42%				1094
Good turnover (badly performing before)	10.51%	30.68%				1094
Good turnover (well performing after)	11.52%	31.94%				1094

Table 5: Internal and External Validity of the Vote Discontinuity Quasi-Experiment

The first two columns describe the averages of variables of interest first in the whole sample of meetings and then in the sample of proposals voted with less than a 3-point margin relative to the 50% threshold. The last four columns present the treatment effects of passing a proposal at the majority threshold that one obtains after an OLS regression of the outcome titled on the leftmost column on a dummy for passage of the proposal according to the majority threshold and a polynomial of the vote share obtained by the proposal. Age and tenure are the age and the tenure of the CEO at the date of the meeting, Compensation is the compensation of the CEO in the year before the meeting, Market cap is is the market capitalization of the firm at the end of the year before the meeting, Tobin's Q is the market cap plus book debt over book value of assets at the end of the year before the meeting, E-index is the entrenchment index of the firm in the end of the year before the meeting. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, ExecuComp, Compustat (1997-2010).).

Statistic	Average Levels		Treatment Effect of Passing Proposal (Majority Threshold)			
Threshold	**Whole Sample**	**Abs(Vote) < 3%**	**Whole Sample**	**Whole Sample**	**Abs(Vote)<10**	**Abs(vote)<5**
Age	56.776	57.252	0.503	1.202	1.157	1.532
	(0.257)	(0.736)	(0.334)	(0.733)	(0.767)	(0.933)
Tenure	5.894	6.219	-0.687*	-0.348	0.443	-0.876
	(0.299)	(0.793)	(0.393)	(0.824)	(0.842)	(0.959)
Log(Compensation)	8.495	8.411	-0.01	-0.031	-0.001	-0.009
	(0.057)	(0.113)	(0.079)	(0.133)	(0.145)	(0.179)
Log(Market cap)	8.684	8.875	-0.109	0.271	-0.022	-0.31
	(0.095)	(0.200)	(0.114)	(0.234)	(0.260)	(0.305)
Tobin's Q	1.671	1.827	-0.044	0.535	0.315	0.54
	(0.064)	(0.202)	(0.062)	(0.334)	(0.288)	(0.352)
E-index	2.8	2.649	0.359***	-0.199	0.066	0.13
	(0.072)	(0.156)	(0.097)	(0.162)	(0.209)	(0.250)
Polynomial Degree	-	-	0	4	1	0
Obs	1085	139	1085	1085	362	139

Table 6: The Effect of Passing Governance Proposals on the Firm Value - Announcement Returns

These columns present the treatment effects of passing an E-index-related proposal that one obtains after an OLS regression of the abnormal announcement return on a dummy for passage of the proposal of the respective threshold and a polynomial of the vote share obtained by the proposal. The "official threshold" is the threshold based on the official voting rule that is defined in the corporate charter. The majority threshold or "F/(F+A) threshold" is the threshold based on the F/(F+A) voting rule. Abnormal returns are measured using the market model on the day of the meeting in which a proposal is put to the vote. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

Threshold	Whole Sample	Whole Sample	Abs(vote)<10	Abs(vote)<5
F/(F+A)	0.007**	0.014	0.008	0.010
	(0.003)	(0.009)	(0.008)	(0.008)
Official	-0.009***	-0.013	-0.017***	-0.011*
	(0.003)	(0.010)	(0.006)	(0.006)
Polynomial degree	0	4	1	0
Obs	601	601	168	164

Table 7: The Effect of Passing Governance Proposals on Proposal Implementation

These columns present the treatment effects of passing an E-index-related proposal that one obtains after an OLS regression of an implementation dummy on abnormal announcement return on a dummy for passage of the proposal of the respective threshold and a polynomial of the vote share obtained by the proposal. The "official threshold" is the threshold based on the official voting rule that is defined in the corporate charter. The majority threshold or "F/(F+A) threshold" is the threshold based on the F/(F+A) voting rule. The implementation dummy is a dummy variable that is equal to 1 if the firm has implemented the proposal within two years after the shareholder meeting. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

Threshold	**Whole Sample**	**Whole Sample**	**Abs(vote)<10**	**Abs(vote)<5**
F/(F+A)	-0.039	-0.189**	-0.075	0.060
	(0.045)	(0.085)	(0.063)	(0.047)
Official	0.259***	0.132	0.267***	0.260***
	(0.049)	(0.133)	(0.089)	(0.071)
Polynomial degree	0	4	1	0
Obs	469	469	161	161

Table 8: The Effect of Passing Governance Proposals on Future Director Elections

These columns present the treatment effects of passing an E-index-related proposal that one obtains after an OLS regression of the logarithm of the percentage of director votes withheld during the next general assembly on a dummy for passage of the proposal of the respective threshold and a polynomial of the vote share obtained by the proposal. The "official threshold" is the threshold based on the official voting rule that is defined in the corporate charter. The majority threshold or "F/(F+A) threshold" is the threshold based on the F/(F+A) voting rule. The implementation dummy is a dummy variable that is equal to 1 if the firm has implemented the proposal within two years after the shareholder meeting. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (2003-2012).

Threshold	Whole Sample	Whole Sample	Abs(vote)<10	Abs(vote)<5
F/(F+A)	0.343	-0.326	0.492	0.690**
	(0.222)	(0.354)	(0.455)	(0.335)
Official	-0.126	-0.153	-0.494	-0.288
	(0.212)	(0.418)	(0.548)	(0.356)
Polynomial degree	0	4	1	0
Obs	338	338	82	55

Table 9: Passing a Governance Proposal Does Not Increase Likelihood of a CEO Turnover Followed by Good Performance

These columns present the treatment effects of passing an E-index-related proposal that one obtains after an OLS regression of the outcome titled on the leftmost column on a dummy for passage of the proposal of the respective threshold and a polynomial of the vote share obtained by the proposal. The "official threshold" is the threshold based on the official voting rule that is defined in the corporate charter. The majority threshold or "F/(F+A) threshold" is the threshold based on the F/(F+A) voting rule. Turnover is a dummy variable that is equal to one if there is a CEO turnover in the next 2 years following the meeting. Turnover below/above x% is a dummy variable that is equal to one if there is a a CEO turnover in the next 2 years following the meeting and the CAR[0,1] at the announcement date of the turnover is below/above x%. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

	Threshold	Whole Sample	Whole Sample	Abs(vote)<10	Abs(vote)<5
Negative CAR	**F/(F+A)**	0.076	0.202**	0.201**	0.077
		(0.059)	(0.088)	(0.100)	(0.098)
	Official	-0.050	0.122	0.044	0.056
		(0.051)	(0.116)	(0.077)	(0.092)
Well performing before	**F/(F+A)**	0.050	0.168	0.160	0.071
		(0.059)	(0.106)	(0.113)	(0.093)
	Official	-0.010	0.059	0.110	0.048
		(0.053)	(0.110)	(0.084)	(0.086)
Bad performing after	**F/(F+A)**	0.061	0.174*	0.177	0.088
		(0.058)	(0.095)	(0.111)	(0.090)
	Official	-0.015	-0.030	-0.023	-0.015
		(0.051)	(0.081)	(0.061)	(0.079)
	Polynomial degree	0	4	1	0
	Obs	605	605	168	165

Table 10: Passing a Governance Proposal Does Not Increase Likelihood of a CEO Turnover Followed by Good Performance

These columns present the treatment effects of passing an E-index-related proposal that one obtains after an OLS regression of the outcome titled on the leftmost column on a dummy for passage of the proposal of the respective threshold and a polynomial of the vote share obtained by the proposal. The "official threshold" is the threshold based on the official voting rule that is defined in the corporate charter. The majority threshold or "F/(F+A) threshold" is the threshold based on the F/(F+A) voting rule. Turnover is a dummy variable that is equal to one if there is a CEO turnover in the next 2 years following the meeting. Turnover below/above x% is a dummy variable that is equal to one if there is a a CEO turnover in the next 2 years following the meeting and the CAR[0,1] at the announcement date of the turnover is below/above x%. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

	Threshold	Whole Sample	Whole Sample	Abs(vote)<10	Abs(vote)<5
Positive CAR	**F/(F+A)**	0.053	-0.072	-0.017	0.053
		(0.051)	(0.052)	(0.041)	(0.074)
	Official	-0.033	0.062	0.112*	-0.046
		(0.057)	(0.083)	-0.065	(0.085)
Badly performing before	**F/(F+A)**	0.053	-0.058	-0.007	0.036
		(0.051)	(0.056)	(0.036)	(0.082)
	Official	-0.050	0.165	0.084	0.001
		(0.057)	(0.116)	(0.062)	(0.091)
Well performing after	**F/(F+A)**	0.042	-0.065	-0.024	0.019
		(0.051)	(0.057)	(0.046)	(0.084)
	Official	-0.046	0.254**	0.218***	0.064
		(0.056)	(0.120)	(0.078)	(0.084)
	Polynomial degree	0	4	1	0
	Obs	605	605	168	165

10 Appendix: List of Variables

Variable Name	Description	Database
Passing	Dummy for when a proposal reaches 50% of votes	ISS
Vote Share For Proposal	Percentage of votes for proposal over votes for plus votes against proposal	ISS
Individual Proposer	The shareholder submitting the proposal is an individual or a family	ISS
Experience of the Proposer	Number of proposals made prior to the meeting in other firms by the shareholder submitting the current proposal	ISS
Turnover	Dummy for when a turnover occurs in the two years following meeting	Factiva
Turnover below -2%	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below -2%	Factiva + CRSP
Turnover below -1%	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below -1%	Factiva + CRSP
Turnover below 0%	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below 0%	Factiva + CRSP
Turnover above 0%	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] above 0%	Factiva + CRSP
Turnover below -2%, [-5,+5] window	Dummy for when a turnover occurs in the two years following meeting, with a CAR[-5,+5] below -2%	Factiva + CRSP
Turnover below -2%, 4-year horizon	Dummy for when a turnover occurs in the four years following meeting, with a CAR[0,+1] below -2%	Factiva + CRSP
Turnover, declining industry ROA before	Dummy for when a turnover occurs in the two years following meeting, with a previous decline in industry-and-performance-adjusted ROA	Factiva + Compustat
Turnover, increasing industry ROA before	Dummy for when a turnover occurs in the two years following meeting, with a previous improvement in industry-and-performance-adjusted ROA	Factiva + Compustat
Turnover declining industry ROA after	Dummy for when a turnover occurs in the two years following meeting, and is followed by a decline in industry-and-performance-adjusted ROA	Factiva + Compustat
Turnover, increasing industry ROA after	Dummy for when a turnover occurs in the two years following meeting, and is followed by an improvement in industry-and-performance-adjusted ROA	Factiva + Compustat
Turnover, below 2%, forced	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below -2%, and classified as forced using the procedure in Parrino (1997)	Factiva + CRSP

Turnover, below 2%, voluntary	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below -2%, and not classified as forced using the procedure in Parrino (1997)	Factiva + CRSP
CAR[0,0] meeting	CAR[0,0] for meeting day (Market Model, Value-weighted)	CRSP
CAR[-2,-2] turnover	CAR[-2,-2] on turnover announcement (Market Model, Value-weighted)	CRSP
CAR[-1,-1] turnover	CAR[-1,-1] on turnover announcement (Market Model, Value-weighted)	CRSP
CAR[0,0] turnover	CAR[0,0] on turnover announcement (Market Model, Value-weighted)	CRSP
CAR[1,1] turnover	CAR[1,1] on turnover announcement (Market Model, Value-weighted)	CRSP
CAR[0,1] turnover	CAR[0,1] on turnover announcement (Market Model, Value-weighted)	CRSP
CAR[-20,-1] turnover	CAR[-20,-1] on turnover announcement (Market Model, Value-weighted)	CRSP
CAR[2,20] turnover	CAR[2,20] on turnover announcement (Market Model, Value-weighted)	
Age	Age of incumbent CEO at the time of the meeting	Execucomp
Tenure	Tenure of incumbent CEO at the time of the meeting	Execucomp
Age at turnover	Age of incumbent CEO at the time of his departure	Execucomp
Tenure at turnover	Tenure of incumbent CEO at the time of his departure	Execucomp
Finds New CEO Position	Dummy for whether departing CEO finds new CEO position in Execucomp firm after turnover	Execucomp
Log(Total compensation)	Logarithm of total compensation of CEO at end of the year before the meeting	Execucomp
Log(Market cap)	Logarithm of market cap at end of the year before the meeting	Compustat
Tobin's Q	(Market Cap + Total Debt)/Assets at end of the year before the meeting	Compustat
Total compensation	total compensation of CEO at end of the year before the meeting	Execucomp
Market cap	market capitalization at end of the year before the meeting Intangible	Compustat
Intangibles	Assets/Total Assets at end of the year before the meeting R & D	Compustat
E-index	E-index is the entrenchment index of the firm in the end of the year before the meeting	ISS