

# Management (of) Proposals\*

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## ABSTRACT

We study factors that motivate executives to put up new management proposals for shareholder voting and examine whether the voting process is unbiased. Using shareholder voting records from 2003 to 2015, we find that firms with tighter short-selling constraints and better recent performance launch more management proposals. Further, there is evidence of manipulation of the voting outcomes by management as the frequency of proposals receiving votes slightly above the passing threshold is three times higher than those slightly below. The strategic behavior by firm management is more pronounced for special meetings, firms with low institutional ownership and less independent boards, and for proposals with a negative ISS recommendation. We identify new mechanisms by which executives are able to use their real-time vote information to influence the outcome, such as meeting adjournment and selective campaigning. Finally, our results suggest that passing of a marginal management proposal does not create value for the shareholders.

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Corporate voting is one important way in which shareholders can voice their opinions and exert influence over the decisions of firm management (Edmans and Holderness (2017), McCahery, Sautner, and Starks (2016), and Appel, Gormley, and Keim (2016)). Much of shareholder voting takes place on proposals that are brought up by management, although there are some shareholder proposals as well. For what kinds of issues does the management go to its shareholders? Do managers ask for shareholder approval of major initiatives only when their firms are doing well and there is no discontent with the current management? Or are management proposals initiated as a strategic response to shareholder unrest and are half measures that aim to placate unhappy shareholders? Further, given the binding nature of management proposals and many tools management can use to influence the voting outcome, a natural question is whether the voting process is unbiased. In this paper, we address these questions by analyzing shareholder voting records on 26,981 management proposals during the period 2003 to 2015.

Our first finding is that managers opportunistically choose to hold the shareholder vote following good firm performance. There are at least two reasons why high realized returns may shift the voting outcome in management favor. First, Aggarwal, Saffi, and Sturgess (2015) find that firms with poor performance are subject to more frequent recalls of shares by institutional investors, often with the goal to vote against management. Second, for many types of proposals, Institutional Shareholder Services (ISS) is more likely to issue a positive recommendation if the shareholder return was high relative to some benchmark. Since prior research unambiguously shows that recommendations by proxy advisors have a significant effect on the shareholder support (see, e.g., Iliev and Lowry (2015), Ertimur, Ferri, and Oesch (2013) and Malenko and Shen (2016)), securing a positive ISS recommendation is valuable for management. We find that a one standard deviation increase in the previous year stock return translates into approximately a 7.3% increase in the number of

management proposals, with a higher sensitivity for compensation-related proposals.

Because higher stock returns may also proxy for better investment opportunities and thus for a greater firm's need to hold vote on many issues, we also examine the setting provided by the Regulation SHO experiment conducted by the SEC for a group of randomly selected Russell 3,000 firms from May 2, 2005 to July 6, 2007. We find that during the experiment which eased the short-selling constraints for pilot firms, management of these firms launched significantly fewer proposals, particularly those proposals that were related to compensation policies. Because pilot firms were chosen randomly, this evidence cannot be attributed to changes in firm investment opportunities. Instead, it suggests that when negative information is more easily impounded in firm stock prices (e.g., Miller (1977), Hong and Stein (2003)), management prefers not to risk asking for a shareholder vote.

Our next line of inquiry lies in analyzing whether firm management manipulates the voting outcome. Consistent with prior economics literature, we refer to any strategic behavior by firm management to influence the voting outcome in its favor as manipulation. Because voting on most management proposals is binding, management has a clear incentive to make their proposals pass. Further, as indicated by Kahan and Rock (2008), firm management in the United States has an exclusive right to see the real-time vote information and therefore has an advantage over firm investors. In this sense, shareholder voting on management proposals is akin to the card game between two players, where one player (management) can perfectly see the cards of the other party (shareholders) and adjust the strategy. This has important implications because prior research often finds that firms perform worse when the power of shareholders to influence outcomes through voting is curtailed (Yermack (2010)).

In practice, management can use multiple tactics to affect the voting outcome, such as dynamically changing the record dates, adjourning the proposal to be voted on at a

later date, acquiring more shares for their personal portfolios (Fos and Jiang (2015)), selectively withdrawing proposals that are headed for a defeat and bringing them up later, lobbying specific shareholders in the hope to influence their votes,<sup>1</sup> soliciting additional votes from retail investors who tend to vote pro-management, and asking institutional investors with business ties to the firm to vote favorably on the proposal (Cvijanovic, Dasgupta, and Zachariadis (2016)). There are also other managerial decisions that can affect the voting outcome, such as whether to employ the services of a professional proxy solicitation firm (Young, Millar, and Glezen (1993)), how and when to deliver the proxy materials to registered owners (Geoffroy (2018)), when to call for polls closing, which tallying procedures to use, and how to reconcile the discrepancies in vote counts (Kahan and Rock (2008)).

To analyze whether there is any manipulation of voting outcomes, we focus on the closely contested management proposals. If management does not influence the voting process, we would expect the density of proposals to be continuous around the passing threshold. This is because the exact voting outcome is unknown at the time when proposals are initially put on the agenda, so that the management cannot choose to bring up only those proposals that will win by a small margin. Therefore, if we find that management proposals are significantly more likely to win by a small margin rather than lose, this would indicate that the management is able to influence or manipulate the voting outcome ex post. Graphical evidence indicates that there is a sharp increase in the density of proposals around the passing threshold, with 896 proposals passing by less 5% and 213 failing by less than 5%. Using the formal econometric tests developed by McCrary (2008) and Cattaneo, Jansson, and Ma (2017), we confirm that the drop in proposal density is significantly

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<sup>1</sup>For example, commonly used proxy solicitation firms, such as Morrow & Co. LLC and Georgeson, Inc., charge a flat fee to assist with the distribution of proxy materials plus a fee of \$4.50 to \$6.50 for each phone call made to a stockholder.

different from zero. There is systematic sorting of proposals around the cutoff point, with proposals non-randomly selecting into the group of proposals that pass by a small margin.

We next examine different categories of management proposals and find that the discontinuity is greater for proposals brought up on special meetings. These results are in line with findings by Kalay, Karakaş, and Pant (2014), who observe that the value of corporate vote is higher for special meetings. The evidence of manipulation is also stronger for firms with less independent boards, lower institutional ownership and analyst coverage, which suggests that external and internal firm governance affect the ability of management to influence the voting outcome in their favor. Finally, by comparing proposals across different agendas, we observe that the discontinuity is greater for proposals related to share issuance, executive compensation, and strategic initiatives, such as M&As.

While our evidence is consistent with managers being able to affect the voting outcome, one alternative explanation is that, after observing the preliminary vote information, managers withdraw proposals that are unlikely to pass. Indeed, approximately 7.8% of all management proposals are withdrawn in our sample. However, withdrawals explain only a small part of the discontinuity around the passing threshold. First, almost one half of withdrawn proposals have agenda “Other Business” and are withdrawn simply because there is no other business to vote on. Second, the higher frequencies of proposal withdrawals for particular agendas do not coincide with greater density discontinuities in the data. For example, the size of discontinuity is twice as large for proposals with share issuance agenda than for those with governance agenda. Nevertheless, we observe exactly the opposite pattern for withdrawn proposals, with 9.8% of governance and only 5.2% of share issuance proposals withdrawn by management. Further, the discontinuity in proposal density around the passing threshold is also present for shareholder proposals that cannot be withdrawn by management (Bach and Metzger (2017)).<sup>2</sup>

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<sup>2</sup>Our focus is on management proposals, which, unlike shareholder proposals, are binding. We confirm

Third, we follow the public economics literature on bunching developed by Kleven and Waseem (2013) and Kleven (2016) and calculate the bunching and missing mass of proposals around the passing threshold relative to the smooth counterfactual distribution. We find that in the -5% to +5% range around the passing threshold, approximately 13.8% of proposals are bunching above the threshold and 20.7% of proposals represent the missing mass below the threshold. If unsuccessful proposals are withdrawn by the firm and management does not influence the voting outcome in any other way, we would expect to see only the missing mass, but no bunching. To the extent that we observe both, proposal withdrawals cannot explain away the discontinuity. At the same time, the fact that the missing mass is larger than the bunching mass suggests that proposal withdrawals explain some part of the missing mass of proposals.

We next examine the mechanisms by which the management achieves its desired voting outcomes.<sup>3</sup> For example, one way in which management can influence the voting on a particular proposal is adjourning the meeting to a later date. This procedure is legal if management proposal to “Adjourn Meeting” is approved by shareholders. For example, when Jarden Corporation held its annual meeting on May 28, 2009, shareholders were asked to vote on director elections, ratification of auditors, approval of a new stock compensation plan, and meeting adjournment or postponement thereof. While the first two proposals and the meeting adjournment were passed on this day, the voting on the new compensation plan was adjourned until June 4, which gave management more time to convince shareholders to change their votes and solicit votes from investors who did not vote. Notably, the compensation plan eventually passed on June 4 by less than 0.3% margin. We find that

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the results of Bach and Metzger (2017) also hold in our sample and discuss the differences between the two papers in the literature review section.

<sup>3</sup>We focus on legal mechanisms because they are more readily observable to researchers. If there were any illegal manipulation taking place, it is unlikely that the involved parties would want to leave the trail of incriminating evidence.

this case is not isolated. In fact, the discontinuity in proposal density is approximately two times larger if there is meeting adjournment.

Another way in which executives can gain an edge in corporate voting is by selective campaigning and sending the solicitation material to shareholders shortly before the vote. For example, when NetApp, Inc. struggled to secure shareholder support for repricing its employee stock options in 2009, the company management sent correspondence to all shareholders arguing in favor of repricing and was able to narrowly pass the plan. Indeed, many firms admit that they send the additional solicitation materials to shareholders after reviewing the preliminary vote information. We find that such solicitation is effective for an average firm in our sample. Specifically, the discontinuity in proposal density is significantly sharper for firms that filed an additional definite proxy document DEFA14A after the proxy filing date.<sup>4</sup> Interestingly, we also find that when one or several large shareholders directly communicate with all other shareholders by means of filing forms PX14A6G with the SEC, such communication significantly decreases managerial advantage in passing its proposals.<sup>5</sup>

As a final point, we argue it is highly unlikely that management selectively brings up only those proposals that will win by a small margin. First, proposals are put up on average 40 days before the meeting, and it is difficult to predict how shareholders will vote more than a month later. Second, the fact that management sometimes withdraws its own proposals and creates an option to adjourn the meeting suggest that management faces significant uncertainty regarding future shareholder voting. Finally, anecdotal evidence that hired proxy solicitation firms go to a great length in trying to find how shareholders may potentially vote by analyzing how they voted on similar issues in the past is also suggestive that precise information is difficult to come by at the time of proposal initiations.<sup>6</sup>

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<sup>4</sup>Note that we exclude any DEFA14A forms filed on the same day as the proxy statement itself because such forms are often used to indicate the proxy dissemination method (see Geoffroy (2018)).

<sup>5</sup>Nevertheless, perhaps because of onerous reporting requirements, this type of communication is used very infrequently by shareholders (in 1% of proposals).

<sup>6</sup>See “Computershare’s Georgeson unit resolves U.S. fraud probe for \$4.5 million,” *Reuters*, November

Given the high pass rate of management proposals and the ability of management to manipulate the voting outcome, a natural question is whether these proposals are beneficial for the shareholders. For example, it could be that management is better informed about the true costs and benefits of the proposal and influences the voting outcome only to satisfy the regulatory requirement and to advance the interests of shareholders. An alternative view is that management pushes through mostly unpopular initiatives that involve self-dealing, expropriate certain groups of shareholders, or increase board entrenchment. Finally, management could try to forcefully pass proposals because of overconfidence or difference of opinion with the investors.

Turning to value implications of management proposals, we examine the market reaction to narrow wins and losses of management proposals. Of course, given evidence of significant manipulation of the running variable in our sample, we cannot interpret narrow wins and losses as if they are random around the cutoff. Nevertheless, when a proposal narrowly passes, this can lead to the updating of the probability of passing in only one direction – upwards. Therefore, to the extent that proposal passing is not perfectly anticipated, the direction of the price reaction to narrow wins and losses is informative about the value of a proposal (see, e.g., Gerard, Rokkanen, and Rothe (2015) and Lee and Lemieux (2010) for identification with RDD with a manipulated running variable). Our results show that a narrow loss of a management proposal is associated with a positive abnormal return of approximately 1.5% while passing is associated with a small negative return. Thus, our results suggest that, at least on the margin, management proposals do not create value for the shareholders.

The remainder of this paper is organized as follows. Section I offers a brief literature overview. Section II describes the sample construction and presents summary statistics.



Section III reports findings on the determinants of the number and type of management proposals. Section IV presents evidence on the manipulation of the voting outcomes by firm management and discusses value implications. The last section concludes.

## I. Literature Review

Our paper contributes to the corporate governance literature. Most papers in this area focus on nonbinding shareholder proposals. By measuring the market reaction to vote on governance proposals that pass or fail by a small margin, Cūnat, Gíne, and Guadalupe (2012, 2016) show that shareholder proposals create firm value and can improve long-term firm profitability.<sup>7</sup> Gillan and Starks (2000) find that the stock market reaction to shareholder proposals and investor support vary systematically across sponsor identity.

Shareholder voting also has a significant effect on firm policies. For example, Cheng, Hong, and Shue (2016) document that firms with failed shareholder proposals experience significantly faster growth in spending on corporate social responsibility. Similarly, Ferri and Sandino (2009) and Ertimur, Ferri, and Oesch (2013) show that firms that were a target of shareholder proposals were more likely to adopt option expensing and to decrease CEO pay. In contrast, Armstrong, Gow, and Larcker (2013) argue that shareholder voting on compensation plans has little effect on future compensation policies.

Our paper is also related to the literature on the value of corporate vote (see Adams and Ferreira (2008) for a review). Christoffersen, Geczy, Musto, and Reed (2007) were among the first to document an active market for corporate votes around record dates, but did not find significant changes in stock specialness. Aggarwal, Saffi, and Sturgess (2015) also use the setting of the securities lending market and find that institutional investors frequently

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<sup>7</sup>However, Matsusaka, Ozbas, and Yi (2017) find that the market also reacts positively when the SEC permits a challenged proposal to be omitted from the proxy, suggesting that the challenged proposals are value-destroying.

recall their shares before record dates to vote against management. However, Cvijanovic, Dasgupta, and Zachariadis (2016) show that company managers may use business ties with mutual funds to gain additional support on contested proposals. Using option prices, Kalay, Karakaş, and Pant (2014) estimate the market value of the shareholders' voting rights and show that it is higher for special meetings, proposals of higher-ranked agenda, and for voting on M&As.

The two papers that are closest to ours is Listokin (2008) and Bach and Metzger (2017). In particular, Listokin (2008) uses data on management proposals between 1997 and 2004 and documents that significantly more proposals receive support just above the 50% threshold than just below. He concludes that the mechanism by which management influences voters is unclear and does not analyze heterogeneity in incentives and ability of management to manipulate the voting outcome. Further, as Listokin (2008) admits, the patterns he documents may be partially driven by the fact that registered brokers, who are easy targets for lobbying by managers, had the authority to vote uninstructed shares held in 'street name' on behalf of their clients. Prior to 2003, but not after, the broker voting authority applied to issuances of new equity up to a limit of 5% of outstanding shares, which frequently included the funding for equity-based compensation plans (Maug and Rydqvist (2009)). Our study is not affected by this issue since our sample is post-2003. Finally, unlike us, Listokin (2008) does not study factors that motivate management to put up proposals for a vote and does not examine value implications.

In a related paper, Bach and Metzger (2017) study 4,442 shareholder proposals and document significant "vote rigging" by management. In contrast, we focus on management proposals, which differ along several important dimensions. First, unlike shareholder proposals which do not have to be implemented following their passing, most of management proposals are binding. For example, Ertimur, Ferri, and Stubben (2010) estimate

that only 31% of all shareholder proposals that pass are implemented. Further, from a theory perspective, shareholder votes may be less informative to management if proposals are nonbinding (Levit and Malenko (2011)). Second, to the extent that management proposals pursue different agendas (with much less focus on corporate governance issues), management may have a different incentive to manipulate the outcome.<sup>8</sup> Third, management has discretion when to put its proposal up for a vote, how to present it to shareholders, and can also withdraw the proposal if preliminary results indicate that the shareholder support is insufficient. The magnitude of density discontinuity we document for management proposals is more than three times larger than that for shareholder proposals, indicating potentially that management cares more about passing its own proposals than failing shareholder-proposals. Finally, we identify new mechanisms by which the management is able to make their proposals pass, such as meeting adjournment and selective campaigning by means of DEFA14A.

More generally, our evidence on manipulation of corporate voting suggests that the voting outcomes of the shareholder meetings may not always be viewed as reliable expressions of the general will by the shareholders. Thus, our results suggest that “voice” may not always be an efficient way to implement corporate governance and give more prominence to other corporate governance mechanisms, such as the threat of “exit” (see, e.g., theoretical work by Admati and Pfleiderer (2009), Edmans (2009), Edmans and Manso (2011), and Dasgupta and Piacentino (2015)). Further, research in political science generally finds that voters’ perceptions of electoral fairness have significant effects on their attitude to elections and voting behavior (Blais (2000), Norris (2014)). For example, Birch (2010) and Norris (2014) document that individuals who hold reservations about fairness of electoral

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<sup>8</sup>For example, Buchanan, Netter, and Yang (2015) find that 46% of shareholder proposals are related to firms’ corporate governance practices, while we find that less than 12% of management proposals target similar agendas.

procedures are less likely to vote than individuals who perceive elections to be fair. Thus our results can help to inform the debate on quality of corporate voting more generally.

## II. Sample and Summary Statistics

### A. Sample Construction

We start with all management-sponsored proposals in ISS Voting Analytics database that were initiated by U.S. firms during the period 2003 to 2015.<sup>9</sup> Because we are interested in contested management proposals, we remove proposals with 0% and 1% vote requirements, as well as proposals with the following agenda items: elections of directors and committee members, appointments and ratification of auditors, acceptance of financial statements and statutory reports, and all proposals with “Adjourn Meeting” agendas).<sup>10</sup> Because holding a vote on Say-on-Pay proposals was required by the Dodd-Frank Act of 2010 and therefore these proposals became non-discretionary, we further remove proposals related to advisory votes on Say-on-Pay policies starting from 2010 (i.e., agendas with “advisory vote to ratify named executive officers’ compensation”, “advisory vote on say on pay frequency”, and “advisory vote on golden parachutes”). We also exclude meetings classified as “Court,” “Proxy Contest,” and “Bondholder”.

We focus on firms with a single class of shares because control-related issues may dominate voting dynamics for dual-class firms and also because in such cases it is difficult to obtain an accurate count of votes.<sup>11</sup> Specifically, for firms covered by ISS-Governance database, we remove all firm-years that are identified in the database as dual-class, and

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<sup>9</sup>From 2003 onward ISS Voting Analytics collected data on Russell 3,000 firms; the data post-2013 also includes other companies.

<sup>10</sup>Not all proposals in these categories are uncontested, but we remove the whole category to keep our analysis consistent.

<sup>11</sup>Although Voting Analytics typically records votes by different classes of stock as separate data entries, it does not specify to how many votes each share in class is entitled, and vote numbers are often missing for at least one share class.

for firms not covered by ISS-Governance we remove those firm-years that have a non-blank share class field (SHRCLS) in the CRSP monthly files (e.g., “A”). To make sure that we have not missed any dual-class firms, we also remove any firm-years where for any shareholder meeting we observe multiple entries for voting on the same ballot item number. We merge the baseline sample with accounting variables from COMPUSTAT, stock returns from the Center for Research in Securities Prices (CRSP), the information on the number of analysts following the stock from I/B/E/S, the institutional ownership data from the Thomson Reuters Institutional Holdings (13F), governance and board characteristics from ISS-Governance and ISS-Directors databases, and a list of Regulation SHO pilot stocks from the Securities and Exchange Commission.

For each proposal with a recorded vote outcome of “Pass” or “Fail” and non-missing information on the number of votes, we calculate the official vote percentage (*Vote %*). The voting base determines the denominator of this variable, with the distinction being made between shares that vote for, against, abstain from voting, are recorded as broker non-votes, and that are not present at the meeting. The total number of shares outstanding,  $N$ , can be written as  $F + A + AB + Nonvotes + Absentees$ , where  $F$  is the number of shares that vote “For,”  $A$  is the number of shares that vote “Against,”  $AB$  is the number of shares that abstain,  $Nonvotes$  is the number of shares that are present at the meeting but do not vote, and  $Absentees$  is the number of shares that are not present at the meeting.<sup>12</sup> If the voting base is shares outstanding, i.e., “Outstanding” or “Capital Represented” in the database, then  $Vote = \frac{F}{N}$ , where  $N$  is the number of shares outstanding reported in the Voting Analytics. If the base is “F+A” or “Votes Represented,” then  $Vote = \frac{F}{F+A}$ , and if the base is “F+A+AB”, then  $Vote = \frac{F}{F+A+AB}$ .

For each shareholder meeting, a quorum requirement has to be met before any busi-

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<sup>12</sup>In director elections, which we do not consider here, there is also another category “votes withheld.”

ness takes place. For purposes of quorum, broker non-votes and abstentions are typically counted as shares present at the meeting, so that voter turnout is  $Turnout = \frac{F+A+AB+Nonvotes}{N}$ . In most states, a quorum constitutes the presence of a majority of the shares entitled to vote in person or by proxy ( $Turnout > 50\%$ ), but some companies modify the default requirement in their charter documents.<sup>13</sup> Because Voting Analytics does not record the quorum requirement, we assume it is 50% for all meetings.<sup>14</sup>

To determine whether a given proposal passes, we first check that a quorum requirement was satisfied, then compare the official vote percentage with the vote requirement and assign “Pass” to those proposals where the official vote percentage is above the vote requirement, and “Fail” otherwise. There are 50 cases where the recorded outcome in Voting Analytics is “Fail” but our calculation yields “Pass” or where the recorded outcome in Voting Analytics is “Pass” but our calculation yields “Fail.” Because we want to minimize any data errors, we hand collect information for these cases on the number of votes and voting base from 8-K filings following the shareholder vote. We are able to obtain reliable information on 30 cases, and the remaining 20 cases we treat as missing. Finally, there are 14 cases, in which management recommends to vote against the proposal that it brings up for a vote.<sup>15</sup> To ease interpretation of results throughout, we remove these cases from the analysis. Overall, our proposal-level sample contains 26,981 unique proposals initiated by management of 5,316 unique firms.

Because we are interested in various techniques management can use to influence the vote outcome, including selective withdrawal of proposals that are unlikely to pass, we

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<sup>13</sup>Stock exchanges and state laws may also impose restrictions on the minimum quorum (e.g., 33.33% of the shares entitled to vote in Delaware).

<sup>14</sup>We also manually check that in a sample of proposals with close votes, less than 5% of proposals have a quorum requirement different from 50%.

<sup>15</sup>For example, management of Alaska Air Group brought up a proposal at the 2011 annual meeting to allow stockholders to act by a written consent and recommended to vote against the proposal. In 2010, a similar proposal was brought up by shareholders and was approved, and it appears that the Board hoped that the revote would reduce the support for the proposal.

also separately study a sample of withdrawn management proposals. We define withdrawn proposals as those that have a recorded vote outcome in Voting Analytics of “Withdraw” or “Not Disclosed.” For these proposals, it is not possible to calculate the official vote percentage. We have 2,281 of such proposals launched by 1,258 firms.

In addition to the proposal-level sample, we also create a firm-level sample, in which we aggregate the information from different meetings and proposals for the same firm and year. When there is more than one shareholder meeting in a calendar year, we assume that the first meeting date is the reference meeting date. Further, if a firm is present in Voting Analytics in a given year, but does not have a single management proposal (outside of excluded agendas and vote requirements), we assign zero proposals to such a firm. Our firm-level sample consists of 31,163 firm-year observations.

## **B. Summary Statistics**

Figure 1.A shows that the number of management proposals substantially increased over the sample period. For example, in 2003 there were only 1,661 management proposals, as compared to 2,770 in 2015.<sup>16</sup> This trend is also reflected in the number of closely contested management proposals, as measured by -10% to +10% from the vote requirement (Figure 1.B). Specifically, in 2003 there were 145 closely contested proposals, and in 2015 this number reached 268. It is also evident from the figure that management tends to win the majority of closely contested proposals.

In Panel A of Table 1 we present the summary statistics for the proposal-level sample. Out of 26,981 proposals, approximately 24.4% have the voting base defined by the firm’s shares outstanding, and these proposals tend to have a lower average vote percentage in favor of the proposal of 74.4%. In contrast, the proposals with the voting base “F+A”

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<sup>16</sup>Since Voting Analytics cover Russell 3,000 firms from 2003 to 2013, the trend cannot be attributed solely to different sample composition over time.

or “F+A+AB” are supported, on average, by 86.8% of shareholders. Most proposals in our sample (93.8%) are decided based on the majority rule, i.e., they have a 50% vote requirement, whereas the remaining 6.2% are decided based on supermajority (such as 66.7% vote requirement or higher).

We also split the management proposals by agenda, which we classify into five broad categories: compensation, governance, share issuance, strategic decisions, and other. Compensation proposals are mostly for the approval and modification of executive, employee, and director compensation plans, as well as for ratifying the executive compensation as part of the voluntary Say-on-Pay policies prior to the Dodd-Frank Act of 2010. Governance proposals relate to changes in firm governance structure, such as removal, addition, or modification of anti-takeover provisions, changes in the size of the board, or proposals that relate to proxy access. Share issuance proposals cover the approval of issuance of common or preferred stock, equity-linked securities, conversion of shares, increases in authorized common stock, authorizing new classes of shares, and other related items. Finally, strategic decisions category captures proposals that relate to mergers and acquisitions, reorganizations, liquidation, restructuring, spin-offs, and purchases or sales of assets. The three most common agendas are voting on the firm’s compensation plans, share issuance, and governance provisions. Notably, governance-related agendas constitute only 11.7% of all agendas of management proposals, as compared to approximately half of shareholder proposals with similar agendas (Buchanan, Netter, and Yang (2015)).

Notably, ISS issues a negative recommendation for 18.5% of all management proposals, indicating that many management proposals are not considered beneficial by ISS. The average voter turnout is 87.6% of outstanding shares in our sample, which is higher than 80% documented by Young, Millar, and Glezen (1993) for the earlier period. We find that voter turnout exceeds 50% for 99.6% of all management proposals. For 8.8% of cases, there is



a corresponding proposal to adjourn the meeting on the same ballot, which can be useful should the management decide that postponing vote is necessary. The proposals to “Adjourn Meeting” are almost universally opposed by ISS as they may give the management an opportunity to game the voting system. We find that such proposals nevertheless pass in approximately one half of the cases, so that for 3.8% of management proposals in our sample the management has an option to adjourn the meeting to a later date.

We also find that firms file the additional proxy documentation through DEFA14A forms in approximately 15.9% of shareholder meetings. Such filings often contain solicitation materials and additional information presented by the management about the merit of its proposals. In contrast, the communication by some large shareholders with the rest of shareholders, as evidenced through filings of PX14A6G forms, is very rare and happens only in 1% of shareholder meetings.

The average pass rate of management-sponsored proposals is high at 97.0%. However, this number is substantially lower than previously reported 98.5% by Maug and Rydqvist (2009) for the earlier period of 1994 to 2003, which may indicate that voting on management proposals became more highly contested over time. The average pass rate is also considerably lower for management proposals in which the voting base is all shares outstanding (91.7%), for proposals decided based on the supermajority rule (82.2%), and for proposals with governance-related agendas (89.3%).

In Panel B, we present the simple statistics for 2,281 withdrawn management proposals, including their breakdown by agenda, voting base, and vote requirements. Approximately 9.3% of withdrawn proposals have the voting base of all shares outstanding, which is significantly lower than the fraction of these type of proposals in the overall sample. Notably, 45.9% of withdrawn proposals have agendas classified as “Other” (most of them with agenda “Other Business”), which is more than ten times higher than the incidence of these

types of proposals in the general sample. Overall, from the summary statistics it appears that proposal withdrawals are non-random and that management is strategic with respect to which kind of proposals to withdraw before shareholder voting takes place.

Table 2 shows the summary statistics for the firm-level sample. On average, firms launch 0.68 management proposals during a calendar year, out of which 0.03 proposals are withdrawn by the management and 0.60 are ultimately won. Approximately 0.13 management proposals are opposed by ISS per year. The frequency of shareholder proposals launched in the previous calendar year is quite low compared to management proposals, with an average of 0.10 shareholder proposals per year, and shareholder proposals are also significantly less likely to pass relative to management proposals.

Because ISS Voting Analytics mostly spans Russell 3,000 firms, we observe that firms in our sample are large and profitable, with the average book value of assets of \$5.96 billion and the previous year's stock return of 15.7%. On average, these firms have 65.2% institutional ownership. We also observe that most firms in our sample are covered by security analysts, with the median firm having 6 analysts following its stock.

### **III. Determinants of Management Proposals**

#### **A. The Number of Management Proposals**

We start our analysis by examining the determinants of the number of management proposals. In Table 3, we present the results of the OLS regressions, in which the dependent variable is the number of management proposals initiated during the year. To understand the cross-sectional differences in proposal intensity, we first present the specification without firm fixed effects. There are more management proposals launched by larger and R&D-intensive firms, and by firms with a higher volatility of stock returns. These results suggest that the proposal intensity is linked to the operations side of the business. For

example, highly volatile firms may frequently need to change their strategy and as a result ask shareholders to hold vote on more issues. Management proposals are also positively related to the number of analysts covering the firm’s stock.

An important result from Table 3 is that the firm management launches more proposals following good firm performance.<sup>17</sup> For example, based on specification 2, a one standard deviation increase in the past one year stock return translates into a 7.3% increase in the number of management proposals. This relation also holds when we include firm fixed effects and is present in all specifications, including when we control for a firm’s corporate governance attributes. One potential interpretation is that to increase the probability of shareholder approval, management opportunistically asks for a vote only when the firm performs well. There are several reasons why such strategy may pay off for firm management. First, following good firm performance shareholders may be less discontent and consider management to be well-qualified to come up with new strategic initiatives. Second, for many types of proposals, ISS is more likely to issue “For” recommendation after a period of high stock returns. For example, Malenko and Shen (2016) show that for Say-on-Pay proposals, ISS uses a rule that is directly linked to the total shareholder return (TSR), but ISS policy to approve proposals following high TSR applies more widely than just to Say-on-Pay proposals. Third, Aggarwal, Saffi, and Sturgess (2015) examine the securities lending market and document that recalls of shares by institutional investors are more frequent after poor firm performance, and it is likely that institutional investors do so in order to vote against management.

We also find evidence that recent shareholder activism triggers more management proposals, even after controlling for firm fixed effects. When we include both a dummy for a shareholder proposal and a dummy for a shareholder proposal that was approved by the

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<sup>17</sup>We find that share issuance, strategic decisions, and compensation-related proposals are most sensitive to past returns, while there is no relation to returns for governance-related proposals (see Table A2).

majority of shareholders in the previous year, we see that it is the latter one that matters. Thus management is more likely to come up with its own proposals following investor support for shareholder-sponsored proposals. In Appendix, we report that it is primarily shareholder proposals that are related to corporate governance, such as declassification of the board, that translate into a higher management proposal intensity. Finally, an interesting observation from Table 3 is that firms with smaller and more independent boards launch fewer management proposals.

## **B. Easing of Short Selling Constraints: Regulation SHO**

Our findings that management proposals are more likely to be presented to shareholders after good past returns motivates us to examine whether launching of proposals is also affected by easing of short-selling constraints. The less stringent restrictions on short selling activities by investors could for example allow negative opinions to be more quickly reflected in stock prices (see, e.g., Miller (1977), Hong and Stein (2003), Allen, Morris, and Postlewaite (1993), and Harrison and Kreps (1978)).

On July 28, 2004, the Securities and Exchange Commission announced a new regulation governing short selling activities in equities – Regulation SHO. Under this program, the Russell 3,000 index constituents were ranked by the trading volume within each stock exchange. Every third stock was then designated as a pilot stock. From May 2, 2005 to July 6, 2007, pilot stocks were exempted from short-sale price tests, including the “tick test” for exchange-listed stocks that was in effect since 1938 and the “bid test” for NASDAQ National Market Stocks. This allowed investors to place short sale trades even when stock prices were declining. Several studies find that the regulation had a significant effect on the short-selling activity and the overall stock market quality (see, e.g., Diether, Lee, and Werner (2009), Grullon, Michenaud, and Weston (2015)), although there is some disagreement whether the regulation also affected the level of asset prices.

Since Regulation SHO effectively eased short selling constraints for a randomly picked subset of stocks, it allows us to examine the causal effects of short-selling restrictions on the likelihood of launching management proposals. We use similar empirical design to Grullon, Michenaud, and Weston (2015) and present the results of the difference-in-difference estimation in Table 4. The indicator variable “Reg SHO treatment” is equal to one from May 2, 2005 to July 6, 2007 for firms listed in the Russell 3,000 index (as of June 25, 2004) that were in the pilot list of stocks for Reg SHO experiment. This variable is also equal to one for all firms in the Russell 3,000 (as of June 25, 2004) after the end of experiment, and is equal to zero for all other Russell 3,000 firms.<sup>18</sup> The sample includes all shareholder meeting dates that take place between January 2003 to December 2009. Columns 1 and 2 show that relaxing the short selling constraints significantly reduced the number of proposals launched by firm management. The economic magnitude of this effect is sizeable and translates into an approximately 12.4% decrease in the number of proposals launched.

We next examine what kinds of proposals are more affected by the regulation. Based on the results in columns 3 to 10, we see that the drop in the total number of proposals is primarily driven by compensation- and governance-related proposals.

## IV. Manipulation of Voting Outcomes

Given our findings that management launches more proposals when the external pressure is low, it appears that management cares about the outcome of the vote. We therefore next analyze whether management also attempts to influence the outcome of the vote on its proposals.

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<sup>18</sup>In the appendix, we also present the results where the variable “Reg SHO treatment” is defined based on the date of the initial announcement by the SEC on July 28, 2004 rather than on the actual start of the experiment. The results are presented in Table A4 and are very similar to those reported in Table 4.

Kahan and Rock (2008) provide a detailed overview of the complex shareholder voting process in the United States and outline several practical issues that can significantly affect the voting outcome: (1) proxy materials do not arrive on time to registered owners; (2) some votes are not counted because of coding errors and early closing of polls; (3) surprise securities lending, short-selling, overvoting, and more generally, the wedge between being a beneficial owner and holding the voting rights. In practice, the firm management in the United States holds an advantage over other shareholders because it can see the preliminary vote results (often prior to the day of the vote) and can therefore deploy different tactics depending on the vote dynamics. There are several tools available to management, such as changing the record dates, buying more shares for personal portfolios shortly before the record dates, selectively withdrawing proposals that receive low shareholder support and bringing them up for a vote in the future (perhaps in more favorable conditions or with a slightly modified agenda), extensively campaigning with the hope of swaying some shareholders, soliciting additional votes from retail investors who tend to vote pro-management, adjourning the meeting with respect to proposals that do not get the sufficient support, and asking institutional investors with business ties to the firm to vote favorably on the proposal. There are also other managerial decisions that can affect the voting outcome (see, e.g., Kahan and Rock (2008)), such as how and when to deliver the proxy materials to registered owners, when to call for polls closing, and how to reconcile the discrepancies in vote counts (e.g., overvoting).

### **A. Density of Proposals Around the Passing Threshold**

Before examining the specific mechanisms that management can use to influence the voting outcomes, we turn to the analysis of the densities of management proposals around the passing threshold. If management launches its proposals in more favorable market conditions, we should expect to see that management proposals are on average more likely to

pass that not (e.g., as compared to shareholder proposals for which management cannot choose the timing or agenda). However, given that the meeting agenda is typically set weeks in advance of the vote (the average time between the record date and the shareholder meeting date is 53 days), it is unlikely that management has precise information on the shareholder support of the proposal at the time when it initially decides whether to bring it up. Thus, if management does not influence the voting process once the proposal is on the ballot, we should expect to see that the density of proposals is continuous around the passing threshold.

Figure 2.A displays the histogram of the number of management proposals with an outcome of “Pass” or “Fail.” For each proposal, we calculate the difference between the official vote percentage and the proposal-specific vote requirement needed for the proposal approval. We then allocate all proposals to 5% bins using the calculated difference and count the number of proposals in each bin. It is clear from the figure that management proposals have a significantly higher likelihood of passing than failing. More important, the density of proposals is not continuous around the passing threshold, as there are approximately 683 more proposals that pass by less than a 5% margin than proposals that fail by less than a 5% margin.

To further understand this gap in density, we use the econometric test developed by McCrary (2008). Figure 2.B displays fitted flexible polynomials to the probability density function of management proposals on each side of the passing threshold and also provides the corresponding confidence intervals. There is a sharp drop in proposal density around the passing threshold, with significantly more proposals just passing than just failing. It is also notable that the density of proposals is smooth at all other points of the distribution. Coupled with the fact that management recommends to vote “For” on all proposals in our sample and thus has a clear incentive to manipulate only in one direction, this evi-

dence indicates that management is able to influence the vote outcome around the passing threshold.

We next present a series of figures for different categories of management proposals, such as the type of the shareholder meeting the proposal is on, the minimum vote requirement needed for approval, the voting base, and the agenda of the proposal (see Figures 3 through 6). In Table 5, we also report the size of the discontinuity in density for each category of proposals and provide the related statistics for manipulation tests based on McCrary (2008). Table A3 in the appendix reports similar statistics based on a newly developed nonparametric density estimator by Cattaneo, Jansson, and Ma (2017), which provides an automatic correction for the boundary bias and does not require any data pre-binning or tuning parameters (other than bandwidth) to estimate the local densities.

In all samples of data we examine, there is systematic sorting of proposals around the cutoff point, with units non-randomly selecting into the group of proposals that pass by a small margin. The size of the discontinuity based on McCrary (2008), which is calculated as the logarithm of the ratio of the fitted densities on the right and the left of the passing threshold, is largest for special meetings, followed by proposals related to share issuance, proposals with executive and director compensation agendas, and those related to strategic firm decisions including M&As.<sup>19</sup> Our result that managers tend to manipulate the outcome of proposals that are brought at special meetings is consistent with the empirical results in Kalay, Karakaş, and Pant (2014), who estimate that the value of vote is higher for special meetings than for annual meetings. In addition, Kalay, Karakaş, and Pant (2014) also find that the voting premium increases around M&A decisions.

We also observe that the discontinuity is more pronounced for proposals with the voting base of all shares outstanding. This is likely attributed to the fact that for such proposals

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<sup>19</sup>Note that because the discontinuity estimate is measured as log difference (i.e., the ratio of densities), it does not always coincide with greater absolute difference in probability density function in figures.



any non-votes are essentially counted as the votes against management, so that boosting shareholder turnout can become a very effective tool for influencing the vote outcomes. In contrast, the lowest magnitude of discontinuity is observed for proposals that target removal of anti-takeover provisions, such as declassifying the corporate board or reducing the supermajority voting requirement. This may be attributed to the lower incentive of managers to manipulate such proposals, as at least some of them are launched because of pressure from shareholders.

## **B. Covariate Balance Tests**

To further assess the likelihood of manipulation of vote outcomes by managers, we examine whether the baseline covariates are balanced. If units are indeed randomized around the cutoff or the proposal passing threshold, then we should not expect proposals with certain characteristics to appear more or less frequently on either side of the passing threshold (other than by a mere chance). However, data rejects the assumption of randomization of proposals at the boundary (see Table 6). For example, we find that proposals made by smaller firms and proposals that receive a negative ISS recommendation are more likely to just cross the passing threshold. In contrast, proposals made by firms with larger analyst coverage, more independent boards, higher institutional ownership, and firms that were a target of shareholder proposal in the previous year are less likely to cross the passing threshold by a small margin. Overall, this evidence indicates that the distribution of proposals around the passing threshold is nonrandom, which further suggests that management behaves strategically in trying to pass certain types of proposals.

Our finding that proposals that receive a negative recommendation by the proxy advisor are more likely to get pushed above the passing threshold by the firm management suggests that proposal manipulation may be not completely benign and may not always be in the best interest of shareholders. This is also further reinforced by the fact that the

management manipulates significantly fewer proposals when external pressures are high (many analysts, high institutional ownership, shareholder activism).

## C. Mechanisms

An important question is how management is able to affect the voting outcome so precisely. While there are many potential mechanisms, here we analyze two: adjourning the meeting and providing the additional solicitation material to shareholders shortly before the vote. We also analyze whether communication by some shareholders with all fellow shareholders can decrease the management’s advantage in pushing its proposals through.

### C.1. Meeting Adjournment

An interesting feature of shareholder voting is that in some circumstances the firm’s management can choose to adjourn the meeting to a later date. There are sometimes perfectly good reasons for adjourning the meeting, such as not meeting the quorum requirements or allowing shareholders to gather more information about the prospective merger. What is perhaps peculiar is that a meeting can be adjourned with respect to some proposals and not the others. For example, management can pass right away the proposals that receive shareholder approval on the meeting date, and to adjourn the meeting with respect to other proposals that are not getting enough shareholder support.

In order for meeting adjournment to be legal, the firm management has to put up a separate proposal for such adjournment, and this proposal has to be approved by the majority of shareholders.<sup>20</sup> Since our data allows us to observe the presence of “Adjourn Meeting” proposals on the shareholder meeting agenda, we investigate whether firms with such proposals show a greater discontinuity in the approval of other management proposals. More specifically, for all management proposals that are being voted on a particular share-

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<sup>20</sup>In almost all cases, ISS recommends to vote against the approval to adjourn a meeting.

holder meeting, we create a dummy variable equal to one if there is “Adjourn Meeting” proposal present on agenda, and set it to zero otherwise. We then create a similar dummy that turns on only if there is “Adjourn Meeting” proposal on agenda that gets approved by shareholders. Finally, because there may be good reasons to put “Adjourn Meeting” proposal in place when shareholders vote on mergers as such proposals typically have the base of all shares outstanding and often require a larger passing threshold, we separately examine the meeting adjournment only for annual meetings.

The results are reported in Table 8. Notably, the discontinuity in the density of management proposals around the passing threshold is almost twice larger when there is an accompanying proposal to “Adjourn Meeting” than in the sample of meetings that cannot be adjourned to a later date. The difference in proposal density in the two samples is also significantly different from zero at the 5% level. Further, this difference becomes even more pronounced if we consider only meetings with passed “Adjourn Meeting” proposal or only annual meetings. Figure 11 also shows this last set of results graphically. Thus it appears that meeting adjournment and postponement of vote thereof can explain some discontinuity around the passing threshold.

## **C.2. Solicitation Material**

Another way in which management can affect the voting outcome in their favor is selective campaigning for proposals that become closely contested. For example, management can employ the services of a professional proxy solicitation firm, and such firm may then contact the voting shareholders. The expected expenses of such solicitation are sometimes voluntarily disclosed in the firm’s proxy statements and are paid out of a corporate budget. In many cases, the firms explicitly mention that they are going to spend more on solicitation in case the vote on some proposal becomes closely contested. Alternatively, management can send the additional correspondence about its proposals directly to the shareholders, in

which case an additional definitive document DEFA14A has to be filed with the SEC. We leverage this regulatory requirement and gather information on all DEFA14A forms filed by firms in our sample after the proxy filing date and not more than 60 days before the shareholder meeting.<sup>21</sup> Figure 12 presents the graphical evidence on the density of proposals around the passing threshold for firms that file DEFA14A forms before the shareholder meeting and for those that did not. The results of a McCrary (2008) manipulation test also reveal that there is indeed a significantly larger discontinuity in proposal density when management reaches out to its shareholders with additional information. Nevertheless, we observe that the discontinuity does not disappear when DEFA14A are not used and there is no meeting adjournment. Thus, our results imply that management has a potentially larger arsenal of tools to manage the meeting outcome.

### **C.3. Communication by Shareholders**

Can well-informed shareholders mitigate the bias in favor of management by reaching out to all fellow shareholders? In principle, they can, but the incentive to do so may be low because of free-rider problems and lack of precise information on how closely contested the proposal actually is. Unlike firm management, shareholders cannot see the real-time voting information and therefore face significant uncertainty about proposal passage. Shareholders can press their case to stockholders by sending written material and urging them to vote a particular way. If the interested shareholder chooses to do so and owns at least \$5 million in company stock, the shareholder must file a Notice of Exempt Solicitation (form PX14A6G) with the SEC no later than three days after a written solicitation is sent to security holders. We therefore collect all such forms filed with the SEC for firms in our

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<sup>21</sup>Our results are similar if we use 30 days instead of 60 days before the meeting as a cutoff. We exclude forms that are filed on the same day as the original proxy statement as these forms are often used to correct an error in the original proxy statement or to inform the shareholders about the proxy dissemination method.

sample and examine whether the ability of management to push its proposals through by a small margin is hindered by shareholder communication. We find that this is indeed the case. In fact, when there is a PX14A6G form filed by shareholders, there is no discontinuity around the passing threshold, suggesting that shareholders are effective at making the voting process more even (see Figure 13 and Table 7). However, we also observe that this form of communication is used very infrequently by shareholders, perhaps because of lack of information or onerous reporting requirements.

#### D. Counterfactual Density Function Estimation

We next evaluate the magnitude of proposal manipulation in the full sample by estimating how many proposals actually pass relative to a counterfactual smooth distribution. Specifically, we follow the bunching method for notches developed by Kleven and Waseem (2013) and summarized in Kleven (2016). In general, bunching design applies when the assignment variable is a direct choice of agents who face a jump in incentives at the specific threshold. By using bunching, we can elicit behavioral responses and estimate structural parameters. As applied to our setting, the underlying assumption is the smoothness of the counterfactual distribution of the vote tally around the passing vote requirement (i.e., the distribution has to be smooth in absence of any selective campaigning, manipulation, or other actions taken by management to affect the vote outcome).<sup>22</sup>

We fit a flexible polynomial to the observed distribution outside of area around the threshold. In particular, we first group proposals by the official vote tally in 1% bins indexed by  $i$  (e.g., bin 1 refers to proposals with the vote percentage from 0% to 0.99%,

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<sup>22</sup>As discussed in Kleven (2016), the two common threats to applying the bunching designs are: (1) the use of reference points by agents; and (2) the possibility that other policies change at the same threshold. Both of these situations seem unlikely in our setting. For example, the use of reference points by shareholders would imply that whenever shareholders see a closely contested vote, they for behavioral or other reasons prefer to vote pro-management. This seems unlikely, given that many investors recall their shares around record dates with the goal to vote against management (Aggarwal, Saffi, and Sturgess (2015)).

bin 2 to those from 1% to 1.99%, etc.). Using the whole sample, we then estimate the following regressions model

$$n_i = \sum_{j=0}^p \beta v_j z_i^j + \sum_{j=z_-}^{z_+} \gamma_j \mathbf{1}_{z_i=j} + \varepsilon_i, \quad (1)$$

where  $z_i$  are bin values,  $n_i$  is the number of proposals in bin  $i$ ,  $p$  is the order of the polynomial (we use  $p = 5$  and check the sensitivity of our estimates for other values of  $p$  from 3 to 7), and  $[z_-, z_+]$  refers to the excluded area around the vote requirement. In the base estimation, we exclude area in the range -10% to +10% of the vote requirement (e.g., 40% to 60% if vote requirement is 50%).<sup>23</sup> To generate the counterfactual distribution, we then calculate the fitted values from equation (1), but omitting the second term with indicator variables (i.e.,  $\hat{n}_i = \sum_{j=0}^p \hat{\beta}_j z_i^j$ ). Finally, we obtain the standard errors for estimates using a bootstrap procedure, in which we generate 500 distributions of the vote percentage by random resampling of the residuals from (1).

Figure 14 shows the counterfactual proposal distribution, and Table 8 reports the results of the estimation along with the degree of polynomials used and the excluded range. In the figure, there is clearly visible excess bunching and missing mass (hole) around the passing threshold. The excess bunching is estimated as the difference between the observed and counterfactual bin counts in the excluded range above the passing threshold,  $\sum_0^{z_+} (n_i - \hat{n}_i)$ . Likewise, missing mass is the difference between the observed and counterfactual bin counts in the excluded range below the passing threshold,  $-\sum_{z_-}^0 (n_i - \hat{n}_i)$ .

It is notable that outside of the excluded range, the counterfactual density function fits the actual distribution quite well, indicating that the estimation of the counterfactual density is reasonable. In the excluded range, there are approximately 266 bunching proposals (10.6%) and 379 missing proposals (15.2%) when we use the 5th degree polynomial to fit the data and the excluded range of (-10%, +10%) around the passing threshold. The

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<sup>23</sup>We check robustness of our results to -5% to +5% across polynomials from 3 to 7.

percentage of manipulated proposals becomes even higher (13.8% bunching and 20.7% missing mass), if we focus on the more narrow excluded range of  $(-5\%, +5\%)$ . Overall, our evidence indicates that management is able to influence the voting outcome on a significant fraction of proposals around the threshold. Without management manipulation of the voting outcome, many passed proposals in the closely contested range would have failed. The difference between missing mass and excess bunching that we observe can be attributed to proposal withdrawals by management. At the same time, the presence of significant bunching mass suggests that withdrawals alone cannot explain away the density discontinuity of management proposals.

## **E. Shareholder Proposals**

One clear way in which management can affect the voting outcome is the selective withdrawal of proposals that are headed for a defeat, which gives management an opportunity to bring them up for a vote at a later date. To understand whether withdrawals can fully explain the discontinuity around the passing threshold, we compare management and shareholder proposals. Since management cannot withdraw proposals sponsored by firm shareholders, but may be able to affect the voting outcome by other means (e.g., DEFA14A statements), presence of the discontinuity in density of shareholder proposals would indicate that withdrawals cannot be the sole mechanism through which management affects the voting outcome.

We therefore use information in ISS Voting Analytics on all shareholder-sponsored proposals with non-missing vote information and the passing threshold requirements over the period 2003 to 2015. We find 8,048 such shareholder proposals and estimate the manipulation test statistics of McCrary (2008) around the passing threshold. The results are reported in Table 9. Consistent with evidence in Bach and Metzger (2017) for a sample of 3,822 governance-related shareholder proposals, we find that there is a significant

discontinuity in the density of shareholder proposals, with substantially fewer shareholder proposals passing by a small margin, than failing. One implication of these results is that proposal withdrawals is not the only mechanism by which management can affect the voting outcome.

At the same time, we observe that the discontinuity in density is more than three times larger for management proposals. Partly, this may be attributed to the additional lever the management has to affect the outcome on its proposals, i.e., withdrawals, but it may also stem from other differences between the two types of proposals. Since shareholder proposals are advisory, management may have a weaker incentive to manipulate the outcome of such proposals. The incentive to manipulate may also differ because management and shareholder proposals target different agendas. Our results for management proposals in Table 5 show that agenda significantly matters for the degree of manipulation. To see whether this is also the case for shareholder proposals, we split them into two broad categories: (i) governance/proxy access and (ii) compensation, social/environmental, and other. We single out governance-related shareholder proposals because they are typically viewed as more important by the existing literature. Indeed, we find that the density discontinuity is only present for shareholder proposals that target governance issues, but not for other types of shareholder proposals.

## **F. Value Implications**

From the policy perspective, an important question is whether the ability of management to influence the voting outcome is creating or destroying shareholder value. For example, if management is better informed about the costs and benefits of the proposal, or if shareholders are passive and their approval is a mere formality needed to satisfy the regulatory requirement, manipulation of the voting outcomes by management can be value-creating. However, it is also possible that management proposals involve self-dealing, are structured



to expropriate certain groups of shareholders, or increase board entrenchment. To analyze value implications of management proposals, we focus on the returns to narrow passing or failing of these proposals. We keep only meeting dates with one close proposal since the interpretation of return reactions with multiple close proposals is ambiguous. Proposals that pass or fail by a wide margin should have been anticipated, and therefore are excluded from the analysis. Manipulation of the proposal outcomes also affects the anticipated probability of proposal passing. Nevertheless, when a proposal actually passes, this can lead to the updating of the probability of passing in only one direction – upwards. Similarly, when a proposal fails, it represents an update of the probability of passing in the downward direction. Therefore, if proposal win or loss is not perfectly anticipated by the market, we expect the prices to react. While the extent of the price reaction may be muted, due to partial anticipation, the direction of the price reaction is informative about how the market views the passing/failing of a proposal. Our results show that a narrow fail is associated with a positive abnormal return while passing is associated with a negative abnormal return. These returns are sizable but are not statistically significant for +/- 1% band around the passing threshold. We obtain the same qualitative and quantitative results for +/- 2% band and the positive market reaction, as well as the difference, is statistically significant. These results can have two interpretations. First, when the proposal fails narrowly and the market reacts positively, it could be because the manipulation techniques of the managers are not perfect and the market reacts to the failure to manipulate and make the proposal pass. Second, a narrowly failed proposal may reflect that the manager chose not to manipulate and the market reacts positively to such a revelation. In both interpretations, the positive market reaction to a narrow loss reflects that the market views proposal manipulation negatively.

## V. Conclusion

In this paper, we examine factors that motivate firm management to put up more management proposals on the shareholder meeting agenda and also whether management systematically manipulates the voting outcome on these proposals. We find that firms tend to ask for shareholder vote following good recent performance and also at times when it is more difficult for negative information to be impounded in stock prices because of tighter short-selling constraints. Shareholder activism can also trigger management proposals, especially if shareholders target governance issues.

We also find evidence of significant manipulation of voting outcomes by management as frequency of proposals receiving votes slightly above the passing threshold is much higher than those slightly below. This effect is stronger for firms with low institutional ownership and low analyst coverage, for proposals brought up on special meetings and related to share issuance or executive compensation. Based on the bunching methods and the analysis of proposal agendas, we conclude that the gap in proposal density cannot be explained by withdrawals of unsuccessful proposals shortly before the vote. We identify several mechanisms that executives use to get their proposals passed, such as adjourning the meeting to a later date and selective campaigning shortly before the meeting.

Overall, our evidence indicates that the high observed pass rate of management proposals is misleading and does not imply that vast majority of management proposals are beneficial for shareholders. Management opportunistically pushes through many bad proposals when firm performance is good and then also influences the voting outcome in its favor.

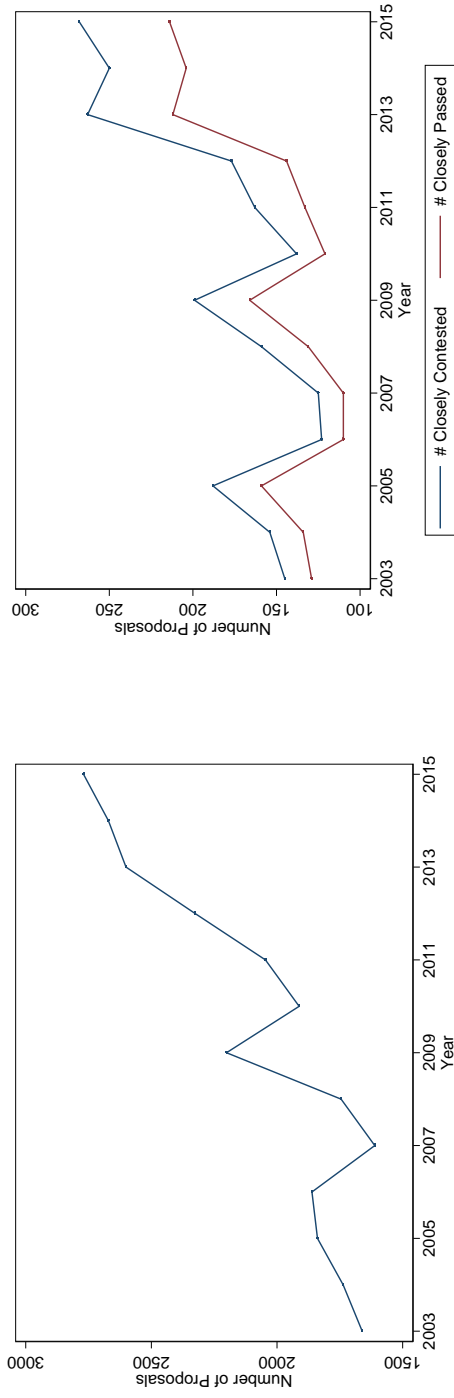
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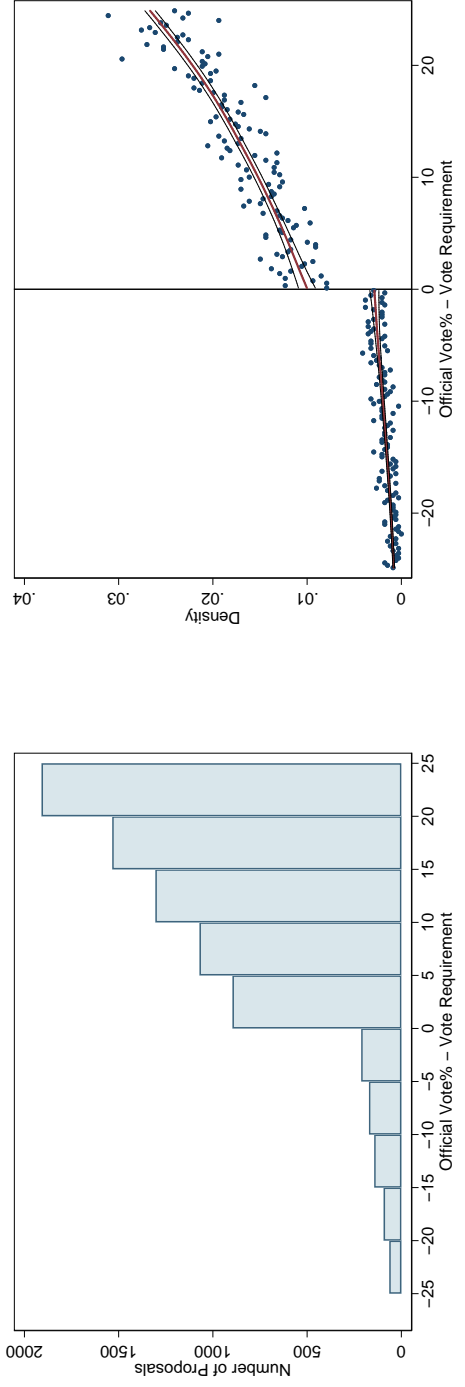
**Figure 1.** Management Proposals Launched and Won Over Time



Panel A: Number of Proposals Over Time

Panel B: Closely Contested ( $\pm 10\%$ ) Proposals Over Time

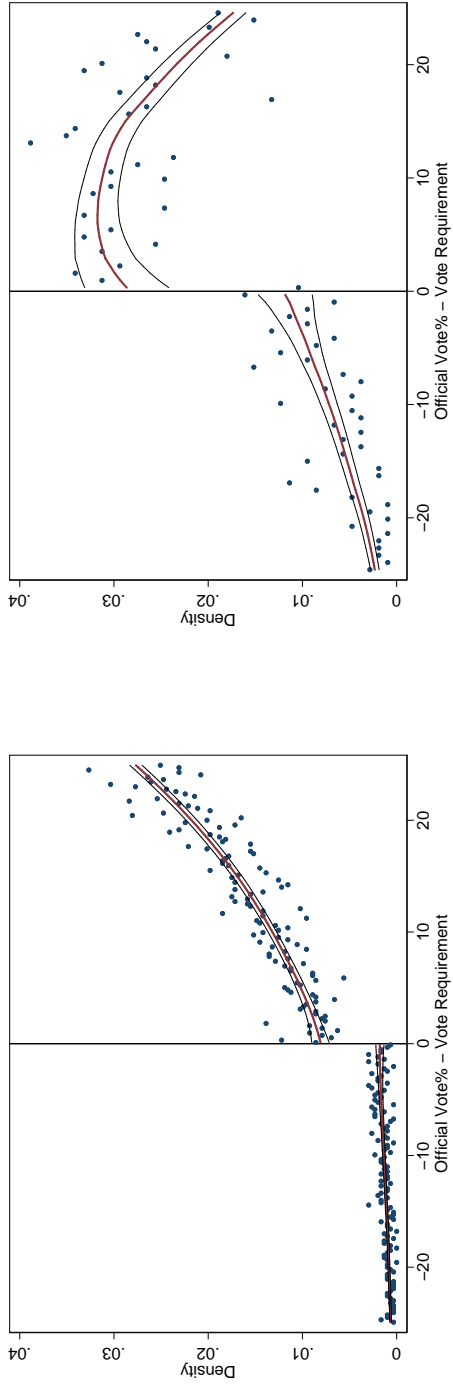
**Figure 2.** Density of Proposals Around the Passing Threshold



Panel A: Histogram of All Proposals

Panel B: Fitted Density of All Proposals

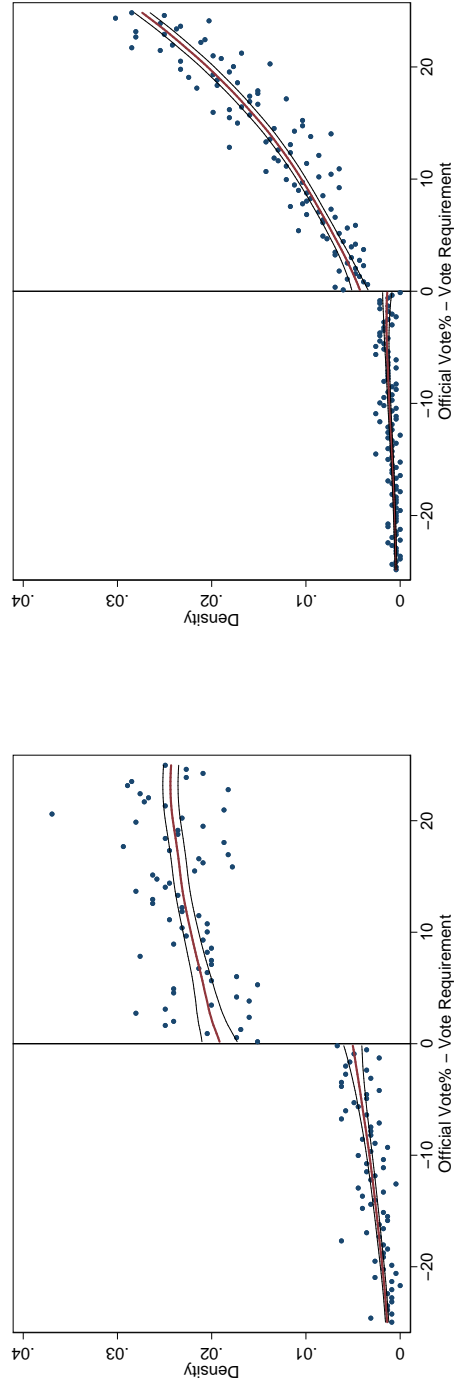
**Figure 3. Vote Requirement**



**Panel A: Majority Requirement**

**Panel B: Supermajority Requirement**

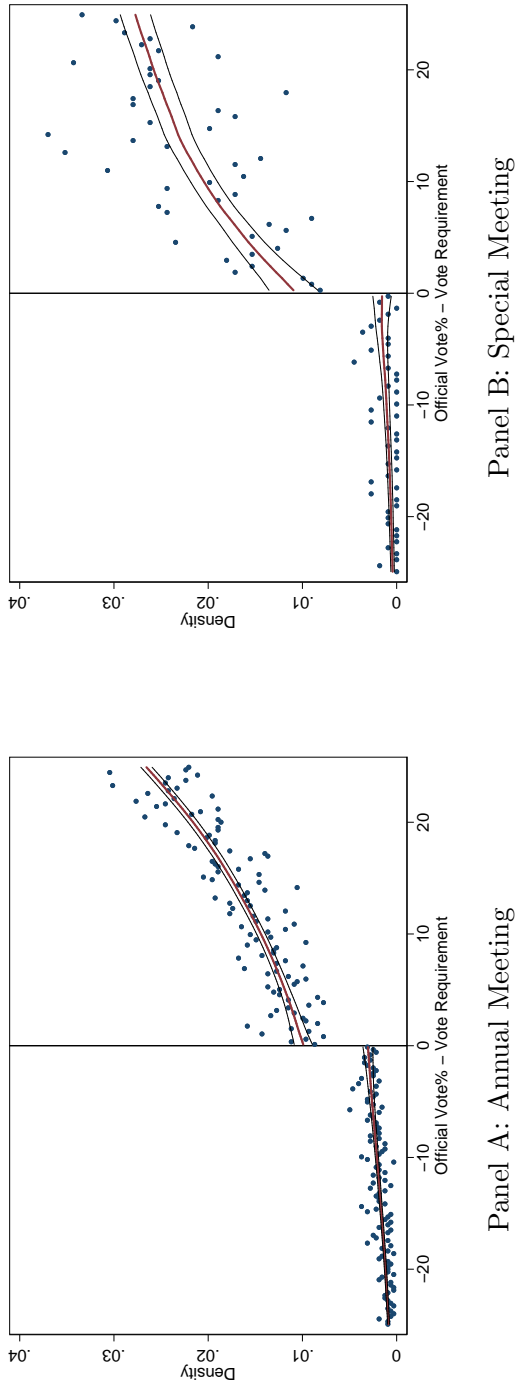
**Figure 4. Voting Base**



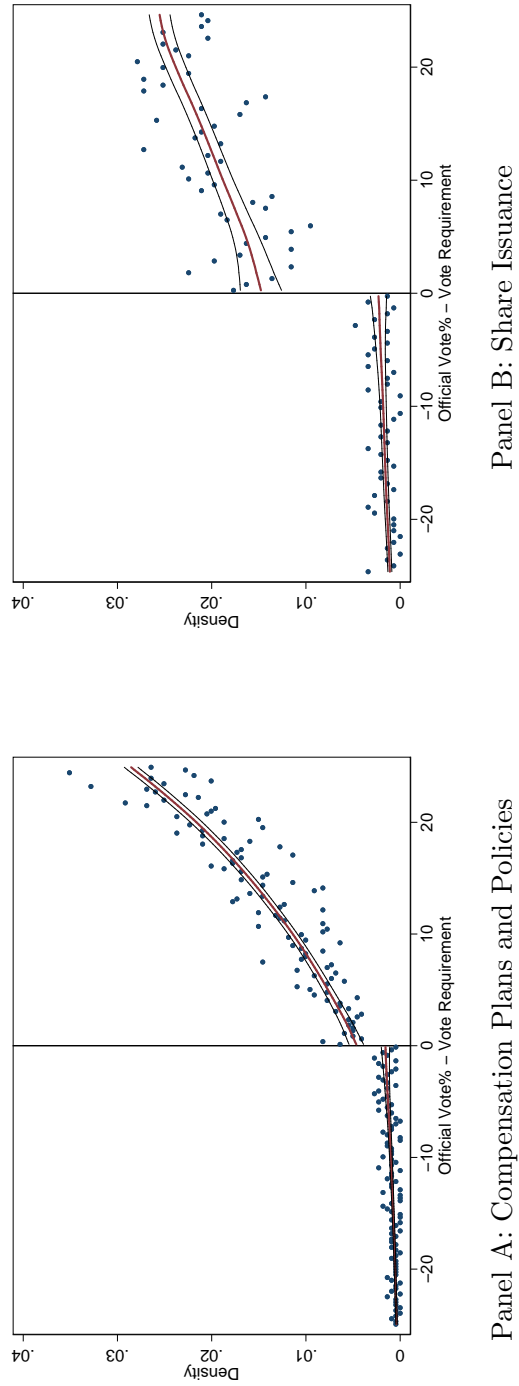
**Panel A: Shares Outstanding Base**

**Panel B: Votes Casts Base**

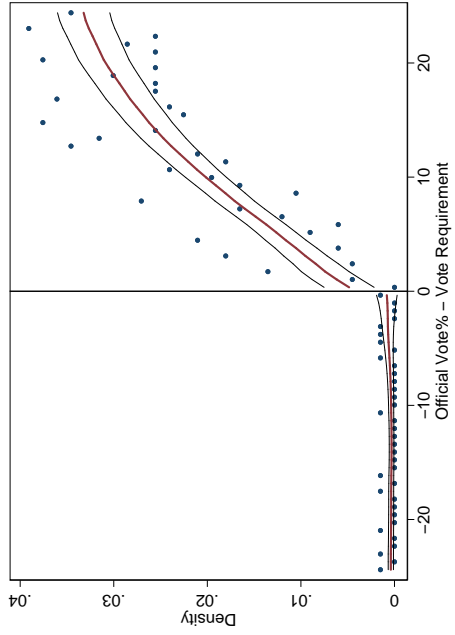
**Figure 5.** Type of Shareholder Meeting



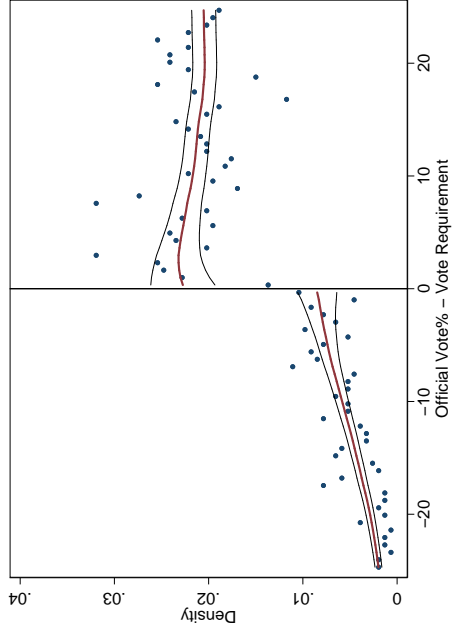
**Figure 6.** Proposal Agenda



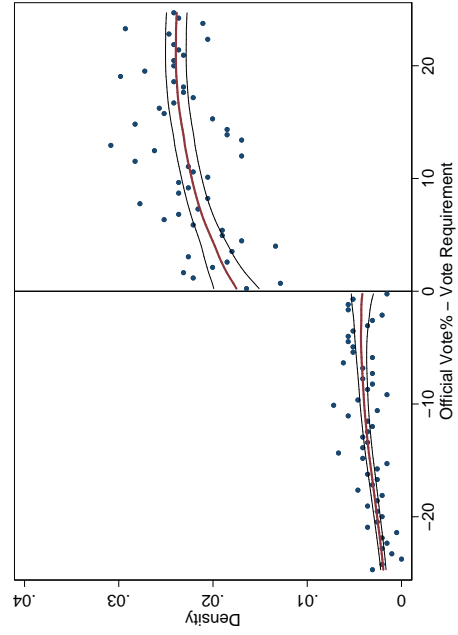




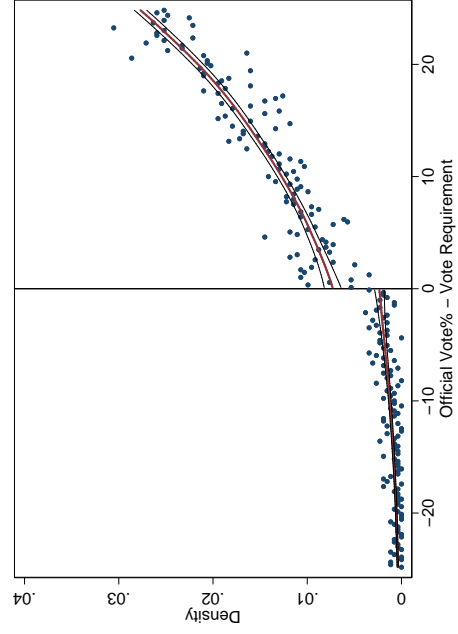
Panel D: Strategic Decisions



Panel C: Governance



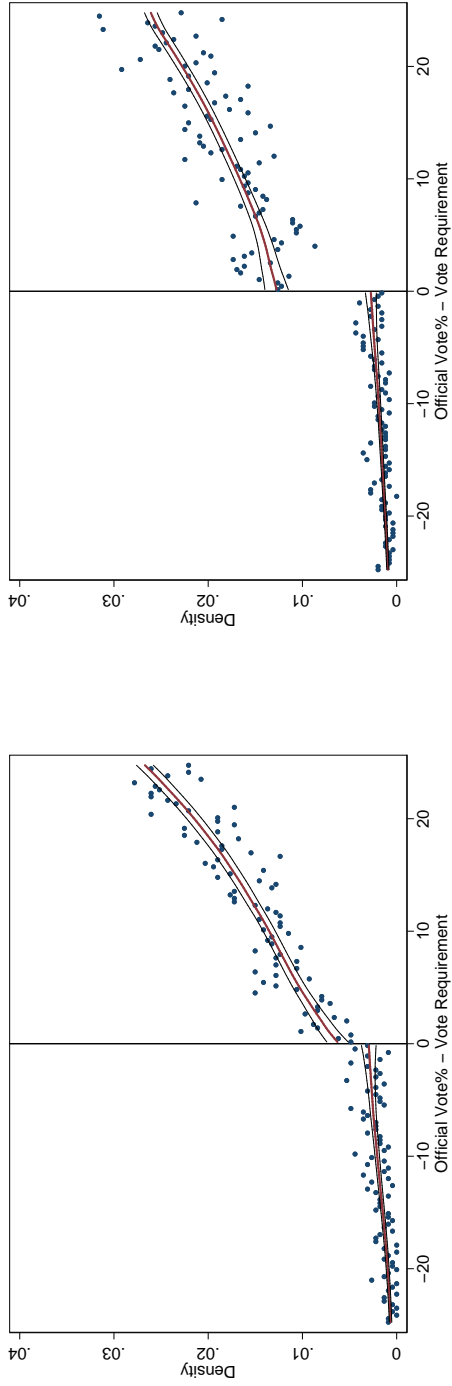
Panel B: ISS "Against" Recommendation



Panel A: ISS "For" Recommendation

Figure 7. ISS Recommendation

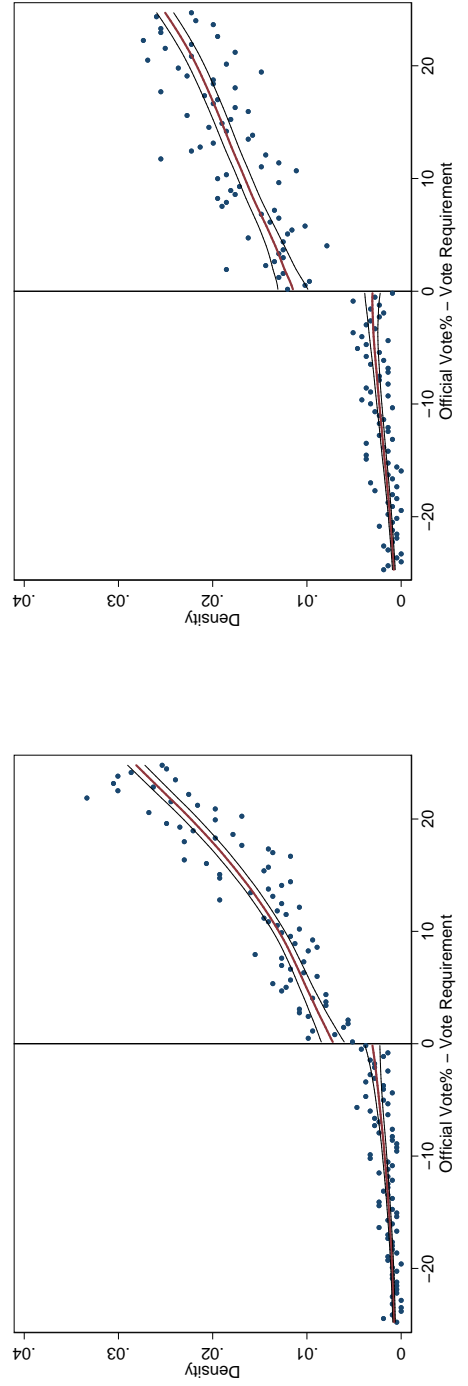
**Figure 8.** Number of Analysts



Panel A: High Number of Analysts

Panel B: Low Number of Analysts

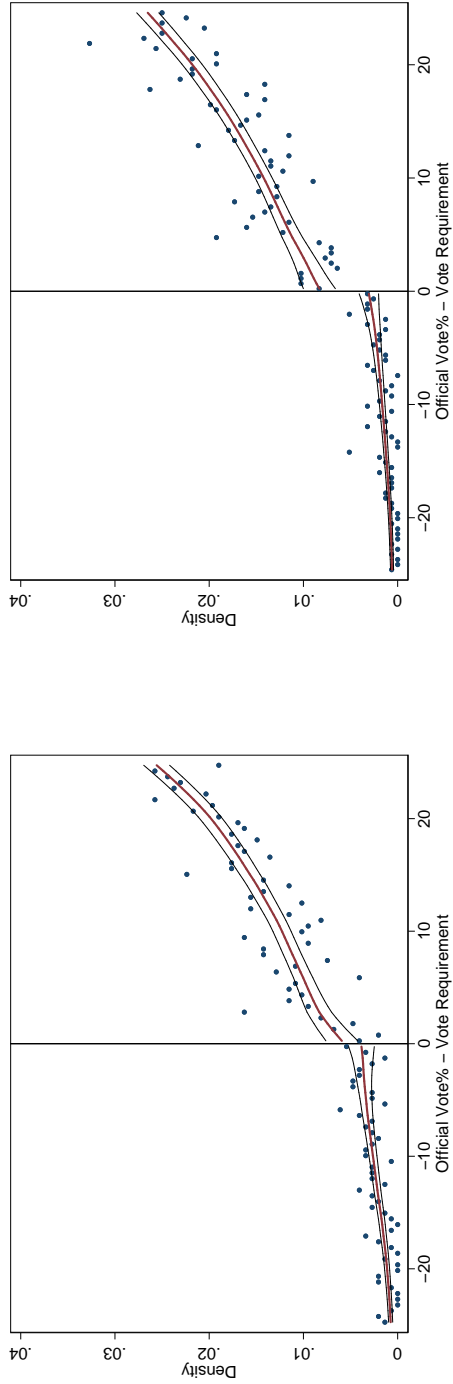
**Figure 9.** Institutional Ownership



Panel A: High Institutional Ownership

Panel B: Low Institutional Ownership

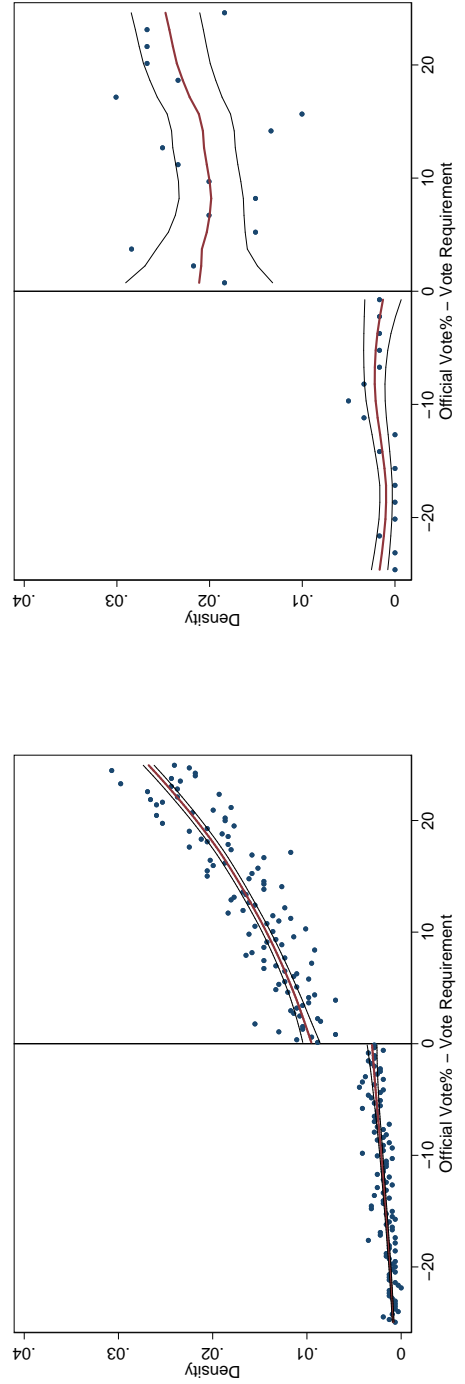
**Figure 10.** Board Independence



Panel A: High Board Independence

Panel B: Low Board Independence

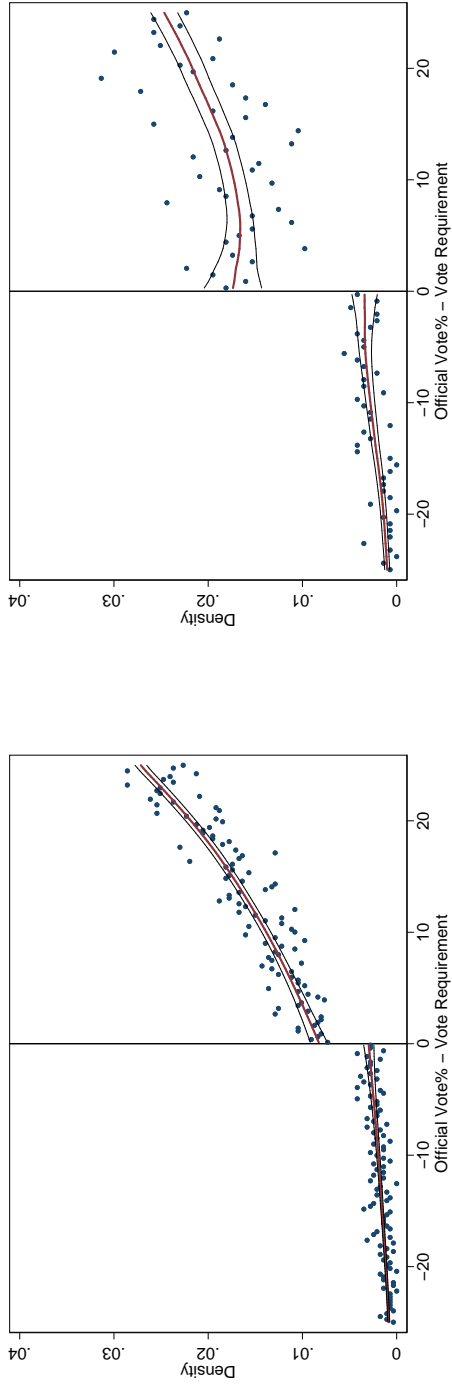
**Figure 11.** Mechanisms: Annual Meeting Adjournment



Panel A: No "Adjourn Annual Meeting" on Agenda

Panel B: "Adjourn Annual Meeting" on Agenda

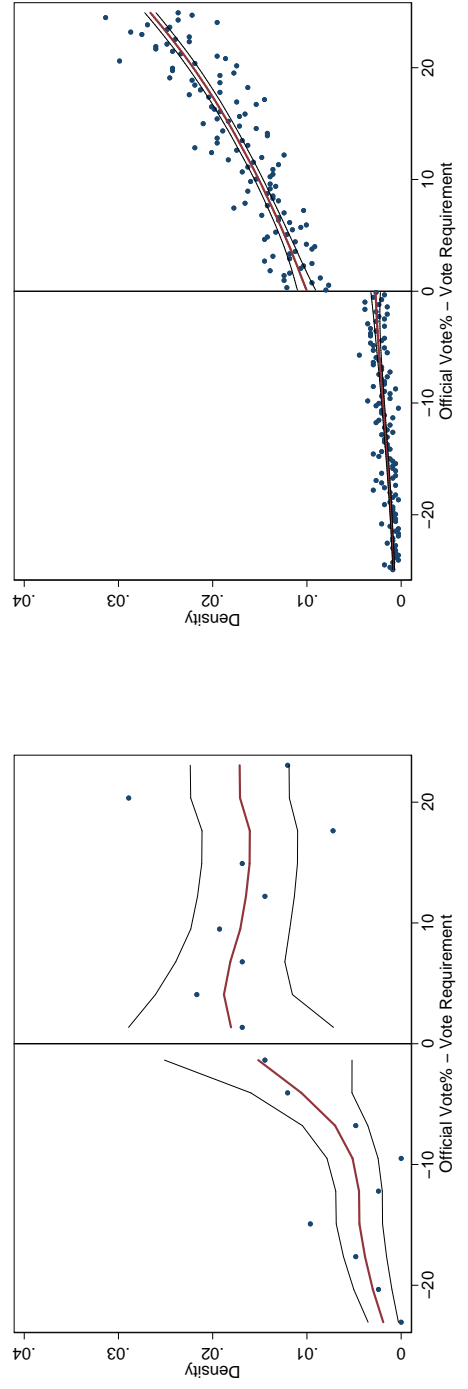
**Figure 12.** Mechanisms: Firm Providing Additional Materials through DEFA14A



Panel A: No DEFA14A Filed After the Proxy Date

Panel B: DEFA14A Filed After the Proxy Date

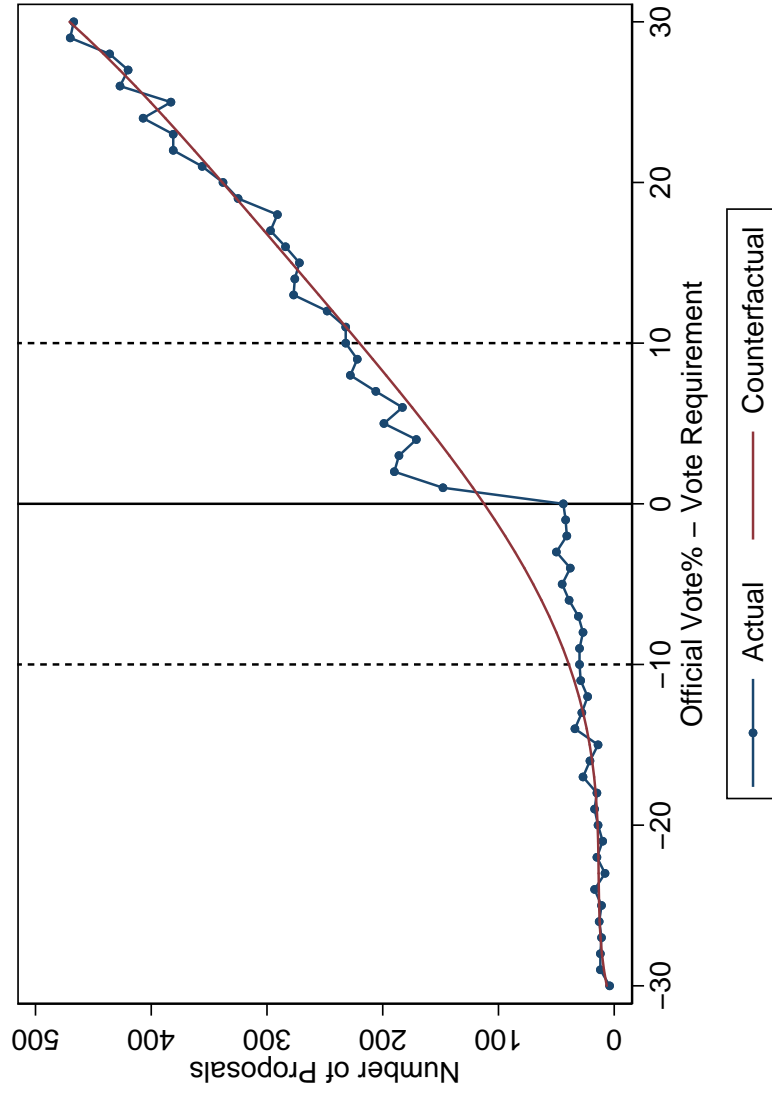
**Figure 13.** Mechanisms: Shareholders Providing Additional Materials through PX14A6G



Panel A: PX14A6G Filed After the Proxy Date

Panel B: No PX14A6G Filed After the Proxy Date

Figure 14. Counterfactual Density



**Table 1. Summary Statistics for Proposal-Level Sample**

Panel A reports summary statistics for 26,981 management proposals that were initiated during the period 2003 to 2015 and have vote outcome “Pass” or “Fail” and non-missing information on the number of votes. Panel B reports summary statistics for 2,281 management proposals with the recorded vote outcome “Withdraw” or “Not Disclosed” during the period 2003 to 2015. All variable definitions are provided in the Appendix.

<i>Panel A: Proposals with outcome (N=26,981)</i>	<i>Obs.</i>	<i>Mean</i>	<i>Std.Dev.</i>
Vote percentage in favor ( <i>Vote %</i> )	26,981	83.8	17.5
Vote base: Shares outstanding	6,573	74.4	24.9
Vote base: “F+A” or “F+A+AB”	20,408	86.8	12.8
Vote requirement: Majority	25,304	83.9	16.1
Vote requirement: Supermajority	1,677	81.4	31.3
Meeting type: Annual	23,934	84.0	15.8
Meeting type: Special	3,047	81.8	27.3
Agenda: Compensation	17,464	85.7	12.9
Employee compensation	13,900	84.3	13.3
Executive/director compensation	3,564	90.9	9.8
Agenda: Share issuance	3,805	78.4	25.9
Agenda: Governance	3,170	82.3	24.2
ATP removal	1,277	83.6	23.7
Other than ATP removal	1,893	81.4	24.5
Agenda: Strategic decisions	1,428	82.0	15.1
M&As	1,305	82.4	15.0
Restructuring, asset sales/purchases, spinoffs, etc.	123	78.5	15.3
Agenda: Other	1,114	79.0	18.2
ISS “Against” recommendation	26,981	18.5	38.8
Voter turnout ( <i>Turnout</i> )	26,950	87.6	51.8
Quorum is established ( <i>Turnout</i> >50%)	26,950	99.6	0.1
Adjourn meeting	26,981	8.8	28.3
Passed adjourn meeting	26,981	3.8	19.1
Adjourn annual meeting	23,934	2.5	15.6
DEFA after proxy date	23,934	15.9	36.6
PX14A6G by shareholders	26,981	1.0	10.0

<i>Panel A: Proposals with outcome (N=26,981)</i>	<i>Obs.</i>	<i>Mean</i>	<i>Std.Dev.</i>
Pass rate ( <i>Pass%</i> )	26,981	97.0	17.1
Base: Shares outstanding	6,573	91.7	27.5
Base: “F+A” or “F+A+AB”	20,408	98.7	11.4
Vote requirement: Majority	25,304	98.0	14.1
Vote requirement: Supermajority	1,677	82.2	38.2
Meeting type: Annual	23,934	96.9	17.5
Meeting type: Special	3,047	98.0	14.0
Agenda: Compensation	17,464	98.7	11.2
Agenda: Share issuance	3,805	95.9	19.8
Agenda: Governance	3,170	89.3	30.9
Agenda: Strategic decisions	1,428	99.0	9.9
Agenda: Other	1,114	92.5	26.4

<i>Panel B: Withdrawn proposals (N=2,281)</i>	<i>Obs.</i>	<i>% Withdrawn</i>	<i>% Launched</i>
Vote outcome: “Withdraw”	576	25.3	2.0
Vote outcome: “Not disclosed”	1,705	74.8	5.8
Base: Shares outstanding	213	9.3	3.1
Base: “F+A” or “F+A+AB”	2,068	90.7	9.2
Vote requirement: Majority	1,095	48.0	4.1
Vote requirement: Supermajority	39	1.7	2.3
Meeting type: Annual	1,737	76.2	6.8
Meeting type: Special	544	23.9	15.1
Agenda: Compensation	444	19.5	2.5
Agenda: Share issuance	208	9.1	5.2
Agenda: Governance	345	15.1	9.8
Agenda: Strategic decisions	237	10.4	14.2
Agenda: Other	1,047	45.9	48.5

**Table 2. Summary Statistics for Firm-Level Sample**

The table reports summary statistics for firms in our sample during the period 2003 to 2015. Firms that are present in Voting Analytics during a given year but do not launch any qualifying management proposals are assigned zero proposals. Withdrawn proposals are those with vote outcome “Withdraw” and “Not Disclosed.” All other variable definitions are provided in the Appendix.

	<i>Obs.</i>	<i>Mean</i>	<i>Std.Dev.</i>	<i>p25</i>	<i>p50</i>	<i>p75</i>
Number of management proposals	31,163	0.680	0.934	0	0	1
Number of compensation proposals	31,163	0.451	0.688	0	0	1
Number of governance proposals	31,163	0.076	0.383	0	0	0
Number of share issuance proposals	31,163	0.068	0.296	0	0	0
Number of strategic decisions proposals	31,163	0.043	0.213	0	0	0
Won management proposals	31,163	0.604	0.882	0	0	1
Withdrawn management proposals	31,163	0.031	0.202	0	0	0
ISS “Against” recommendation	31,139	0.125	0.405	0	0	0
Recent shareholder proposal	31,163	0.096	0.294	0	0	0
Passed shareholder proposal	31,163	0.031	0.175	0	0	0
Proxy access shareholder proposal	31,163	0.004	0.064	0	0	0
Governance shareholder proposal	31,163	0.057	0.232	0	0	0
Compensation shareholder proposal	31,163	0.027	0.163	0	0	0
Social shareholder proposal	31,163	0.023	0.151	0	0	0
Other shareholder proposal	31,163	0.028	0.164	0	0	0
Number of analysts	31,163	7.551	6.908	2	6	11
Institutional ownership	31,163	0.652	0.268	0.469	0.712	0.869
Board size	14,548	9.292	2.261	8	9	11
Board independence	14,548	0.774	0.118	0.700	0.800	0.875
Past stock return	31,163	0.157	0.505	-0.134	0.098	0.345
Stock return volatility	31,163	0.387	0.23	0.223	0.329	0.483
Tobin’s Q	31,163	1.942	1.452	1.087	1.439	2.167
Leverage	31,163	0.214	0.212	0.025	0.164	0.332
Book assets (\$ billion)	31,163	5.962	17.667	0.285	0.943	3.339
R&D/assets	31,163	0.041	0.093	0	0	0.038
Capex/assets	31,163	0.042	0.055	0.006	0.024	0.053
Reg SHO treatment	10,444	0.428	0.495	0	0	1



**Table 3. Determinants of Management Proposals**

The table reports the OLS estimates, where the dependent variable is the number of management proposals launched during the year. All variable definitions are provided in the Appendix. The standard errors clustered by firm are in parentheses. \*\*\*, \*\*, and \* refer to the significance at the 1%, 5%, and 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Shareholder proposal			0.204***	0.019			
			(0.030)	(0.033)			
Passed shareholder proposal				0.500***			
				(0.050)			
Proxy access shareholder prop.					0.203*		0.113
					(0.123)		(0.152)
Govern. shareholder proposal					0.293***		0.319***
					(0.038)		(0.042)
Comp. shareholder proposal					-0.015		-0.036
					(0.044)		(0.046)
Social shareholder proposal					0.005		0.003
					(0.053)		(0.051)
Other shareholder proposal					-0.019		-0.028
					(0.048)		(0.050)
Board size						0.020***	0.024***
						(0.006)	(0.009)
Board independence						-0.160**	-0.333***
						(0.078)	(0.122)
Past stock return	0.096***	0.098***	0.098***	0.096***	0.097***	0.123***	0.107***
	(0.012)	(0.014)	(0.014)	(0.014)	(0.014)	(0.022)	(0.025)
Stock return volatility	0.316***	0.228***	0.221***	0.222***	0.222***	0.372***	0.278***
	(0.036)	(0.045)	(0.045)	(0.045)	(0.045)	(0.062)	(0.078)
Analyst coverage	0.067***	0.010	0.011	0.011	0.010	0.075***	-0.027
	(0.010)	(0.018)	(0.018)	(0.018)	(0.018)	(0.016)	(0.029)
Institutional ownership	0.023	0.089	0.101	0.088	0.098	0.138**	-0.101
	(0.029)	(0.070)	(0.070)	(0.070)	(0.070)	(0.069)	(0.196)
Firm size	0.026***	-0.023	-0.029	-0.031	-0.027	0.027***	0.015
	(0.005)	(0.023)	(0.023)	(0.023)	(0.023)	(0.010)	(0.033)
Tobin's Q	-0.013**	-0.006	-0.006	-0.005	-0.006	-0.015*	0.013
	(0.005)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.015)
Leverage	0.037	0.099	0.103	0.098	0.098	-0.047	-0.067
	(0.031)	(0.067)	(0.067)	(0.067)	(0.067)	(0.047)	(0.113)
R&D/assets	0.636***	0.158	0.147	0.137	0.157	1.475***	0.237
	(0.100)	(0.189)	(0.188)	(0.189)	(0.189)	(0.245)	(0.558)
Capex/assets	-0.054	-0.262	-0.236	-0.213	-0.223	0.172	0.289
	(0.130)	(0.234)	(0.233)	(0.233)	(0.233)	(0.217)	(0.384)
Observations	31,163	31,163	31,163	31,163	31,163	14,548	14,548
R-squared	0.024	0.261	0.263	0.268	0.265	0.026	0.210
Firm FE/Year FE	No/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	No/Yes	Yes/Yes

**Table 4. SEC Short-Selling Regulation SHO Experiment**

The table reports the OLS estimates, where the dependent variable is the number of management proposals (total or for a particular category) launched during the year. All variable definitions are provided in the Appendix. The standard errors clustered by firm are in parentheses. \*\*\*, \*\*, \* and \* refer to the significance at the 1%, 5%, and 10% level.

	All proposals										Strategic decisions		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(9)	(10)	
Reg SHO treatment	-0.084* (0.044)	-0.155*** (0.057)	-0.057* (0.031)	-0.075* (0.044)	-0.023 (0.020)	-0.049** (0.024)	-0.011 (0.012)	-0.029* (0.015)	0.003 (0.008)	-0.001 (0.007)			
Shareholder proposal	-0.015 (0.059)	-0.063 (0.061)	-0.039 (0.047)	-0.042 (0.053)	0.029 (0.028)	-0.004 (0.024)	0.000 (0.015)	-0.006 (0.015)	-0.005 (0.008)	-0.003 (0.006)			
Passed shareholder prop.	0.354*** (0.081)	0.430*** (0.088)	-0.052 (0.056)	-0.033 (0.061)	0.353*** (0.051)	0.388*** (0.055)	0.029 (0.019)	0.038* (0.021)	0.013 (0.013)	0.016 (0.011)			
Board size		0.014 (0.017)		0.011 (0.013)		0.005 (0.008)		-0.001 (0.005)		0.003 (0.003)			
Board independence		-0.278 (0.202)		-0.064 (0.157)		-0.080 (0.080)		-0.064 (0.058)		-0.051* (0.030)			
Past stock return	0.111*** (0.029)	0.131*** (0.047)	0.062*** (0.022)	0.071* (0.036)	-0.001 (0.010)	0.010 (0.015)	0.037*** (0.009)	0.053*** (0.015)	0.012** (0.005)				
Stock return volatility	0.345*** (0.078)	0.375*** (0.124)	0.185*** (0.060)	0.237*** (0.098)	0.043 (0.029)	0.028 (0.038)	0.113*** (0.027)	0.113*** (0.038)	-0.021 (0.013)	-0.013 (0.010)			
Analyst coverage	-0.016 (0.037)	-0.066 (0.054)	-0.015 (0.026)	-0.038 (0.040)	-0.022 (0.018)	-0.038 (0.030)	0.011 (0.011)	-0.003 (0.013)	0.005 (0.007)	0.010 (0.009)			
Institutional ownership	0.390*** (0.135)	0.136 (0.361)	0.308*** (0.092)	0.246 (0.180)	-0.021 (0.045)	-0.133 (0.149)	0.072 (0.046)	0.009 (0.073)	0.019 (0.028)	0.062* (0.038)			
Firm size	-0.052 (0.050)	-0.062 (0.074)	0.019 (0.035)	0.044 (0.051)	-0.018 (0.019)	-0.042 (0.031)	-0.016 (0.018)	-0.030 (0.025)	-0.054*** (0.010)	-0.061*** (0.014)			
Tobin's Q	0.005 (0.015)	0.032 (0.026)	-0.007 (0.012)	0.008 (0.021)	-0.011** (0.004)	-0.018** (0.009)	0.020*** (0.006)	0.038*** (0.010)	-0.001 (0.003)	0.004 (0.004)			
Leverage	-0.175 (0.126)	-0.355* (0.205)	-0.111 (0.090)	-0.263* (0.146)	-0.061 (0.041)	-0.084 (0.074)	-0.024 (0.052)	-0.020 (0.060)	0.038 (0.025)	0.032 (0.030)			
R&D/assets	0.276 (0.368)	0.919 (0.692)	0.247 (0.252)	0.892* (0.521)	-0.012 (0.102)	0.088 (0.186)	0.108 (0.176)	0.047 (0.297)	-0.068 (0.072)	-0.018 (0.053)			
Capex/assets	0.185 (0.472)	-0.064 (0.629)	0.093 (0.320)	0.119 (0.446)	-0.226 (0.150)	-0.355 (0.230)	0.305 (0.222)	0.157 (0.237)	0.027 (0.067)	0.004 (0.063)			
Observations	10,444	6,186	10,444	6,186	10,444	6,186	10,444	6,186	10,444	6,186			
R-squared	0.263	0.279	0.283	0.282	0.239	0.290	0.229	0.258	0.310	0.277			
Firm FE/Year FE	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	

**Table 5. Manipulation of Proposal Outcomes**

The table shows the results of manipulation tests based on the discontinuity in the density of management proposals around the passing threshold for different sub-samples of data. In column 2, we report the density discontinuity estimate based on the estimation method by McCrary (2008), which is calculated as the logarithm of the ratio of the fitted proposal densities on the right and on the left of the passing threshold; the corresponding t-statistics for the difference of the discontinuity from zero are provided in column 3. The last column provides z-statistic for the difference in discontinuities in two samples.

	Discontinuity	z-stat	<i>Difference b/w groups (z-stat)</i>
All proposals	1.245	12.65	
Vote requirement:			
Majority	1.509	10.75	
Supermajority	0.864	5.62	Majority - Supermajority (3.10)
Voting base:			
Shares outstanding	1.329	11.90	
Votes cast	1.128	5.23	Outstanding - Votes cast (0.83)
Meeting type:			
Special meeting	1.931	5.36	
Annual meeting	1.173	11.31	Special - Annual (2.02)
Agenda:			
Compensation	1.075	6.24	
Executive compensation	1.662	2.11	
Employee compensation	1.018	5.91	Executive - Employee (0.80)
Share issuance	1.846	8.73	
Governance	0.977	6.33	
ATP removal	0.727	3.82	
Other than ATP removal	1.396	5.29	ATP Removal - Other (-2.06)
Strategic decisions	1.625	2.05	

**Table 6. Regression Discontinuity Balance Tests**

The table reports the results of the covariate balance tests around the proposal passing threshold. All variable definitions are provided in the Appendix. Columns 2-3 and 4-5 are for observations, for which the difference between the official vote percentage and the vote requirement is between (-5%,+5%) and (-10%,+10%), respectively.

	(-5%, +5%)		(-10%, +10%)	
	Discontinuity	p-value	Discontinuity	p-value
Shareholder proposal	-0.236*	0.072	-0.197**	0.033
Passed shareholder proposal	-0.174**	0.012	-0.164**	0.043
ISS “Against” recommendation	0.283**	0.043	0.226**	0.035
Board size	-1.657*	0.069	-1.318*	0.100
Board independence	-0.082*	0.062	-0.074**	0.039
Analyst coverage	-1.201***	0.001	-0.716**	0.016
Institutional ownership	-0.282***	0.002	-0.161**	0.037
Past stock return	0.168	0.290	0.096	0.356
Stock return volatility	0.102	0.303	0.096	0.218
Tobin’s Q	1.667***	0.001	0.603	0.138
Leverage	0.015	0.803	0.014	0.638
Firm size	-3.362***	0.002	-2.679***	0.002
R&D/assets	0.046	0.280	0.028	0.259
Capex/assets	0.012	0.346	0.003	0.648

**Table 7. Manipulation Mechanisms**

The table shows the results of manipulation tests based on the discontinuity in the density of management proposals around the passing threshold for different sub-samples of data. In column 2, we report the density discontinuity estimate based on the estimation method by McCrary (2008), which is calculated as the logarithm of the ratio of the fitted proposal densities on the right and on the left of the passing threshold; the corresponding t-statistics for the difference of the discontinuity from zero are provided in column 3. The last column provides z-statistic for the difference in discontinuities in two samples.

	Discontinuity	z-stat	<i>Difference b/w groups</i> (z-stat)
Adjourn meeting	2.139	4.48	
No adjourn meeting	1.169	11.97	Adjourn - No adjourn (1.99)
Passed adjourn meeting	3.477	2.79	
No passed adjourn meeting	1.193	11.98	Passed adjourn - No adjourn (1.83)
Adjourn annual meeting	2.900	3.01	
No adjourn annual meeting	1.118	11.18	Adjourn annual - No adjourn (1.84)
No PX14A6G by shareholders	1.303	11.98	
PX14A6G by shareholders	0.014	0.02	No PX14A6G - PX14A6G (2.17)
DEFA14A after proxy date	1.639	7.05	
No DEFA14A after proxy date	1.015	9.19	DEFA14A - No DEFA14A (2.42)

**Table 8. Counterfactual Proposal Density Estimation**

The table reports the results of the counterfactual proposal density estimation following the bunching method for notches of Kleven and Waseem (2013). We first group proposals in the 1% bins indexed by  $i$  and then estimate the following model  $n_i = \sum_{j=0}^p \beta_j z_i^j + \sum_{j=z_-}^{z_+} \gamma_j 1_{z_i=j} + \varepsilon_i$ , where  $z_i$  are bin values,  $n_i$  is the number of proposals in bin  $i$ ,  $p$  is the order of the polynomial, and  $[z_-, z_+]$  refers to the excluded area around zero difference between the official vote percentage and vote requirement. To generate the counterfactual distribution, we then calculate the fitted values from above equation, but omit the term with indicator variables for the excluded area. The standard errors are obtained using a bootstrap procedure, in which we generate 500 distributions of the vote percentage by random resampling of the residuals from (1).

Degree $p$ , range $[z_-, z_+]$	# in range $\Sigma_{z_-}^{z_+} n_i$	Excess bunching $\Sigma_0^{z_+} (n_i - \hat{n}_i)$	Missing mass $\Sigma_{z_-}^0 (\hat{n}_i - n_i)$	Bunching re- sponses $\hat{B} =$ $\Sigma_{z_-}^{z_+} (n_i - \hat{n}_i)$	% bunching $\frac{\Sigma_0^{z_+} (n_i - \hat{n}_i)}{\Sigma_{z_-}^{z_+} \hat{n}_i}$	% missing $\frac{\Sigma_{z_-}^0 (\hat{n}_i - n_i)}{\Sigma_{z_-}^{z_+} \hat{n}_i}$	$\hat{b} =$ $\frac{\hat{B}}{\Sigma_{z_-}^{z_+} \hat{n}_i / (2z+1)}$	$SE(\hat{b})$
5, [-10%, 10%]	2,382	266	379	-113	10.6%	15.2%	-0.95	0.677
4, [-10%, 10%]	2,382	296	411	-115	11.9%	16.5%	-0.96	0.751
5, [-5%, 5%]	1,154	171	257	-86	13.8%	20.7%	-0.77	0.396
4, [-5%, 5%]	1,154	188	278	-90	15.1%	22.4%	-0.79	0.476

**Table 9. Manipulation of Outcomes on Shareholder Proposals**

The table shows the results of manipulation tests based on the discontinuity in the density of shareholder proposals around the passing threshold. In column 3, we report the density discontinuity estimate based on the estimation method by McCrary (2008), which is calculated as the logarithm of the ratio of the fitted proposal densities on the right and on the left of the passing threshold; the corresponding t-statistics for the difference of the discontinuity from zero are provided in column 4. The last column provides z-statistic for the difference in discontinuities in two samples.

	Obs.	Discont.	z-stat	<i>Difference b/w groups (z-stat)</i>
Shareholder proposals	8,048	-0.338	-2.96	
Management proposals	26,981	1.245	12.65	Shareholder-Management (-6.01)
Shareholder proposals:				
Governance, proxy access	3,822	-0.461	-3.52	
Compensation, social, environment, other	4,266	-0.115	-0.62	Governance-Compensation (-1.53)

**Table 10. Market Reaction to Narrow Win/Loss on Management Proposals**

The table shows the average stock market reaction to a narrow win or loss of management proposal during the three-day period around the shareholder meeting date; the corresponding t-statistics are provided below the estimates.

		Mean CAR [-1, +1] (%)	
		Market adjusted model	Market model
2%	Win	-0.34 (-0.80)	-0.50 (-1.17)
	Loss	1.47* (1.66)	1.40 (1.55)
	Difference	1.80* (1.89)	1.90** (1.98)
1%	Win	-0.42 (-0.56)	-0.44 (-0.59)
	Loss	1.54 (1.19)	1.56 (1.11)
	Difference	1.95 (1.24)	2.00 (1.25)



## VI. Appendix: Additional Tables and Figures

**Table A1. Variable Definitions**

Variable name	Definition
Official vote percentage ( <i>Vote %</i> )	Vote percentage in favor, calculated for proposals with the vote outcome "Pass" or "Fail" and non-missing information on the number of votes (see Section I.A for details).
Pass rate ( <i>Pass %</i> )	The number of passed proposals, i.e., with $\text{vote \%} > \text{vote requirement}$ , divided by the number of proposals with outcome, and multiplied by 100.
Withdrawn proposals	The number of proposals with the vote result "Withdrawn" or "Not Disclosed."
Win	A dummy variable equal to 1 if a proposal is passed.
ISS "Against" recommendation	A dummy variable equal to 1 if ISS recommends to vote "Against."
Voter turnout ( <i>Turnout %</i> )	Voter turnout, calculated as $\text{Turnout} = \frac{F+A+AB+Nonvotes}{N}$ , where $F$ is votes "For," $A$ is votes "Against," $AB$ is votes abstained, and $Nonvotes$ is votes cast as broker non-votes.
Quorum is established	A dummy variable equal to 1 for all proposals that are voted on the shareholder meeting with $\text{Turnout} > 50\%$ .
Number of management proposals	The number of all management-sponsored proposals after removing certain types of proposals (see section I.A. for details).
Number of (Category) management proposals	The number of management-sponsored proposals related to (Category) (see section II. B. for details).
Shareholder proposal	A dummy variable equal to 1 if any shareholder-sponsored proposal was launched in the previous year.
Passed shareholder proposal	A dummy variable equal to 1 if any shareholder-sponsored proposal was passed in the previous year.
(Category) shareholder proposal	A dummy variable equal to 1 if any shareholder-sponsored proposal related to (category) was launched in the previous year.
Analyst coverage	Log of the number of analysts covering the firm during the fiscal year.
Institutional ownership	The number of shares held by institutions (Thomson Reuters 13F), divided by the total number of shares outstanding.
Board size	The number of members of the Board of Directors.
Board independence	The fraction of the board members who are classified as independent directors.
Past stock return	The firm stock return over the past 12 months.
Stock return volatility	The annualized standard deviation of monthly log returns over the past 12 months.
Firm size	Log of the book value of assets (AT).

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Tobin's Q	Market value of assets (AT - CEQ + PRCC_C*CSHO), divided by the book value of assets (AT).
Leverage	Sum of long-term debt (DLTT) and current debt (DLC), divided by the book value of assets (AT).
R&D/assets	Research and development expenses (XRD), divided by the book value of assets (AT). Variable set to zero if missing.
Capex/assets	Capital expenditures (CAPX), divided by the book value of assets (AT).
Reg SHO treatment	A dummy variable equal to 1 for firms listed in the Russell 3,000 as of June 25, 2004 that were in the pilot list for Reg SHO experiment during the experiment and for all firms listed in the Russell 3,000 as of June 25, 2004 after the experiment.
Special meeting	A dummy variable equal to 1 if meeting type is "Special."
Majority requirement	A dummy variable equal to 1 if vote requirement is equal to 50%.
Shares outstanding base	A dummy variable equal to 1 if voting base is "Outstanding" or "Capital Represented."
Adjourn meeting	A dummy variable equal to 1 for a management proposal that is on the agenda of a shareholder meeting that also has a proposal to "Adjourn Meeting."
Passed adjourn meeting	A dummy variable equal to 1 for a management proposal that is on the agenda of a shareholder meeting that also has a proposal to "Adjourn Meeting" and that proposal passes.
Adjourn annual meeting	A dummy variable equal to 1 for a management proposal that is on the agenda of the annual shareholder meeting that also has a proposal to "Adjourn Meeting."
DEFA14A after proxy date	A dummy variable equal to 1 for a management proposal if there is a DEFA14A form filed by the firm before the annual shareholder meeting (within 60 days) and after the proxy statement date.
PX14A6G by shareholders	A dummy variable equal to 1 for a management proposal if there is a PX14A6G form filed by firm shareholders before the shareholder meeting (within 60 days).

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**Table A2. Determinants of Agenda of Management Proposals**

The table reports the OLS estimates, where the dependent variable is the number of management proposals with particular agenda launched during the year. All variables are described in the Appendix. The standard errors clustered by firm are in parentheses. \*\*\*, \*\*, and \* refer to the significance at the 1%, 5%, and 10% level.

	Compensation proposals			Governance proposals		
	(1)	(2)	(3)	(4)	(5)	(6)
Shareholder proposal	0.012 (0.025)			0.027 (0.017)		
Passed shareholder proposal	-0.030 (0.032)			0.472*** (0.035)		
Proxy access shareholder prop.		0.011 (0.071)	-0.103 (0.085)		0.182** (0.081)	0.167 (0.105)
Govern. shareholder proposal		-0.018 (0.022)	-0.025 (0.025)		0.314*** (0.025)	0.331*** (0.028)
Comp. shareholder proposal		-0.023 (0.033)	-0.034 (0.033)		-0.001 (0.027)	-0.006 (0.029)
Social shareholder proposal		-0.022 (0.037)	-0.012 (0.038)		0.020 (0.034)	0.012 (0.030)
Other shareholder proposal		0.006 (0.032)	-0.011 (0.033)		-0.003 (0.027)	-0.004 (0.028)
Board size			0.010 (0.006)			0.008* (0.004)
Board independence			-0.058 (0.091)			-0.109* (0.058)
Past stock return	0.053*** (0.010)	0.053*** (0.010)	0.053*** (0.020)	0.001 (0.005)	0.001 (0.005)	0.007 (0.009)
Stock return volatility	0.052* (0.030)	0.052* (0.030)	0.142** (0.059)	0.032* (0.018)	0.031* (0.018)	0.030 (0.028)
Analyst coverage	0.012 (0.012)	0.011 (0.012)	-0.010 (0.021)	-0.004 (0.008)	-0.005 (0.008)	-0.015 (0.015)
Institutional ownership	0.088** (0.044)	0.086* (0.044)	0.003 (0.090)	-0.060** (0.028)	-0.050* (0.028)	-0.128 (0.089)
Firm size	0.022 (0.014)	0.023 (0.014)	0.023 (0.024)	0.012 (0.009)	0.014 (0.009)	0.030** (0.014)
Tobin's Q	-0.003 (0.006)	-0.003 (0.006)	-0.007 (0.011)	-0.002 (0.002)	-0.002 (0.002)	-0.004 (0.005)
Leverage	0.001 (0.045)	0.001 (0.045)	-0.078 (0.079)	-0.009 (0.024)	-0.010 (0.024)	-0.014 (0.048)
R&D/assets	0.152 (0.127)	0.153 (0.127)	0.429 (0.406)	0.016 (0.049)	0.033 (0.049)	-0.038 (0.177)
Capex/assets	-0.101 (0.164)	-0.104 (0.164)	0.119 (0.286)	-0.086 (0.081)	-0.093 (0.079)	-0.013 (0.154)
Observations	31,163	31,163	14,548	31,163	31,163	14,548
R-squared	0.253	0.253	0.216	0.246	0.231	0.208
Firm FE/Year FE	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes

	Share issuance			Strategic decisions		
	(7)	(8)	(9)	(10)	(11)	(12)
Shareholder proposal	-0.011 (0.008)			-0.001 (0.007)		
Passed shareholder proposal	0.025** (0.011)			0.006 (0.008)		
Proxy access shareholder prop.		0.024 (0.028)	0.047 (0.036)		-0.015 (0.021)	-0.013 (0.017)
Govern. shareholder proposal		-0.005 (0.008)	0.002 (0.009)		-0.005 (0.006)	0.002 (0.006)
Comp. shareholder proposal		0.003 (0.012)	0.000 (0.011)		0.007 (0.009)	0.006 (0.007)
Social shareholder proposal		0.002 (0.011)	0.001 (0.012)		0.002 (0.009)	-0.001 (0.006)
Other shareholder proposal		-0.011 (0.010)	-0.008 (0.010)		-0.002 (0.009)	0.003 (0.008)
Board size			0.002 (0.003)			0.004** (0.002)
Board independence			-0.052 (0.038)			-0.046** (0.020)
Past stock return	0.020*** (0.005)	0.020*** (0.005)	0.044*** (0.008)	0.023*** (0.003)	0.023*** (0.003)	0.003 (0.003)
Stock return volatility	0.104*** (0.018)	0.104*** (0.018)	0.085*** (0.023)	0.019** (0.009)	0.019** (0.009)	0.005 (0.009)
Analyst coverage	-0.006 (0.007)	-0.006 (0.007)	-0.013 (0.008)	0.006 (0.004)	0.007 (0.004)	0.009* (0.005)
Institutional ownership	0.043* (0.025)	0.044* (0.025)	0.043 (0.040)	0.053*** (0.016)	0.053*** (0.016)	0.066*** (0.025)
Firm size	-0.023** (0.009)	-0.022** (0.009)	-0.008 (0.011)	-0.043*** (0.005)	-0.043*** (0.005)	-0.038*** (0.007)
Tobin's Q	0.005 (0.003)	0.005 (0.003)	0.028*** (0.005)	-0.007*** (0.001)	-0.007*** (0.001)	-0.001 (0.002)
Leverage	0.072*** (0.027)	0.072*** (0.027)	0.021 (0.031)	0.017 (0.016)	0.017 (0.016)	0.016 (0.017)
R&D/assets	0.062 (0.088)	0.064 (0.088)	-0.043 (0.172)	-0.033 (0.037)	-0.033 (0.037)	-0.070 (0.062)
Capex/assets	0.022 (0.096)	0.022 (0.097)	0.254** (0.124)	0.064 (0.046)	0.064 (0.046)	0.026 (0.050)
Observations	31,163	31,163	14,548	31,163	31,163	14,548
R-squared	0.280	0.280	0.185	0.316	0.316	0.192
Firm FE/Year FE	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes

**Table A3. Manipulation Test of Cattaneo, Jansson, and Ma (2017)**

The table shows the results of manipulation tests based on the discontinuity in the density of management proposals around the passing threshold based on the non-parametric estimation method by Cattaneo, Jansson, and Ma (2017). In column 2 we report CJM test statistics for manipulation, which are calculated as the difference in the local polynomial density estimators on the right and on the left of the passing threshold, divided by the standard error of the estimator,  $T_p(h) = \frac{\hat{f}_{+,p}(h) - \hat{f}_{-,p}(h)}{\hat{V}_p(h)}$ ; the corresponding p-values are provided in column 3.

	<i>CJM</i> test statistic	<i>CJM</i> p-value
All proposals	7.15***	0.000
Vote requirement:		
Majority	7.21***	0.000
Supermajority	4.31***	0.000
Voting base:		
Shares outstanding	7.74***	0.000
Votes cast	2.10**	0.036
Meeting type:		
Special meeting	4.30***	0.000
Annual meeting	7.40***	0.000
Meeting agenda:		
Compensation	1.85*	0.064
Share issuance	5.43***	0.000
Governance	4.89***	0.000
Strategic decisions	0.49	0.631

**Table A4. SEC Short-Selling Regulation SHO Experiment**

The table reports the OLS estimates, where the dependent variable is the number of management proposals (total or for a particular category) launched during the year. All variable definitions are provided in the Appendix. The standard errors clustered by firm are in parentheses. \*\*\*, \*\*, \* and \* refer to the significance at the 1%, 5%, and 10% level.

	All proposals									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Reg SHO treatment (announcement)	-0.081* (0.042)	-0.183*** (0.056)	-0.066** (0.032)	-0.110*** (0.042)	-0.025 (0.018)	-0.055** (0.024)	-0.001 (0.012)	-0.016 (0.016)	0.005 (0.008)	0.000 (0.007)
Shareholder proposal	-0.014 (0.059)	-0.062 (0.061)	-0.039 (0.047)	-0.042 (0.053)	0.030 (0.028)	-0.003 (0.024)	0.001 (0.015)	-0.006 (0.015)	-0.005 (0.008)	-0.003 (0.006)
Passed shareholder prop.	0.354*** (0.081)	0.430*** (0.088)	-0.052 (0.056)	-0.033 (0.061)	0.353*** (0.051)	0.388*** (0.055)	0.029 (0.019)	0.038* (0.021)	0.013 (0.013)	0.016 (0.011)
Board size		0.014 (0.017)		0.011 (0.013)		0.005 (0.008)		-0.001 (0.005)		0.003 (0.003)
Board independence		-0.286 (0.202)		-0.070 (0.157)		-0.082 (0.080)		-0.064 (0.058)		-0.051* (0.030)
Past stock return		0.110*** (0.029)	0.061*** (0.022)	0.069* (0.036)	-0.001 (0.010)	0.009 (0.015)	0.037*** (0.009)	0.053*** (0.015)	0.012** (0.005)	-0.002 (0.005)
Stock return volatility		0.347*** (0.078)	0.187*** (0.060)	0.239*** (0.098)	0.044 (0.028)	0.029 (0.037)	0.112*** (0.027)	0.113*** (0.038)	-0.021 (0.013)	-0.013 (0.010)
Analyst coverage		-0.016 (0.037)	-0.015 (0.026)	-0.038 (0.040)	-0.022 (0.018)	-0.038 (0.030)	0.011 (0.011)	-0.003 (0.013)	0.005 (0.007)	0.010 (0.009)
Institutional ownership		0.389*** (0.135)	0.308*** (0.092)	0.246 (0.180)	-0.021 (0.045)	-0.134 (0.149)	0.071 (0.046)	0.008 (0.073)	0.019 (0.028)	0.062* (0.038)
Firm size		-0.051 (0.050)	0.020 (0.035)	0.045 (0.051)	-0.018 (0.019)	-0.042 (0.031)	-0.017 (0.018)	-0.030 (0.025)	-0.054*** (0.010)	-0.061*** (0.014)
Tobin's Q		0.006 (0.015)	-0.006 (0.012)	0.009 (0.021)	-0.011** (0.004)	-0.018** (0.009)	0.020*** (0.006)	0.038*** (0.010)	-0.001 (0.003)	0.004 (0.004)
Leverage		-0.174 (0.126)	-0.110 (0.090)	-0.260* (0.145)	-0.060 (0.041)	-0.082 (0.074)	-0.025 (0.052)	-0.020 (0.060)	0.037 (0.025)	0.032 (0.030)
R&D/assets		0.281 (0.368)	0.253 (0.252)	0.912* (0.519)	-0.011 (0.102)	0.094 (0.186)	0.107 (0.176)	0.044 (0.297)	-0.068 (0.072)	-0.018 (0.053)
Capex/assets		0.182 (0.472)	0.090 (0.321)	0.123 (0.449)	-0.227 (0.150)	-0.354 (0.230)	0.306 (0.222)	0.155 (0.237)	0.027 (0.067)	0.004 (0.063)
Observations	10,444	6,186	10,444	6,186	10,444	6,186	10,444	6,186	10,444	6,186
R-squared	0.263	0.280	0.283	0.283	0.239	0.290	0.229	0.258	0.310	0.277
Firm FE/Year FE	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes