

# Managerial Response to Shareholder Empowerment: Evidence from Majority

## Voting Legislation Changes

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**Abstract:** This paper studies how managers react to the empowerment of shareholders in governance provisions. A staggered legislative change that makes shareholder-initiated majority-voting proposals binding is followed by an increase in the submission of management-initiated majority-voting proposals. Management adopts provisions that crowd out shareholder proposals, pre-empting shareholder initiated changes and giving management control over future amendments of voting rules. The remaining firms experience more negative market return reactions in close-call votes of shareholder proposals. This result indicates that managers resist the implementation of majority-voting standards precisely in those firms where it would be more value-destroying.

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## **1. Introduction**

Shareholders can influence firms through two distinct voting mechanisms. The first one is an indirect democracy mechanism, which shares some similarities with the election of political representatives. Shareholders elect firm directors which then take decisions about who runs the firm and how it is managed. The second one is a direct democracy channel akin to some form of shareholder referendum on a specific issue. Shareholders can vote on proposals that are submitted by either shareholders or the management of the company. These mechanisms are two of the main channels through which shareholders can affect managerial actions.

Firms and regulators often adjust the effectiveness of shareholder voting by changing the internal and external rules that govern it. However, firms are heterogeneous, and agents may react strategically to any change of regime, making it hard to predict the implications of altering the rules of the game between shareholders and managers. This paper studies the reaction of the firm management to the shareholder empowerment in direct shareholder democracy. In particular, we focus on the reaction of managers to making the outcome of the vote of shareholder-sponsored proposals (hereinafter, shareholder proposals) binding, rather than advisory. We explore this research question by using a quasi-natural experiment, the staggered passage of legislation that made it binding to implement the outcome of a specific subset of shareholder proposals. Incidentally, the specific type of proposals for which the outcome of the vote became binding is about the rules to elect directors. For this reason, we are also able to provide some results about the indirect democracy of firms.

Director voting rules are a crucial means for shareholders to hold the directors accountable. The plurality-voting standard is the default rule in director elections in nearly all of the U.S. It has received increasing criticism for its disregard of withheld votes. Given that in an uncontested board election, a single vote can be sufficient to ensure success. To seek a greater voice in increasing director accountability, shareholder activists, institutional investors, and their advisers

have pushed for the implementation of the majority-voting standard as a working alternative. In 2006, the Delaware legislature and American Bar Association passed new amendments to the Delaware General Corporation Law (DGCL) and Model Business Corporation Act (MBCA), respectively. Under the new laws, the board cannot unilaterally amend or repeal the shareholder-adopted majority-voting bylaw amendments related to director elections, making the outcomes of the votes of shareholder sponsored amendments effectively binding for managers. Several states where MBCA serves as the basis of their own state laws subsequently changed their corporate law provisions to facilitate the majority-voting rule.<sup>2</sup> This staggered passing of a legislation that empowers shareholders by making the results of their voting binding to managers provides us with a quasi-natural experiment to study the managerial reaction to this empowerment.

The literature on proxy voting mainly focuses on the role of shareholder voice in corporate decision process in improving corporate governance and ultimately firm performance (e.g., Karpoff, Malatesta and Walkling, 1996; Levit and Malenko, 2011; Cuñat, Gine and Guadalupe, 2012 and 2013). Although shareholders can put forward proposals and vote on them at annual meetings, management retains significant power in implementing the proposed changes, amending them or preempting their influence.<sup>3</sup> This paper focuses on the interaction between management and shareholder activism by examining how managers react to the empowerment of shareholders in changing existing corporate governance provisions. For example, do they put forward provisions that are more management friendly than the shareholder ones on similar issues? More generally, we explore the incentives behind such fronting behaviors and the impacts on shareholders.

To answer these questions, we proceed in three steps. First, we obtain causal estimates of the managerial reaction when filing proposals to the shareholder empowerment in changing voting

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<sup>2</sup> Including the forced resignation of directors who do not receive the majority of the votes (Mourning, 2007).

<sup>3</sup> For example, only about half of the majority-passed shareholder proposals were finally implemented in Russell 3000 firms in 2005.

standard by exploiting a quasi-natural experiment of the afore-mentioned legislative change that made majority voting binding. The new legislation introduced plausibly exogenous shocks to managers' non-compliance costs. More specifically, we take advantage of the staggered introduction of these law amendments in different U.S. states by implementing a difference-in-differences (DiD) estimation. The results show that managers try to anticipate shareholder proposals by proposing their own management-sponsored proposals (hereinafter, management proposals) before shareholders can do so. Second, we investigate the details of those management proposals to see how they differ from shareholder proposals. In particular, we focus on dimensions that relate to the reversibility of the proposals, such as whether managerial adoption of the majority voting standard is through bylaw or charter. Third and finally, we combine the DiD setting with a regression discontinuity design (RDD) to understand the value implications of implementing majority voting on the remaining firms that did not implement it. The nature of this last exercise is to investigate the selection of firms into not having a majority rule, by providing causal value estimates (via RDD) on those firms that selected themselves into not implementing (which is the sample selection of the RDD design).

We find evidence that shareholder proposals and management proposals on similar issues are viewed differently by managers. The number of management proposals on the state level increases dramatically by 4- to 10-fold after the enactment of the new laws. This result indicates that managers prefer to initiate majority-voting standard on their own in response to the legislative changes rather than wait for shareholders to push for them. To the extent that the new laws empower shareholders, we do not find significant increase in the number of shareholder proposals, suggesting that management proposals potentially crowd out the shareholder proposals. Consistent with this interpretation, we find that after the legislative changes, compared to firm that did not receive management proposals in the past, the chance of a firm having shareholder proposals decreases by 16% after the management brought up the proposals. Moreover, the implementation of majority voting standard significantly increases after legislative changes, even

for firms that did not receive shareholder proposals. Since the legislative changes do not make implementation binding in firms that do not receive any shareholder proposals, this result suggests that management may *front* shareholder proposals. That is, managers directly initiate and implement majority voting standards to prevent shareholder proposals.

To understand the incentives of fronting, we examine the differences in the details between similarly classified management proposals and shareholder proposals. In particular, management proposals may affect bylaws or charters, or they may just be procedures and practices. Each of these options has different implications in terms of management being able to reverse or overrule majority voting. A proposal may also contain a resignation rule or not that enables a company to retain a director who failed to receive a majority of votes for to stay longer. We find evidence that managers, after the legislative changes, become less likely to implement majority voting via a bylaw, and more likely to implement it via a charter. This is because amending a charter requires the consent of both the board and shareholders while amending a bylaw only requires the consent of the shareholders. Managers are also more likely to install a favorable director resignation policy after the enactment of the new laws because these policies enable firms to retain directors who fail to win a majority of votes. These results are indicative of further details that are harder to code mattering and managers exploit these differences to front shareholder proposals.

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

constitutes 41% of all proposals.<sup>4</sup> If shareholders have heterogeneous voting costs or differ in their views about how a proposal should be drafted, putting forward a management proposal that partially addresses shareholder concerns may preclude that, in the future, a shareholder proposal that is less aligned with the management objectives is put forward.<sup>5</sup>

Finally, we explore the selection of those firms in which the managers did not front or directly implemented majority rules. Firms in which managers did not implement majority voting are in some way selected insofar managers decided that majority voting was undesirable either from the point of view of shareholder value or their own private benefits. This selection gives us an insight on the motives of managers to avoid, amend, or replace these rules. We first build a simple model that shows how those firms that do not implement majority voting are selected differently before and after the enactment of the law. We focus on the sample of shareholder proposals and measure the implementation outcomes and meeting day returns before and after the staggered enactment of state rules. We combine in a single specification of a RDD on shareholder votes with the DiD structure using the staggered adoption of the legislative changes. The RDD is necessary to measure the causal impact of implementing majority voting. Combining it with the DiD approach allows to see how this causal impact differs across the different populations of firms that have not yet implemented majority voting before and after the legislative changes.

We find that the discrete increase in implementation probability at the majority threshold grows by of 50% - 80% after the enactment of the new legislation depending on the specifications. Market reaction to the implementation of majority rule is, however, more negative after the enactment of the majority rule standard. Our results are robust to both non-parametric estimation and parametric estimation including polynomials of various orders. Given that the impact of

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<sup>4</sup> There are also firms that follow plurality-voting standard and for which we do not observe any proposals to adopt majority-voting standard. It is hard to infer the quantitative amount of selection for the whole sample that includes also these firms, as they may stay in the non-acting group forever. But at the very least, shareholders in these firms are less active than those in firms for which we do observe proposals, implying that managers in these firms should have less incentives to front shareholder proposals.

<sup>5</sup> A similar argument can be found in Donaldson, Malenko and Piacentino (2018)

majority rule may be heterogeneous across firms, we construct a simple model to understand the impact of implementing majority voting across different populations of firms. Our model suggests that the negative effect is indicative of the selection of the firms that do not put forward management proposals to front shareholders. The results show that managers of firms that are likely to suffer the most from the new legislation in firm value tend to resist the implementation of the new rules. This indicates that managers do care about shareholder value and that majority voting can be detrimental for some of the firms in the sample. We cannot rule out, however, that the value of majority voting is positive for the firms that have already implemented it, nor that managers have other motives as well to resist its implementation.

Overall, this paper presents potential evidence of managerial fronting when shareholders are empowered. Managers not only preempt shareholders in submitting more management proposals but also put forward provisions that are more management friendly than the shareholder ones. We also provide an insight into managerial selection and their motives not to implement. Our results suggest that when firms that are likely to suffer more from the new legislation is precisely when managers resist the most the implementation of the majority voting standard.

We contribute to the literature on shareholder activism by examining the behavior of management in the proxy voting process. The literature (e.g., Cuñat et al., 2012; Ertimur, Ferri and Oesch, 2015) shows that shareholder activism plays a positive role in improving corporate governance in close-call situations. However, the question remains as to how management exercises its discretionary power in implementing proposals. Exploiting the legislation that made majority-voting binding as a novel quasi-natural experiment, we document the fronting behavior of management for the first time. We show that managers indeed have substantial leeway in coping with shareholder pressure, which is manifest in the details of the proposals that are implemented. There are two main incentives for potential fronting behavior. First, in situations where the control of private benefits and shareholder value are highly correlated, managers may defend the status-quo against the majority-voting standard that aims to enable directors to be

more easily displaced (Bebchuk, 2004). Second, managers may view implementing the majority-voting standard as costly and unnecessary, and perhaps even as a deterrent to managerial efficiency and long-term strategic stability (Pozen, 2003; Bainbridge, 2005; Gillan and Starks, 2007).

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

Finally, our paper is related to the literature on majority-voting systems. Choi et al. (2016) study why directors of majority voting firms so rarely fail to receive majority support. Ertimur et al. (2015) find that the adoption of majority voting is related to an increase in the rate of implementation of shareholder proposals supported by a majority vote and in the responsiveness to votes withheld from directors up for election. Cai et al. (2013) find that the adoption of majority voting is a paper tiger, amounting to form over substance. Other researchers find that shareholder activism works as a deterrent to managerial efficiency (Pozen, 2003; Bainbridge, 2005; Gillan and Starks, 2007). In contrast to the external threat imposed by shareholder organizations on firms (Bach and Metzger, 2018) when implementing shareholder proposals, we



find that the legislative changes that were intended to empower shareholders through the implementation of majority voting increased the implementation probability of the majority-voting proposals submitted by shareholders.

## **2. Staggered Enactment of the Legislation**

### ***2.1. Nature of the Legislation***

Firms have discretion over the implementation of shareholder proposals even if they pass. However, some types of shareholder proposals in recent years have become binding: amendments to bylaws that install majority voting in director elections. Two major legislative amendments pioneered the legislative change across different states that prescribed packaged rules to facilitate the adoption of majority-voting standard in director elections: the Delaware General Corporation Law (DGCL) and the Model Business Corporation Act (MBCA).<sup>6</sup> After 2006, both MBCA and DGCL allowed an opt-out of the default plurality-voting system through bylaw amendment without being further repealed by the board.

Effective from August 1, 2006, the Delaware Amendments provide that a bylaw amendment adopted by the shareholders that specifies the votes that shall be necessary for the election of directors may not be repealed or amended by the board of directors. Similarly, on June 20, 2006, amendments to the MBCA authorized that a bylaw amendment that requires directors elected in plurality voting to serve for no more than 90 days if the director receives more votes “against” than “for” may not be repealed or amended by the board of directors<sup>7</sup>. These regulatory changes presumably increase the non-compliance cost of the management in terms of greater litigation

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<sup>6</sup> Until the 1980s majority voting was the default standard in most states, including Delaware and the states that adopted the MBCA. However, since then states, including Delaware, determined that plurality voting for the election of directors was the default and most public companies have traditionally not adopted a different standard.

<sup>7</sup> The ABA Committee also effected other amendments to the MBCA related to majority voting, including (i) amendments that would permit articles of incorporation provisions to eliminate the holdover rule and otherwise allow corporations to fashion majority voting systems and (ii) amendments to facilitate majority-voting policies by expressly recognizing that a director resignation conditioned on the failure to receive a specified vote may be irrevocable.

risk if they do not implement a passed proposal and consequently the implementation probability of passed proposals. Hence, we should expect that the implementation of shareholder proposals increases after the legislative changes.

Over time, some other states where MBCA serves as basis for their state corporation laws gradually followed suit to facilitate binding resolutions for majority voting proposals related to director elections, including Connecticut, District of Columbia, Florida, Hawaii, Indiana, New Hampshire, Utah, Wyoming, California and Washington. Figure 1 presents the states that enacted the legislative changes geographically.

[Insert Figure 1]

## **2.2. Data Description**

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

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

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

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

[Insert Table 1]

Table 2 presents the descriptive statistics of the main variables that we use in our empirical analyses. Variable definitions are included in Appendix A. Firms in our sample have an average asset size of 4 billion US dollars and an average ROA of 7.6%. Vote percentage in favor of management proposals has a mean of 96.5%, compared to 53.1% for shareholder proposals. 90.3% of management proposals were adopted, compared to 38.6% of shareholder proposals. In unreported summary statistics, we find that before the legislative changes, 37.9% of shareholder proposals were implemented, compared to 42.3% after the legislative enactment. We will describe the summary statistics in Panel C of Table 2 in Section 4 where we introduce the construction of relevant variables.

[Insert Table 2]

After both MBCA and DGCL allowed an opt-out of the default plurality-voting system, Delaware, Florida, and California first enacted the legislative change in 2006<sup>8</sup>, and other eight states followed suit. To confirm that the staggered enactment of legislative changes is not

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<sup>8</sup> In 2006, Delaware's General Corporation Law was amended, Florida followed the changes to Model Business Corporation Act that was amended in 2006, and California introduced Senate Bill 1207. These changes permitted shareholders to opt out of majority voting from the Charter's default voting system, i.e., plurality voting, through bylaw amendment without being further repealed by the board.

correlated with state level macroeconomic variables, we run probit regressions of the enactment dummy on state-level macroeconomic variables in Table B.3 of the Appendix B. In general, the enactment of these legislative changes does not seem to be related to any macroeconomic variables.

### **3. Managerial Reaction to Shareholder Empowerment**

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

#### ***3.1. Empirical Specification: Staggered Difference-in-differences***

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

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

where  $Y_{ist}$  is an outcome variable for firm  $i$ , which is incorporated in state  $s$ , measured in period  $t$ . The variable  $\text{Treated}_{st}$  takes value 1 if a state  $s$  has enacted the legislation before period  $t$  and 0 otherwise. We introduce state fixed effects  $\delta_s$  and year dummies  $\lambda_t$  to complete the difference-in-differences structure, so the coefficient of interest  $\beta_1$  measures the effect of the legislation, controlling for any cross-sectional and pure time-series variation. The estimate of  $\beta_1$  can be

interpreted as causal as long as the dependent variable for treated and non-treated states would follow parallel trends in the absence of the treatment. This assumption is not directly testable, but we can find evidence in its favour by adding lead dummy variables of the treatment variable and show that the parallel trends assumption holds in the years before enacting the law.

### **3.2. *Filing of Management and Shareholder Proposals: Pre-trend Analysis***

To validate our research design, we first report the results of the pre-trend analysis in Table 3. In columns (1) and (2) of Panel A of Table 3, the dependent variables are NUM\_MGT, the number of management proposals per state per year. In columns (3) and (4), the dependent variables are NUM\_SHD, the number of shareholder proposals per state per year. In order to account for the difference in the number of Russell 3000 firms across different states, observations in columns (2) and (4) are weighted by the logarithm of the number of Russell 3000 firms in the states of incorporation. Observations in columns (1) and (3) are not weighted. *DIR\_Staggered* is a dummy variable that equals 1 in the years after the regulation is enacted in the state and 0 otherwise. *DIR\_Staggered\_lag0* is a dummy variable that takes on the value of 1 in the year when the regulation is enacted in the state. *DIR\_Staggered\_lead1* is a dummy variable that equals 1 in the year before the regulation is enacted in the state.

[Insert Table 3]

We find that the coefficients on *DIR\_Staggered\_lead2* are in general insignificant, suggesting that management and shareholders in treated states thus did not adjust behavior differently from those in the non-treated states prior to the enactment of new legislations. We also find that the coefficients on *DIR\_Staggered* in Columns (1) and (2) are positive and significant at the 1% level; the coefficients on *DIR\_Staggered\_lag0* are positive and significant for management proposals in both panels; the coefficients on *DIR\_Staggered* in Columns (3) and (4) are insignificant. These results imply that there does not seem to be a pre-trend between treated groups and control groups

and that after the enactment of the legislation, the number of management proposals significantly increases while the number of shareholder proposals does not change.

In Panel B of Table 3, we further analyze the post-trend. We include *DIR\_Staggered\_lag1*, *DIR\_Staggered\_lag2*, and *DIR\_Staggered\_lag3*, dummy variables that equal 1 in one year, two years and three years after the regulation is enacted, respectively. Again and importantly, we find that the filing of management proposals increases immediately after the legislative changes; yet the filing of shareholder proposals does not change after the legislations were changed. Specifically, in columns (1) and (2) of Panel B, we find an increase in management proposals, mostly in the year upon the enactment of the legislation and the third year after the enactment of the legislation. In contrast, there is no change or even a decrease in the number of the shareholder proposals (in the second year after the enactment of the legislation, in column (4)). Although the new legislation makes shareholder proposals more attractive for shareholders to advance their demand for the installation of majority voting, Table 3 shows that the filing of management proposals increase more than shareholder proposals, suggesting that management proposals may crowd out the filing of shareholder proposals.

### ***3.3. Filing of Management and Shareholder Proposals: Baseline Results***

After validating our DiD design, Table 4 reports results on the number of proposals before and after the regulation enactment. We report the baseline results Panel A, and the results when we restrict the treated period to within 5 years after the enactment of the legislation in Panel B. We try different definitions of treatment and control groups to see whether the effect of majority voting legislation changes on management and shareholder responses is limited to a certain time period (Choi et al, 2016). Panel C reports the results when we exclude firms incorporated in Delaware. For all Panels, dependent variables are numbers of management and shareholder proposals per state per year in columns (1) and (2), and columns (3) and (4), respectively.

Observations are weighted by the logarithm of the number of Russell 3000 firms in the states where the firm is incorporated.

[Insert Table 4]

In columns (2) and (4) of Panel A, *DIR\_SDIR\_Staggered* is defined as a dummy variable that takes on the value of 1 in the years after the regulation is enacted. As the regulation may start to have an effect even in the announcement year, we define that *DIR\_Staggered* also equals 1 in the enactment year in columns (1) and (3). Thus, the coefficients of *DIR\_Staggered* in columns (2) and (4) are likely to be more conservative estimates of the treatment effect. We find that the enactment of legislation changes leads to more management proposals under these two definitions of treated periods. For example, column (1) of Panel A indicates that the enactment of legislation changes leads to an increase in management proposals by 0.392, significant at the 1% level. Because the average number of management proposals before the enactment was 0.04 per year and per each treated state, an increase in the number of management proposal by 0.392 is translated into about 10-fold increase in the treated states after the enactment.

In columns (2) and (4) of Panel B, to balance the importance of early vs. late enacting states, we define *DIR\_Staggered* as a dummy variable that takes on the value of 1 within 5 years after the regulation is enacted. Again, because treatment can have early effects, we include the announcement year in the treated periods for columns (1) and (3). Column (1) of Panel B indicates that the enactment of legislation changes leads to an increase in the number of management proposals by 0.149, significant at the 5% level. This is translated into about 4-fold increase in the number of management proposals in the treated states after the enactment. To the extent that the new laws empower shareholders, we do not find significant increase in the number of shareholder proposals from columns (3) and (4) of both Panels.

One might argue that the treatment effect is mainly driven by firms incorporated in Delaware. We therefore exclude firms incorporated in Delaware from the sample in Panel C of Table 4 and implement the same analysis for this subsample as in Panel B as a robustness check. We find that

the coefficients on *DIR\_Staggered* are still positive and significant at the 1% level for management proposals. In addition, the magnitudes of these coefficients are similar to the ones in Panel B, suggesting that our main result is not likely to be driven by firms incorporated in Delaware. In columns (3) and (4), we find the number of shareholder proposals declines significantly after the enactment of the regulation, corroborating our conjecture that submission of management proposal may crowd out shareholder proposals.

### **3.4. Crowding-out Effect of Management Proposals**

In this subsection, we further explore whether the filing of management proposals crowds out shareholder proposals after the legislative changes at proposal level in Table 5. It examines whether the likelihood of filing a shareholder proposal decreases after the enactment of the legislation and, in particular, after the implementation of a management proposal.

[Insert Table 5]

In Panel A, the dependent variables are *SH\_Proposal\_1*, *SH\_Proposal\_2* and *SH\_Proposal\_3*, dummy variables that equal 1 if shareholders of a firm submit a proposal in the first year, second year, and third year after the enactment of the regulation respectively in columns (1), (2), and (3), respectively. In Panel B, the dependent variables are *SH\_Proposal\_1\_All*, *SH\_Proposal\_2\_All*, *SH\_Proposal\_3\_All* are dummy variables that equal 1 if shareholders submit a proposal *within* one year, two years, and three years after implementation of the management proposals respectively in columns (1), (2), and (3). *DIR\_Staggered* is a dummy variable that takes on the value of 1 in the years after the regulation is enacted. *Adopt\_MGT* is a dummy variable that takes on value 1 if the management proposal is implemented.

The results indicate that after the legislative changes, the implementation of majority voting management proposals leads to a decrease in the probability of shareholder proposals being submitted. For example, in Panel B, the implementation of majority voting management proposals leads to a decrease in the probability of shareholder proposals being submitted by 16.9%



within one year, 15.9% within two years, and 22.2% within three years after the legislative changes.

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

Given that the legislation made the passing of shareholder proposals binding, there seems to be a “crowding-out” effect of management proposals onto shareholder proposals. Such crowd-out behavior might arise due to the benefits of installing majority-voting standard by managers. To further investigate such benefits, we examine the differences in the details of the management proposals in the next section.

#### **4. Why Fronting? The Devil is in the Details**

Apart from an increase in the filing of management proposals, another main aspect of managerial response lies in the implementation form of proposals. When the legislations make the shareholder proposals binding, the legal cost of not implementing these proposals becomes higher. Holding the benefits of implementing majority voting standard stable, we thus should expect higher chances of implementation. However, there is still leeway for the management to deviate from the precise requests of shareholders for implementing the majority-voting standard. For example, although the legislations state that shareholder proposals that aim to change voting standards through bylaws are binding, the management may implement the proposals through charters, which could give the management some power in setting voting standards in the future. In other words, there is scope for future changes if management proposes, but it would be a pre-pack if shareholders propose.

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

#### ***4.1. Implementation of Majority Voting in a Larger Sample***

We first examine whether the regulation improves the chance of implementing majority voting standard in director elections at firm-year level in Table 6. Using Institutional Shareholder Services (ISS) data, we identify the voting requirement related to director elections for firms covered by ISS and track its changes. We also separate firms for which we observe proposals related to changing voting standard in director elections, including both management and shareholder proposals, from firms for which we do not observe these proposals. Note that the sample of firms for which we do not observe proposals also includes firms that our data source *Shark Repellent* from which we obtain proposal information does not cover.

In Table 6, the dependent variable is *MV*, a dummy variable that equals 1 if the voting standard is majority voting, and 0 otherwise. In order to isolate the legislation effect from other unobservable state characteristics, we control for state of incorporation fixed effects and time-varying state headquarter $\times$ year fixed effects (Bertrand and Schoar, 2003; Bertrand, and Mullainathan, 2003). We also control for firm characteristics, including market capitalization, leverage, ROA and Market-to-book ratio. Standard errors are clustered at the state of incorporation level.

[Insert Table 6]

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

Taken together, our findings suggest that the legislation leads to more implementation of majority voting, both under and in the absence of direct shareholder pressure. In the next two subsections, we present two pieces of evidence that suggests managerial fronting based on the details of implementation.

#### ***4.2. Implementation via Bylaw vs Charter***

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

[Insert Table 7]

The dependent variable in columns (1) and (3) of Table 7 is *IMP\_Charter\_Guideline*, a dummy variable that equals 1 if the proposal is implemented via charters or guidelines, and 0 if via bylaws. The dependent variable in columns (2) and (4) is *IMP\_Guideline*, a dummy variable that equals 1 if the proposal is implemented via guidelines, and 0 if via bylaws or charters. *MGT\_Proposal* equals 1 if it is a management proposal. *SHD\_Proposal* equals 1 if it is a shareholder proposal. Columns (1) and (2) include passed proposals, and columns (3) and (4) include both passed and failed proposals. We include only proposals that are implemented; thus, we are comparing the likelihood of different forms of implementation among implemented proposals.

As suggested by Panel C of Table 2, 54.7% of the implemented management proposals are implemented through bylaws, 45.3% of them are implemented through charters, and none of them are implemented through guidelines. 86% of shareholder proposals are implemented through bylaws, only 12.9% of them are implemented through charters, and the rest are through guidelines. In Table 7, we find that for both management and shareholder proposals, they are more likely to be implemented through charters after the legislative changes. For example, column (1) suggests that the likelihood of implementing a proposal through either charter or guideline went up by 49.6% and 35.9% for management and shareholder proposals, respectively. In addition, because the effect disappears when we focus on guidelines as suggested by columns (2) and (4), our results suggest that managers become less likely to implement majority voting via a bylaw, and more likely to implement it via a charter.

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

#### **4.3. Pro-management Implementation**

The previous section documents implementation from the perspective of the institutional framework related to bylaws. In this subsection, we examine to what extent is implementation is beneficial to the management from the perspective of the implementation content. For example, while shareholders can request that the management implement a majority voting system for director elections, the management might choose not to do so, but rather install a resignation policy that is more lenient to directors than what the legislation prescribed.

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

Given these complications, we examine the implementation outcomes from various dimensions in Table 8. The dependent variable in columns (1) and (3) is *IMP\_RES\_NB*, a dummy variable that equals 1 if the proposal is implemented via a resignation policy or other non-binding obligations, and 0 if via strict majority voting. The dependent variable in columns (2) and (4) is *IMP\_NB*, a dummy variable that equals 1 if the proposal is implemented via other non-binding obligations, and 0 if via a resignation policy or strict majority voting. Columns (1) and (2) include passed proposals, and columns (3) and (4) include both passed and failed proposals. We include only proposals that are implemented as in Table 7.

As suggested by Panel C of Table 2, 51.6% of the implemented management proposals are implemented through strict majority voting, 33.6% of them are implemented through resignation policy, and the rest are implemented through other non-binding obligations. 81.9% of the shareholder proposals are implemented through strict majority voting, only 7% of them are implemented through charter, and the rest are through other non-binding obligations.

[Insert Table 8]

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

Such fronting behavior may discourage shareholders to bring proposals that match to their expectation. First, if a management proposal partially implements the activists' preferred provision, activists still face substantial costs in proxy contests (Gantchev, 2013) in order to implement marginal improvement. Second, it is more difficult to rally other shareholders if the

new shareholder proposal only brings limited changes. This is also consistent with our first finding that only the number of management proposals increases after the legislative changes, but not shareholder proposals.

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

The objective of this section is to analyze the value implications of implementing majority rules in director elections as well as to have some information about the drivers of managers to avoid, amend or replace these rules. In previous sections, we show that managers front the binding nature of legislative changes by coming up with their own proposals. However, for many other firms, managers did not implement majority voting; these firms are in some way *selected* insofar managers decided that majority voting was undesirable either from the point of view of shareholder value or their own private benefits. By measuring the shareholder value of majority voting before and after the staggered enactment of the new legislation, we can gain some insight on the nature of this selection and the motives of managers to implement or resist the implementation of majority voting rules.

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

We provide a simple analytical framework to help understand the value implication of shareholder proposals that aim to change firms' voting standard from plurality voting to majority voting. We denote the firm-specific value under plurality voting  $\pi_p$  and under majority voting  $\pi_m$ . Firm values  $\pi_m$  and  $\pi_p$  under the two voting standards follow a certain distribution across firms  $g(\pi)$ ,  $\pi \in (\pi_l, \pi_h)$ . The manager cares about the firm value. Specifically, she cares about an  $\alpha$  fraction of the firm value where  $\alpha$  is a congruence parameter arising from the manager's incentive schemes, reputational concerns, and etc.. The manager also receives a private benefit from running the firm, which depends on the cost of making a decision misaligned with shareholders.

Before the legislative change, the manager obtains a private benefit of  $u_p$  under plurality voting and  $u_m$  under majority voting. Because plurality voting confers less monitoring power to shareholders in disciplining directors and consequently managers, we assume that the private benefit that managers could get under plurality voting standard is greater than under majority voting standard,  $u_p > u_m$ .

When making the decision of which voting standard to implement, a manager compares the utilities she could obtain under the two voting standards. Her utility is  $\alpha\pi_m + u_m$  under majority voting, and  $\alpha\pi_p + u_p$  under plurality voting. If majority voting yields a higher utility, that is, if  $\pi_m \geq \bar{\pi} = \pi_p + (u_p - u_m)/\alpha$ , then the manager would have voluntarily implemented the majority voting standard before a proposal is initiated by shareholders. Because the manager always voluntarily implements the majority voting for values of  $\pi_m$  above the cutoff, we should only observe shareholder proposals with values below the cutoff  $\bar{\pi}$ .

### ***5.1.1. Changing the Cutoff***

In our setting, the legislative change may reduce a manager's private benefit under the plurality voting standard. This is because directors face a greater threat of displacement from shareholders if they allow managerial entrenchment. We model this effect by assuming that the manager's private benefit decreases from  $u_p$  to  $u'_p$  under plurality voting ( $u'_p < u_p$ ) after the legislative change. Thus, the manager will implement the majority voting standard if  $\alpha\pi_m + u_m \geq \alpha\pi_p + u'_p$ . In other words, the new cutoff is  $\pi_m \geq \tilde{\pi} = \pi_p + (u'_p - u_m)/\alpha$ . It is obvious that  $\tilde{\pi} < \bar{\pi}$ .

As the manager would voluntarily implement majority voting for proposal value  $\pi_m$  above the new cutoff, only shareholder proposals with values below the new cutoff will be submitted. Thus, we only need to consider the distribution of proposals left to the new cutoff for the comparison of market reaction to proposal implementation before and after the enactment. As the



legislation changes the sampling of shareholder proposals from  $\pi \in (\pi_l, \bar{\pi})$  to  $\pi \in (\pi_l, \tilde{\pi})$ , the sampling of proposals consists of proposals with lower values after the enactment. As a result, the change in market reaction to management implementation should be negative.

### ***5.1.2. Changing the Implementation Policy***

The legislation may directly change a manager's implementation policy, as firms face greater litigation costs of not implementing a shareholder proposal after the legislative change. In this section, we assume that the legislative change only affects the manager's implementation distribution, not the private benefit under plurality voting standard (or the sampling of the shareholder proposals).

Suppose that the manager implements proposals following a distribution  $f(\pi)$  before the enactment of new legislation and  $f'(\pi)$  after the enactment. Specifically, for proposals of values below the cutoff  $\bar{\pi}$ , implementation distribution  $f'(\pi)$  weighs more on proposals with a value closer to  $\bar{\pi}$ , that is, shifting the density from left to right. This assumption is consistent with notion that the management is under greater pressure to implement proposals with higher shareholder values after the enactment. To the extent that the legislative change makes the manager more likely to implement proposals with a greater value, the change in market reaction should be positive.

In conclusion, the above analysis presents two competing forces: lowering the cutoff of proposal sampling and increasing the implementation probability of proposals. If the former effect (that is, selection into no-fronting) dominates, we should see a negative change in the market reaction after the legislative change.

## ***5.2. Empirical Specification: Combining DiD with an RD Design***

To investigate how non-implementing firms are selected, we assess the shareholder returns around close-call votes to implement majority rules. We perform the analysis for firms both

before and after the staggered enactment of binding votes by state. In particular, we combine in a single specification an RDD design on shareholder votes with a DiD structure using the staggered implementation of binding voting rules by different states. The RDD structure has been shown to be useful in determining the shareholder value of certain proposals by treating firms that pass or reject a shareholder proposal by a small margin as akin to being randomly allocated to each side of the threshold.<sup>9</sup> At the same time, the RDD approach entails selection into the sample of *no-fronting*: only firms that have not yet voluntarily implemented majority voting participate in the identification. In this section, we take this selection to our advantage to shed some light on the motivations of managers to propose their own versions of majority-voting provisions.

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

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

where  $CAR_{it}$  is a measure of cumulative abnormal returns on a window around a shareholder vote,  $Pass_{it}$  is an indicator function that takes value 1 if a proposal passes and 0 otherwise and  $f(Vote)$  is a flexible function that absorbs any continuous relationship between the dependent variable and the vote. We use several approaches for  $f(Vote)$  including a high order polynomial over the full vote support or a linear function over an optimally calculated narrow window around the majority threshold (Calonico, Cattaneo and Titiunik 2014). The identification strategy relies on all unobserved heterogeneity about the implementation of the proposal being reflected in the vote outcome, that is, if we observe two firms with the same vote outcome we can infer that their characteristics are drawn from the same distribution of firms. The effect of any characteristics, observable or unobservable that are correlated with the vote outcome in a continuous way is absorbed by  $f(Vote)$  and the only characteristic that *jumps* discontinuously at the majority threshold is the probability of implementing the proposal. The coefficient  $\beta_1$  therefore measures

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<sup>9</sup> See Cuñat, Gine and Guadalupe 2012 and 2013.

the effect of passing a proposal and is the intent to treat (ITT) estimator of the value of the proposal.

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

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

And the TOT effect is estimated as a Wald estimate  $TOT = \beta_1/\beta_2$  following the same structure as a two-stage instrumental variables approach. In order to compare the value of a proposal before and after enacting the legislation, we can run nested regressions in which the DiD structure is combined with an RDD.

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

Here we have two different coefficients for proposals that pass before or after the treatment (enacting the law). The difference-in-difference structure is achieved by having a different  $f(Vote)$  structure per year and a different  $f(Vote)$  structure for the treated and non-treated. Specifically, this is achieved by introducing polynomials that are different for each side for the treated and non-treated. We also introduce polynomials that are different for each side for each year.

The implementation probability of a proposal that passes changes substantially for treated states. For this reason, it is important to re-scale both  $\beta_1$  and  $\beta_2$  by the jump in probability at the majority threshold for treated and non-treated state-year combinations. We can estimate a similar specification for the implementation probability:

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

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

### 5.3. *Results*

We estimate the difference in abnormal returns and the difference in implementation probabilities for shareholder proposals on majority voting that narrowly pass or fail by a small margin of votes in Table 9. We introduce polynomials, different for treated and control states, also different for each side of the threshold, up to order 1 in columns (1) and (2), order 2 in columns (3) and (4), order 3 in columns (5) and (6), and order 4 in columns (7) and (8) respectively. We introduce polynomials of order 1, different for each year, same for each side in columns (1), (3), (5), and (7), different for each side in columns (2), (4), (6), and (8). All models from columns (1) to (4) follow non-parametric estimation using the bandwidths generated by the approach proposed by Calonico, Cattaneo, and Titiunik (2014) with uniform kernel functions and take the minimum bandwidths of IMP and CARs. Columns (5) to (8) follow parametric estimation and use the full sample. To validate our use of the RDD design, we conduct manipulation tests following Cattaneo, Jansson and Ma (2016a) and McCrary (2008) in Table B.4.<sup>10</sup>

[Insert Table 9]

The results in Panel A of Table 9 focus on the implementation probabilities before and after the enactment of state rules. The dependent variable is IMP, a dummy that takes on value 1 if the proposal is implemented. We also provide the analysis of an unnested model in Table B.5. As it was commonly argued that the implementation probabilities of shareholder proposals were very low before it was legislated that they should be binding, our results show a coefficient for the variable *pass* that is negative and statistically indistinguishable from zero. This coefficient measures the change in implementation probabilities at the majority threshold before states enacted legislation. However, the coefficient on *Pass*×*DIR\_Staggered* is positive and large. In most cases, it is statistically significantly different from zero. This indicates that the implementation probability of majority rules at the threshold clearly increases after enacting the majority-voting legislation. The jump in probability after the legislation can be obtained by

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<sup>10</sup> Bach and Metzger (2018) show potential vote manipulation issues for the top 10 shareholder proposals in the sample. We test explicitly that this is not the case in our sample, which does not overlap with theirs.

adding the coefficients on *Pass* and *Pass×DIR\_Staggered*, and ranges between 30% and 63%. The reason why the implementation jump is not 100% given that the proposals are binding is that managers may implement some proposals that do not pass by a small margin, and that, via litigation, some of the proposals that pass are contested.

In Panel B we report the same specification, but this time applied to CARs on a window that starts three trading days before the vote and ends three days after the vote. The results show negative point estimates before the enactment of the legislation, ranging from -0.3% to -2.3%. Given that these results are statistically not significantly different from zero and neither are the changes in implementation probabilities, it is hard to economically interpret them. However, the results for abnormal returns after the staggered enactment of the legislation indicate negative jump in abnormal returns of 3% to 8%.

Given that any continuous variation is absorbed by the polynomials, one can interpret the coefficient on *DIR\_Staggered* as the reaction to a close failed vote after the enactment, and the coefficient on *Pass×DIR\_Staggered* as the differential effect of enacting relative to not enacting on a close passed vote. According to this interpretation, after the enactment, the market reaction to the vote goes from very positive when the vote fails and close to zero when the vote passes or close to zero when the vote fails and negative when the vote passes, depending on the specifications. For example, in column 2, market reaction is 4.8% if the vote fails and -0.3% if the vote passes, and in column 5, the market reaction is 1.5% if the vote fail and -5.5% if the vote passes. In any case, the market reacts to the passing of the proposal more negative after the enactment of the legislation, compared to point estimates between -0.3% to -2.3% if the vote passes before the enactment of the legislation.

To obtain the shareholder value of the proposal itself (ToT) we need to rescale this estimate by the previous estimate of the jump in implementation at the majority threshold to reach negative abnormal returns between 6% and 12% depending on specification. As explained in the previous analytical framework, there are two important margins by which the market reaction to

shareholder proposals can change before and after the enactment of binding voting rules. The first one, is that the jump in the probability of implementing a proposal at the majority threshold is different for the two periods. Before the enactment of the laws, managers seemed quite reluctant to implement majority-voting rules, even when shareholders voted in favor of them. After the enactment of the laws, it is compulsory for managers to follow the recommendation of the vote. This second effect is compensated by rescaling the results on abnormal returns appropriately to reach a ToT estimator. The selection channel is the effect of interest. Are those firms for which managers resist the most the implementation of majority rules those that need them the most or the least? Shedding some light on this question would help understanding the relative weight in the manager's objectives between maximizing shareholder value or keeping some private benefits of control.

Going back to the results in Table 7, if we focus strictly on the point estimates, the Wald estimate for the effects of majority rules before and after the enactment of the rules goes from positive to negative. However, the effect is very imprecisely estimated before enactment. In any case, it seems clear that the market reaction to the implementation of majority rules is more negative after the enactment of the majority rules. If we consider that the impact of majority rules can be heterogeneous across firms, the negative effect is informative of the selection of the firms that did not front. Therefore, the results could indicate that managers resist the implementation of the rules precisely in firms where implementation would be most value-destroying.<sup>11</sup> The forceful implementation of majority rules after the staggered enactment of state rules may have been positive for some firms but negative for others. The market regards them as detrimental for those

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<sup>11</sup> In Table B.6, we provide an analysis of firm characteristics before and after the legislative changes. Panel A reports the results for firm characteristics; Panel B reports the results for board characteristics. We find that the financial characteristics of the firms that were in the sample before the legislative changes were not significantly different from firms that are in the sample after the legislative changes, but governance characteristics differ significantly. We find that firms that have a bigger board size, more connected CEO and directors, and lower voting participation are more likely to front after the new legislation. These results indicate that firms in which majority voting is more likely to lead to director turnovers and shareholder voting is less informative are more likely to front.

firms in which managers resisted implementation the most or avoided putting forward their own versions of majority rules. Although a full analysis of managers' motives is beyond what is feasible with our approach, these results suggest that managers do have shareholders' value in mind when they selectively put forward management proposals or when they selectively implement shareholder proposals.

## **6. Conclusion**

Previous literature examining the proxy voting process focuses on the effectiveness of shareholder proposals. However, little is known about the role of management in this process. Indeed, the management not only can file proposals that come head to head with shareholder proposals, but more importantly, they have significant power in choosing which shareholder proposals, which part of the proposal, and which legal form to implement. In this paper, we examine the managerial response to the empowerment of shareholders when legislation makes shareholder proposals binding. Specifically, we use the staggered enactment of majority voting legislation changes that made the shareholder votes on majority-voting standards binding, hence increasing the likelihood of proposal implementation.

Our findings illustrate the presence of management fronting behavior following the legislative changes. Managers pre-empt shareholder proposals by proposing their own provisions in advance. One possible motivation of this fronting is that a management proposal has characteristics that make it more management-friendly and crowds out future alternative shareholder proposals. We find evidence that is consistent with this idea. When the implementation of shareholder votes becomes binding, the filing of management proposals increases substantially but the number of shareholder proposals does not. Moreover, when we focus on a given type of provision, manager and shareholder proposals tend to differ. Management sponsored proposals have a propensity to use charter changes to adopt the majority voting standard, which gives managers a greater say in future changes of the voting standard.

Management also strategically chooses the specifics to implement: they tend to not strictly implement the majority-voting standard but only cover part of the proposals. Finally, we explore the nature of selection of those firms that resist the most the implementation of majority standards. Managers of firms that are likely to suffer the most from the new legislation in terms of value tend to resist the implementation of the new rules. Thus, we do not find evidence of misalignment of interests between managers and shareholders in implementing majority-voting standard.

Our paper contributes to the shareholder activism by showing that managers indeed have substantial leeway in coping with shareholder pressure, reflected in the filing of management proposals and the details of the proposals that are implemented. By investigating selection into no-fronting, our paper also sheds some light on the recent debate on whether corporate governance regulations should empower shareholder to a greater extent.



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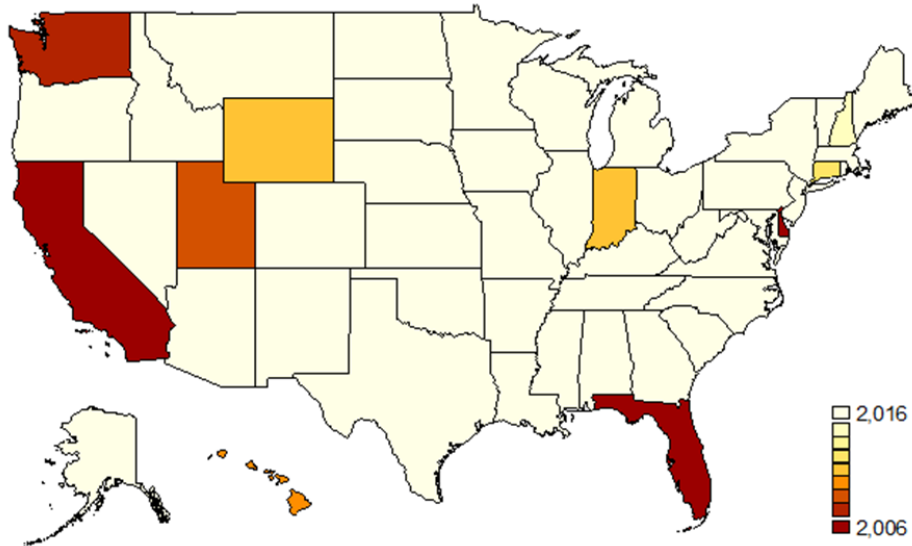
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## Figures and Tables

**Figure 1. States that enacted legislative changes**

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



**Table 1. Number of Proposals by Year**

This table provides the number of proposals brought by management and shareholders regarding voting requirements in director election for Russell 3000 firms from year 2005 to year 2015. The proposals are further categorized by ones that fail or pass the shareholder voting.

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

**Table 2. Descriptive Statistics**

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

Variables	Management				Shareholder				Total			
	N	Mean	Median	Std.	N	Mean	Median	Std.	N	Mean	Median	Std.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>Panel A: By firms</i>												
Log(Total Assets)	242	8.332	8.248	1.754	434	8.982	9.083	1.845	673	8.752	8.852	1.841
Log(Market Cap)	242	8.012	8.017	1.808	434	8.765	8.964	1.753	673	8.501	8.709	1.805
Leverage	241	0.229	0.221	0.185	434	0.262	0.236	0.187	672	0.251	0.230	0.187
ROA	242	0.088	0.073	0.081	434	0.069	0.070	0.206	673	0.076	0.073	0.172
Sales Growth	241	0.082	0.065	0.238	434	2.449	0.084	11.379	672	1.610	0.078	9.212
Tobin's Q	221	1.788	1.367	1.171	387	1.978	1.404	2.017	605	1.910	1.397	1.761
CAR3	242	0.000	-0.001	0.038	434	0.000	0.000	0.034	673	0.000	-0.001	0.035
<i>Panel B: By proposals</i>												
Pass	247	0.927	1	0.260	435	0.485	0	0.500	682	0.645	1	0.479
Vote Percentage (%)	246	96.471	98.1	5.179	435	53.146	49.7	17.162	681	68.796	65.8	25.128
Implementation	247	0.903	1	0.297	435	0.393	0	0.489	682	0.578	1	0.494
<i>Panel C: By implemented proposals</i>												
IMP_Charter_Guideline	223	0.453	0	0.499	179	0.140	0	0.348	402	0.313	0	0.464
IMP_Guideline	223	0.000	0	0.000	179	0.011	0	0.105	402	0.005	0	0.070
IMP_RES_NB	223	0.484	0	0.501	171	0.181	0	0.386	394	0.353	0	0.478
IMP_NB	223	0.148	0	0.356	179	0.112	0	0.316	402	0.132	0	0.339

**Table 3. Regulation Enactment and Number of Proposals: Pre-trend Analysis**

This table reports the pre-trend analysis of the number of proposals before the regulation enactment. Dependent variables are numbers of management and shareholder proposals per state per year in columns 1 and 2, and columns 3 and 4 respectively. Observations in columns 2 and 4 are weighted by the logarithm of the number of Russell 3000 firms in the states where the firm is incorporated. *DIR\_Staggered* is a dummy variable that equals 1 in the years after the regulation is enacted in the state where the firm is incorporated. *DIR\_Staggered\_lag0* is a dummy variable that takes on the value of 1 in the year when the regulation is enacted in the state where the firm is incorporated. *DIR\_Staggered\_lead1* is a dummy variable that takes on the value of 1 year before the regulation is enacted. *DIR\_Staggered\_lag1*, *DIR\_Staggered\_lag2* and *DIR\_Staggered\_lag3* are dummy variables that take on the value of 1 one year, two years and three years respectively after the regulation is enacted. All models control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

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

**Table 4. Regulation Enactment and Number of Proposals**

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

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

**Table 5. Management Proposals Crowd Out Shareholder Proposals**

This table analyzes whether management proposals crowd out shareholder proposals. In Panel A, the dependent variable is *SHD\_Proposal\_1*, *SHD\_Proposal\_2*, *SHD\_Proposal\_3*, a dummy variable that equals 1 if shareholders submit a proposal in the first year, second year, and third year after the enactment of the regulation in column (1), (2), and (3), respectively. In Panel B, the dependent variables are *SHD\_Proposal\_1\_All*, *SHD\_Proposal\_2\_All*, and *SHD\_Proposal\_3\_All*, dummy variables that equal 1 if shareholders submit a proposal within one year, two years, and three years after implementation of the management proposals in columns (1), (2), and (3), respectively. *DIR\_Staggered* is a dummy variable that equals 1 in the years after the regulation is enacted in the state where the firm is incorporated. *Adopt\_MGT* is a dummy variable that equals 1 if the management proposal is implemented. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

Panel A: non-cumulative			
Dependent variable	SHD Proposal 1	SHD Proposal 2	SHD Proposal 3
	(1)	(2)	(3)
DIR_Staggered	-0.096*	-0.003	0.105
	(0.056)	(0.109)	(0.094)
Adopt_MGT	0.100*	-0.023	0.025
	(0.051)	(0.067)	(0.056)
DIR_Staggered×Adopt_MGT	-0.169**	0.011	-0.064
	(0.063)	(0.065)	(0.059)
State fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes
R-squared	0.020	0.012	0.013
N	643	643	643
Panel B: cumulative			
Dependent variable:	SHD Proposal 1 All	SHD Proposal 2 All	SHD Proposal 3 All
	(1)	(2)	(3)
DIR_Staggered	-0.096*	-0.098	0.007
	(0.056)	(0.097)	(0.140)
Adopt_MGT	0.100*	0.077	0.102
	(0.051)	(0.081)	(0.100)
DIR_Staggered×Adopt_MGT	-0.169**	-0.159*	-0.222**
	(0.063)	(0.082)	(0.101)
State fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Cluster at state level	Yes	Yes	Yes
R-squared	0.020	0.036	0.050
N	643	643	643



**Table 6. Implementation of Majority Voting Proposals**

This table analyzes the implementation patterns of majority voting standard in firms for which we observe proposals related to voting standard in director elections in column (1), including management and shareholder proposals, and of firms for which we do not observe these proposals in column (2), and all firms in column (3). The dependent variable is *MV*, a dummy variable that equals 1 if the voting standard in director elections follows majority voting. *DIR\_Staggered* is a dummy variable that equals 1 in the years after the regulation is enacted in the state where the firm is incorporated. We control for state fixed effects and state headquarter×year fixed effects. We also control firm characteristics, including market value, leverage, ROA and Market-to-book ratio. Standard errors are clustered at the state level. Standard errors are given in parentheses. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

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

**Table 7. Implementation through Bylaw and Others**

This table analyzes the implementation patterns for both shareholder and management proposals. We include only proposals that are implemented. The dependent variable in columns 1 and 3 is *IMP\_Charter\_Guideline*, a dummy variable that equals 1 if the proposal is implemented via charters or guidelines, and 0 if via bylaws. The dependent variable in columns 2 and 4 is *IMP\_Guideline*, a dummy variable that equals 1 if the proposal is implemented via guidelines, and 0 if via bylaws or charters. *DIR\_Staggered* is a dummy variable that equals 1 in the years after the regulation is enacted in the state where the firm is incorporated. *MGT\_Proposal* equals 1 if it is a management proposal and 0 otherwise. *SHD\_Proposal* equals 1 if it is a shareholder proposal. Columns 1 and 2 include passed proposals, and columns 3 and 4 include both passed and failed proposals. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

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

**Table 8. Pro-management Implementation**

This table reports the results for the analyses of the pro-management implementation behavior. We include only proposals that are implemented. The dependent variable in columns 1 and 3 is *IMP\_RES\_NB*, a dummy variable that equals 1 if the proposal is implemented via a resignation policy or other non-binding obligations, and 0 if via strict majority voting. The dependent variable in columns 2 and 4 is *IMP\_NB*, a dummy variable that equals 1 if the proposal is implemented via other non-binding obligations and 0 if via a resignation policy or strict majority voting. *DIR\_Staggered* is a dummy variable that equals 1 in the years after the regulation is enacted in the state where the firm is incorporated. *MGT\_Proposal* equals 1 if it is a management proposal. *SHD\_Proposal* equals 1 if it is a shareholder proposal. Columns 1 and 2 include passed proposals, and columns 3 and 4 include both passed and failed proposals. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

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

**Table 9. RDD&DiD of Implementation and Abnormal Returns**

This table presents RDD&DiD regressions of implementation and abnormal returns on whether the proposal is passed. The dependent variable in Panel A is *IMP*, a dummy that takes on value 1 if the proposal is implemented. Dependent variables in Panel B are *CAR3*, cumulative abnormal returns for the (-3,+3) window, estimated using Fama–French and momentum factors from Carhart (1997). We introduce polynomials, different for treated and control, also different for each side of the threshold, up to order 1 in columns 1 and 2, order 2 in columns 3 and 4, order 3 in columns 5 and 6, and order 4 in columns 7 and 8 respectively. We introduce polynomials of order 1, different for each year, same for each side in columns 1, 3, 5 and 7, different for each side in columns 2, 4, 6 and 8. All models from columns 1 to 4 use the bandwidths generated by the non-parametric approach proposed by Calonico, Cattaneo, and Titiunik (2014) with uniform kernel functions and take the minimum bandwidths of implementation and CARs. Columns 5 to 8 use full sample. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	(-6;+6)		(-8;+8)		All		All	
<i>Panel A: Implementation</i>								
Pass	-0.129 (0.156)	-0.081 (0.190)	-0.229 (0.172)	-0.102 (0.136)	-0.188 (0.191)	-0.167 (0.211)	-0.271 (0.201)	-0.314 (0.195)
DIR_Staggered	-0.144 (0.135)	-0.243 (0.162)	-0.057 (0.167)	-0.166 (0.173)	-0.240 (0.177)	-0.227 (0.143)	-0.215 (0.200)	-0.185 (0.192)
Pass×DIR_Staggered	0.509** (0.208)	0.708*** (0.217)	0.526*** (0.172)	0.558*** (0.140)	0.688*** (0.235)	0.690** (0.257)	0.782*** (0.229)	0.844*** (0.225)
State fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummy*same for two sides	Yes	No	Yes	No	Yes	No	Yes	No
Year dummy*different for two sides	No	Yes	No	Yes	No	Yes	No	Yes
Order poly	1	1	2	2	3	3	4	4
Cluster at state level	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R-squared	0.043	0.126	0.066	0.203	0.236	0.248	0.233	0.252
N	130	130	169	169	416	416	416	416
<i>Panel B: CARs (-3,+3)</i>								
Pass	-0.013 (0.021)	-0.013 (0.024)	-0.023 (0.019)	-0.022 (0.021)	0.014 (0.014)	0.012 (0.014)	-0.003 (0.018)	-0.002 (0.020)
DIR_Staggered	0.039*** (0.008)	0.048*** (0.004)	0.067*** (0.012)	0.073*** (0.009)	0.015** (0.006)	0.018*** (0.006)	0.024** (0.010)	0.027*** (0.009)
Pass×DIR_Staggered	-0.051** (0.018)	-0.039 (0.028)	-0.037* (0.018)	-0.030 (0.029)	-0.084*** (0.018)	-0.085*** (0.019)	-0.063** (0.026)	-0.065** (0.028)
State fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummy*same for two sides	Yes	No	Yes	No	Yes	No	Yes	No
Year dummy*different for two sides	No	Yes	No	Yes	No	Yes	No	Yes
Order poly	1	1	2	2	3	3	4	4
Cluster at state level	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj R-squared	-0.033	0.038	-0.018	0.011	-0.004	-0.006	0.003	-0.001
N	130	130	169	169	416	416	416	416

## Appendix A: Variable Definitions

Variables	Definition
CAR3	Cumulative abnormal returns for the (-3,+3) window, estimated using Fama–French and momentum factors from Carhart (1997)
DIR_Staggered	Dummy variable that equals 1 in the years after the regulation is enacted in the state where the firm is incorporated
IMP	Dummy variable that equals 1 if the management changes the voting standard to majority voting via bylaw, charter, or guideline, and 0 otherwise
IMP_Charter_Guideline	Dummy variable that equals 1 if the proposal is implemented via charters or guidelines, and 0 if via bylaws.
IMP_Guideline	Dummy variable that equals 1 if the proposal is implemented via guidelines, and 0 if via bylaws or charters
IMP_RES_NB	Dummy variable that equals 1 if the proposal is implemented via a resignation policy or other non-binding obligations, and 0 if via strict majority voting
IMP_NB	Dummy variable that equals 1 if the proposal is implemented via other non-binding obligations, and 0 if via a resignation policy or strict majority voting
Leverage	Total debt (dltt+dlc) divided by equity (ceq)
Log(Market Cap)	Log of equity market value (prcc_f*csho)
Log(Total Assets)	Log of total assets (at)
MGT_Proposal.	Dummy variable that equals 1 if it is a management proposal, and 0 otherwise
MV	Dummy variable that equals 1 if the voting standard in director elections follows majority voting in that year, and 0 otherwise
NUM_MGT	Total number of proposals brought by management for each state and in each year
NUM_SHD	Total number of proposals brought by shareholders for each state and in each year
Pass	Dummy variable that equals 1 if a proposal is passed by shareholder
ROA	Return on assets, calculated by net income (ni) divided by total assets (at)
Sales Growth	One year growth in sales (sale)
SHD_Proposal	Dummy variable that equals 1 if it is a shareholder proposal, and 0 otherwise
SHD_Proposal_1/2/3	Dummy variables that equal 1 if shareholders submit a proposal in the first year, second year, and third year after the enactment of the regulation, respectively
SHD_Proposal_1/2/3_All	Dummy variables that equal 1 if shareholders submit a proposal within

	one year, two years, and three years after implementation of the management proposals
Tobin's Q	Market value of the firm ( $at-ceq+csho*prcc\_f$ ) over asset value of the firm (at)
Vote for Percentage	Votes "for" as a percentage of all votes cast

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## Appendix B: Additional Tables

**Table B.1: Number of Proposals by Year without Delaware**

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

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

**Table B.2: Number of Proposals by State**

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

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



**Table B.3: Predicting Enactment**

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

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

**Table B.4: Manipulation Test**

Panel A and B provides manipulation test statistics based on Cattaneo, Jansson and Ma (2016a) and McCrary (2008) respectively.

	Before enactment	After enactment
	(1)	(2)
<i>Panel A: Cattaneo, Jansson and Ma (2016a) test</i>		
T	-1.291	-0.514
P>T	0.197	0.608
Effective number of obs	131	76
Number of obs	293	142
<i>Panel B: McCrary (2008) test</i>		
Log difference in height	-0.219	-0.539
Standard error	0.315	0.512

**Table B.5: RDD Estimates of Implementation and Abnormal Returns**

This table reports the results of RDD estimates of implementation and abnormal returns. All models use the non-parametric approach proposed by Calonico, Cattaneo, and Titiunik (2014) with uniform kernel functions. The dependent variable in Panel A is a dummy that takes on value 1 if the proposal is implemented via bylaw. Dependent variables in Panel B are abnormal returns for the (-3,+3) window. Abnormal returns are computed using Fama–French and momentum factors from Carhart (1997). Columns 1 and 2 restrict the sample to observations before the regulation is enacted. Columns 3 and 4 restrict the sample to observations after the regulation is enacted. Columns 1 and 3 introduce a polynomial in the vote share of order 1. Columns 2 and 4 introduce a polynomial in the vote share of order 2. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

	Before enactment		After enactment	
	(1)	(2)	(3)	(4)
<i>Panel A: Implementation</i>				
Pass	-0.166	-0.217	0.395	0.452
	0.18565	0.21264	0.27092	0.30547
BW loc. poly. (h)	6.689	10.979	9.364	13.753
Order poly	1	2	1	2
Observation	110	174	51	73
<i>Panel B: CARs (-3,+3)</i>				
Pass	0.023	0.027	-0.073	-0.066
	0.01518	0.01955	0.05373	0.08129
BW loc. poly. (h)	6.264	6.576	6.18	7.689
Order poly	1	2	1	2
Observation	103	109	41	45

**Table B.6: Selection**

This table reports the characteristics of firms and boards before and after the legislative changes. Panel A reports the results for firm characteristics; Panel B reports the results for board characteristics. *DIR\_Staggered* is a dummy variable that equals 1 in the years after the regulation is enacted. We control for state and year fixed effects. Standard errors are clustered at the state level. Standard errors are given in parentheses. \*\*\*, \*\* and \* indicate significance at the 1%, 5% and 10% level respectively.

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