Why Do Shareholder Votes Matter?

Web Appendix

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1 Internal and External Validity of the Voting Experiment

An evaluation of the testable assumptions (e.g., the manipulation of the forcing variable and the possibility of other changes at the same cutoff value of the covariate) is crucial in any RDD design. The deferral of these tests until the appendix is solely to ensure the readability of the main paper. In Section 1.1 we carefully test the internal validity of our voting experiment by employing the McCrary density tests and testing for changes at the cutoff value of various predetermined outcomes. We also test the external validity of the experiment in Section 1.2.

1.1 Internal Validity of the Voting Experiment

The internal validity of our estimates rests on the assumption that small variations in the vote share obtained by a proposal are random. This means in particular that there is not any systematic manipulation of the results when the result is a close call.

Such an assumption can be properly tested. One powerful test has been proposed by McCrary (2008) and rests on the assumption that if there was strategic voting, one should observe that the density of proposals subject to a vote exhibits a significant jump at the 50% majority threshold. Another test of the randomness of passing a governance proposal in closely-contested votes consists in running placebo experiments with outcomes that cannot possibly be affected by the passing of the proposal because they were measured before the meeting.

We start by analyzing the CII threshold. Figure A.2 (left) shows that there is no significant jump in the density at the majority threshold. The estimated discontinuity from the corresponding McCrary test is not statistically different from zero. Table A.1 analyzes the effect of passing the CII threshold on some previously determined outcomes: size, Tobin's Q, return on equity, CEO wage, CEO age, corporate governance (G-index), as well as different measures of institutional ownership. None of the estimated effects are statistically significant.

Running similar tests on the ISS threshold (Table A.1, panel B and Figure A.2 (right)), we do not find any evidence of manipulation either.

1.2 External Validity of the Voting Experiment

One remaining caveat of our identification approach, which is common to all regression discontinuity designs, is that the causal estimates may not be representative of a significant share

of US companies. However, the treatment we have in mind, the majority support for a shareholder proposal, does not affect firms randomly but only those in which there is a shareholder proposal with a significant likelihood of reaching majority support. Therefore, the benchmark for external validity of our results should not be the average S&P 1500 firm but the average firm in which a vote on one of the popular shareholder proposals takes place. To this effect, in Table A.1, panel A and B, we compare a series of structural firm-level variables measured prior to the meeting in the entire sample we have constructed and in the sample of closely-contested proposals (between 47% and 53% of the vote share).

Analyzing the CII threshold, we find that firms with closely-contested proposals are very similar to other firms in our sample. This holds for firm size, performance, and CEO characteristics. There are, however, small differences in institutional ownership (measured by institutional ownership concentration as well as by share of top 20 institutional investors. Interestingly, firms with closely-contested proposals have less/lower institutional ownership concentration / top 20 share. The differences are small in relative terms. Overall, the CII threshold experiment takes place in a quasi-representative sample.

The picture looks different at the ISS threshold, as firms tend to be much smaller and also slightly less well governed when support for a proposal reaches such a high level (see Panel B of Table A.1). It is not surprising: it is more difficult for a proposal to reach 50% of outstanding shares if the number of shareholders that must be voting is very large, unless the firm is particularly ill-governed. In principle the degree of entrenchment of management is higher in such firms, so the impact of ISS recommendations on turnovers, director elections, and value should be higher than in the representative firm.

2 Details of RDD Estimation

The RDD methodology brings a series of concerns about estimation and its efficiency. The reason is that, unless the sample of close-call votes has infinite size, there are never enough instances in which vote shares are just at one and the other border of the passing threshold to guarantee a reasonable level of statistical power for tests of the significance of the impact of proposal passage. With a finite sample, it is therefore necessary to use information far away from the threshold and compensate for the potential extrapolation bias by modelling the continuous

relationship between the vote share and the outcome on each side of the treatment threshold. This modelling process contains a lot of degrees of freedom, but the econometric literature has converged towards a set of best practices which we will closely follow (Lee and Lemieux (2010)).

For all of our outcomes and treatments of interest, we begin with plotting averages of the outcome of interest over small intervals of the voting metric according to which the passing threshold is defined. Those bin averages give a sense of the credibility of the jump caused by crossing the majority threshold. Those intervals over which averages are constructed should be small enough that the link between the outcome and the vote looks quite erratic, but big enough to make sure that a jump at the treatment threshold is visible if it is really there. We follow the procedure laid out in Calonico, Cattaneo and Titiunik (2014) in order to produce graphs which respect those two conditions. Those graphs come together with a global polynomial fit of the data to the right and to the left of the passing threshold in order to get a sense of a magnitude of the treatment effect.

Once reassured by non-parametric graphs about the existence or lack of an effect of proposal passage, we turn to local linear regressions in order to provide precise estimates and statistical tests. The key parameter in such an exercise is the bandwidth of the non-parametric estimation; it should be small enough to limit the extrapolation bias and big enough to provide statistical power. We use the algorithm designed by Imbens and Kalyanaraman (2012) to obtain such an optimal bandwidth. We provide treatment estimates for bandwidths that are 50% lower and 50% bigger than the optimal level so as to make sure results are not overly sensitive to bandwidth choice. Another robustness check consists in using instead a parametric approach: we compare means of the outcome three percentage points to the left of the majority threshold and three percentage points to the right. This has the advantage of being intuitively the closest equivalent to considering the passage of a proposal as a random event (Calonico, Frandsen, Titiunik, 2014).

3 Implementation

Our measure of implementation of proposals serves to identify boards' response to shareholder votes and sanctions taken by CII and ISS when those institutions consider a proposal has not been implemented. We look at SEC filings in the year following the meeting in order to check whether

the proposal is implemented and count as missing observations for which the firm has merged or gone bankrupt before implementation of the proposal could be observed in that year. Because we want to rule out cases where a firm had already decided to implement the proposal before the vote took place, we also look at filings made in the year before the meeting. We do not condition our search for implementation on a proposal having reached majority vote. The form of implementation is very proposal-specific so we now detail our criteria for implementation per proposal type.

3.1 Repeal Classified Boards

Putting in place the annual election of directors requires an amendment to the bylaws, which most of the time requires a shareholder vote. For that reason, almost all cases of implementation of such proposals involve the submission by management of a proposal to amend the bylaws at the following annual meeting, which can be checked in the corresponding proxy statements. We have also considered a proposal to declassify the board as implemented if the following year the board does not recommend voting against a similar shareholder proposal the following year. Sometimes, bylaws are amended without a vote taking place, and such amendments are notified in 8-K filings.

3.2 Repeal or vote on Poison Pills

Poison pill proposals may take place regardless of whether the firm currently has a pill (i.e., a rights plan) in place. The difference is that when the firm already has a rights plan, shareholder proponents primarily push for the elimination of the current plan, while if there's no pill they generally want the board to commit to put future pills to a shareholder vote. There are many ways management can react to a successful proposal (Giné and Moussawi, 2007). For firms with an existing pill, we consider a proposal to have been substantially implemented if an existing pill terminates earlier than originally planned or if it is substantially lightened through a chewable feature, the end of dead-hand provisions or regular oversight by independent directors (TIDE provisions). This information is generally available in 8-A12B or 8-K filings. For firms that do not have a pill, proposals are implemented through commitments made by the board to consult shareholders in case a pill should be adopted[2]. Such policies are usually advertised in proxy

[2] In a few cases, bylaws are also amended to make sure shareholders are consulted.

statements. We do not make distinctions between policies that always require a shareholder vote before adopting a pill and those that give boards an option to skip this step (*fiduciary out* clause).

3.3 Eliminate Supermajority Requirements

By design, the reduction of voting requirements requires a shareholder vote. We mark a proposal as implemented if the following year management submits a proposal to amend the corresponding bylaws or if the board does not recommend voting against a similar shareholder proposal. We consider that management has reacted to the proposal if it has acted to remove some but not all supermajority requirements.

3.4 Right to Call a Special Meeting or Act by Written Consent[3]

Implementing those proposals requires an amendment to the bylaws, but not necessarily a vote. We consider such a proposal implemented if bylaws are directly amended by the board (8-K filing) or if the following year management submits a proposal to amend the corresponding bylaws or if the board does not recommend voting against a similar shareholder proposal. If management reduces the special meeting requirement, but not down to the level initially demanded by shareholder proponents, we still regard the proposal as implemented.

3.5 Majority Voting in Director Elections

Following the movement for majority voting started in 2004-2005, companies have officially implemented majority voting but with many degrees of efficacy (Cai, Garner and Walkling, 2013). We mark such proposals as implemented if boards have amended or made steps to amend the bylaws to impose majority voting for directors or resignation policies for directors failing to get a majority of votes. This means we do not consider the simple adoption of non-binding resignation guidelines as implementation. This very light step has in fact been taken by most listed firms, even if not asked by shareholders, making its relevance dubious. Moreover, ISS has stated that it does not consider such guidelines as a form of implementation of majority-vote proposals (Allen, 2007).

3.6 Vote on Golden Parachutes

Golden parachute proposals typically require a shareholder vote on the adoption of severance payments above a certain limit. We consider a proposal implemented if the board commits never

[3] Those two proposal types are often mixed together by proponents and management, which is why we bundle them.

to implement such severance payments in the future or if it commits to put their adoption to a vote. This commitment is generally displayed in the proxy statement.

3.7 CEO-Chairman Separation

Those proposals generally require the board to regularly appoint an independent chairman. We consider such proposals to be implemented if the board enacts such a policy, if it cancels an existing policy of having the CEO as chairman, if it creates a position of lead independent director/presiding director, if it starts to organize non-executive board sessions or if an independent director becomes chairman for a non-temporary period.

3.8 Say-on-Pay

This is implemented if either a management proposal to organize an advisory vote on executive compensation is submitted or such a vote is organized at the next meeting. Firms benefitting to TARP funds were required by law to hold such a vote starting in 2009; for those firms, we consider that proposals discussed in 2008 have an unobservable implementation status. Similarly, we consider that all proposals discussed in 2010, which were implemented following the Dodd-Frank Act, have an unobservable self-implementation status.

3.9 Option Expensing

We consider that a proposal to expense employee stock option plans is implemented if in the next 10-K statement, such plans are indeed expensed in the official income statement (not just as part of pro forma accounts). The FASB imposed option expensing in December 2004, so we consider that proposals discussed from 2004 onwards have an unobservable self-implementation status.

4 Majority Thresholds according to the State Rule

Table A.2 shows the distribution of majority thresholds across states. While in 13 states the approval threshold is based on counting votes “For over For plus Against plus Abstentions”, abstentions are not counted in the majority of the states.

Table A.3 shows that in the majority of the cases (1,589 out of 2,473), the approval threshold is “For over For+Abainst+Abstentions” according to the state law, while in the remaining 884 cases only votes “For” and “Against” are counted. Rows 1 to 3 show the corresponding corporate threshold. For instance, in 1,057 proposals, the corporate charter defines the threshold in terms of

votes “For over For plus Against”. The table also shows the compliance rate by the firms: in 717 out of 884 cases (81%) firms do not deviate from the simple majority state threshold. In the case of “For over For plus Against plus Abstentions”, firms only comply in 73% of the cases.

As we explain in Section 4.2., the data collection process for the management threshold is very demanding and time-consuming. Given that firms comply with the state rule in the majority of the cases, using the state-level threshold as a proxy for the management threshold may be a good and handy approximation.

We, therefore, check whether crossing the approval threshold set by the state law has any effect on adoption (similar to our findings on the management threshold in Section 5.1). In our empirical and graphical analysis, we look at the full sample and use the threshold defined by the state law as the threshold of interest. Figure A.3 shows a sharp and significant effect of passing the state-level threshold on implementation: The likelihood of implementation doubles and goes up by 20 percentage points. This result is confirmed in the non-parametric as well as parametric analysis (see Table A.4). The estimated effect is between 18 and 20% and significant at the 1%-level.

5 Figures

Figure A.1: Thresholds and Samples

1.A: Thresholds / Voting Rules:

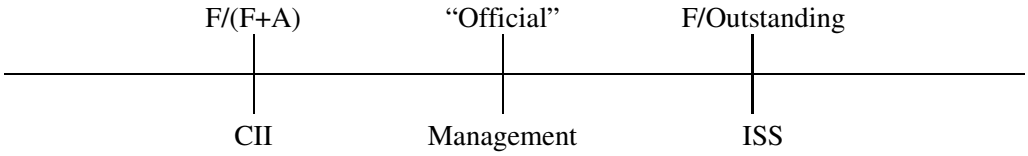


Figure 1.A illustrates and labels the different thresholds this paper focuses on. The CII threshold only considers votes "for" and "against", while the ISS threshold counts "abstentions", "broker non-votes", and "absent votes" de facto as votes against the proposal, i.e., the approval threshold is 50% of votes "for" over shares outstanding. The official threshold, which we call the "management threshold", is defined by the corporate bylaws. This threshold is fixed and known to shareholders before the shareholder meeting and can be based on any voting rule as discussed in Section 2.2., including the CII and ISS voting rule. In our main specifications, when evaluating the treatment effect of passing the CII (ISS) threshold, we require the CII (ISS) threshold to be different from the management threshold.

1.B: Specifications / Samples of interest:

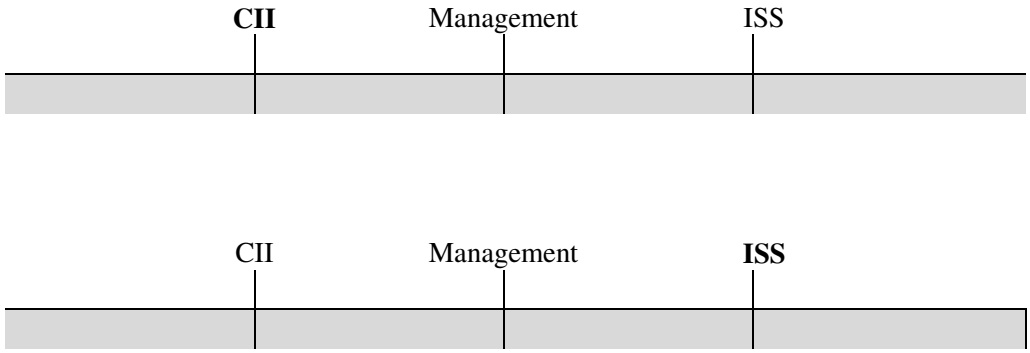
1.B.1: Specification 1: Mngt-CII > 1%

This specification requires that the number of votes counting against the proposal according to the CII and management rule differ by at least 1% of votes effectively cast "for" and "against", i.e., there is a "voting gap" of at least 1%. As an example, consider the case when the management rule is to count abstentions in the denominator (which is the same thing as treating them as votes against the proposal) and the proposal obtains the following results: 501 for, 499 against and 50 abstentions. The voting result is 50.1% according to CII, 47.7% according to management, and the corresponding voting gap is 5% (i.e., 50/(501+499)) of votes "for" and "against".

1.B.2: Specification 2: Mngt-CII > 2%

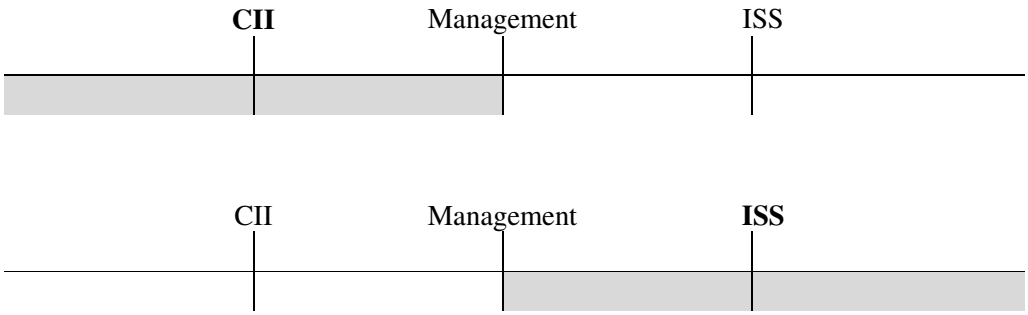
This specification requires that the number of votes counting against the proposal according to the CII and management rule differ by at least 2% of votes effectively cast "for" and "against", i.e., there is a "voting gap" of at least 2%.

1.B.3: Specification 3: Full Sample



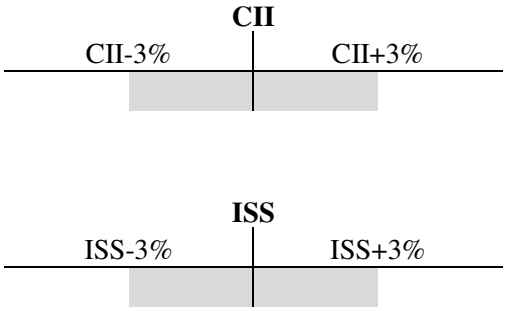
The upper part Figure 1.B.3 shows the proposals in grey that are considered when evaluating ant treatment effect of passing the CII threshold (bold). The lower part shows the equivalent considered proposals in for an evaluation of the ISS threshold. In this specification all proposals are used. The treatment effects are estimated by running local linear regressions.

1.B.4: Specification 4: No Contamination Sample



The upper part Figure 1.B.4 shows the proposals in grey that are considered when evaluating ant treatment effect of passing the CII threshold (bold). To avoid contamination by passing also the management threshold, this specification focuses only on proposals that have *not yet* passed the management threshold. The lower part shows the equivalent considered proposals when evaluation of the ISS threshold. To avoid contamination by not passing the management threshold, this specification focuses only on proposals that have already passed the management threshold. The treatment effects are estimated by running local linear regressions.

1.B.5: Specification 5: Parametric estimation with controls



The upper part Figure 1.B.5 shows the proposals in grey that are considered when evaluating ant treatment effect of passing the CII threshold (bold). The lower part shows the equivalent considered proposals when evaluation of the ISS threshold. These specifications use only proposals that are contested, i.e., in which the voting outcome it in the range of 47-53% around the threshold of interest. This specification is estimated parametrically using OLS and controlling for potential effects of passing other thresholds as well. For example, we estimate the treatment effect of passing the CII threshold on outcome Y by running the following regression:

$$Y_i = \alpha + \beta_1 Pass(CII)_i + \beta_2 Pass(Mngt)_i + \beta_3 Pass(ISS)_i + \varepsilon_i$$

In this example the sample is restricted to proposals that reach support between 47 and 53% according to the CII voting rule; the coefficient of interest is β_1.

Figure A.2: Example of disagreement between the Management and CII

Freeport-McMoRan Copper & Gold Inc.
1615 Poydras Street
New Orleans, LA 70112
P.O. Box 51777
New Orleans, LA 70151

Douglas N. Currault II
Assistant Secretary
Telephone: 504-582-8412
FAX: 504-582-4250

July 27, 2000

Via Telecopy and Mail

Sarah Ball Teslik
Executive Director
Council of Institutional Investors
Suite 512
1730 Rhode Island Avenue, N.W.
Washington, DC 20036

Dear Ms. Teslik:

Mr. Moffett asked me to respond to your letter dated July 14, 2000 with respect to the stockholder proposal regarding our classified board structure.

As noted in your letter, at our 2000 annual meeting of stockholders Mr. Harold J. Mathis, Jr. and the New York City Employees' Retirement System sponsored a resolution requesting that our board take action to provide that new directors be elected annually. This was the third straight year that this proposal has been presented to our stockholders and has failed to pass. Once again the proposal failed to pass in 2000 because it received less than a majority of votes cast. Specifically, holders of 61,513,873 shares (49.45% of the votes cast) voted for, holders of 59,862,912 shares (48.12% of the votes cast) voted against and holders of 3,026,978 shares (2.43% of the votes cast) abstained from voting on the resolution.

In your letter, you indicated that "a majority of your shareholders supported a resolution" to repeal the classified board. Your website, http://www.cii.org/majvote00.htm, entitled "2000 Majority Vote Companies," also reports a majority vote in favor of the classified board resolution. However, as noted above, the proposal failed to receive a majority of the votes cast, although it did receive more votes "for" than "against." Because the proposal did not receive a majority of the votes cast (in fact, it received less than 38.5% of the total outstanding shares voting), it failed. As a result, the stockholders did not request board action, and no board action is required at this time.

We request that your website be revised to accurately reflect that the proposal did not receive a majority of votes cast and to remove any statements suggesting that the proposal passed.

Sincerely,

Douglas N. Currault II

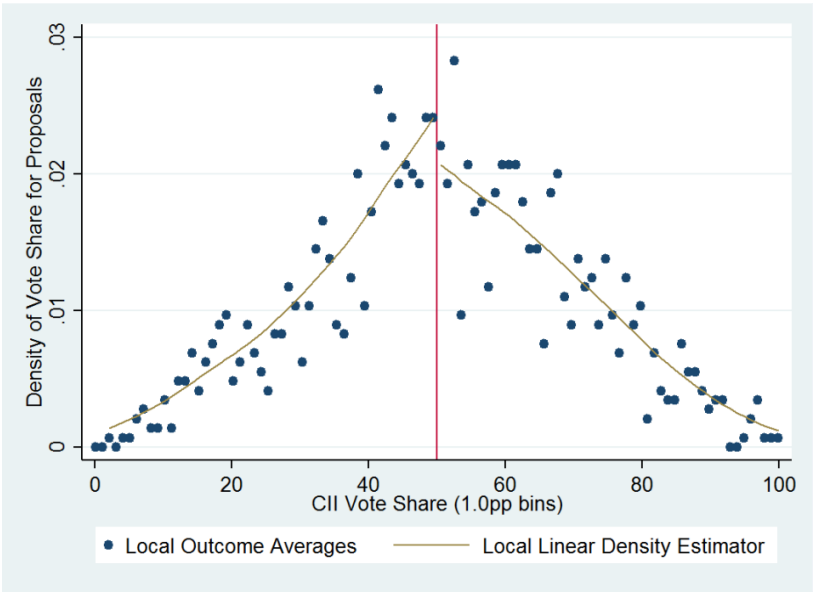
cc: Harold J. Mathis, Jr.
Ken Sylvester, New York City Pension Funds
James R. Moffett

{F5003858.1}

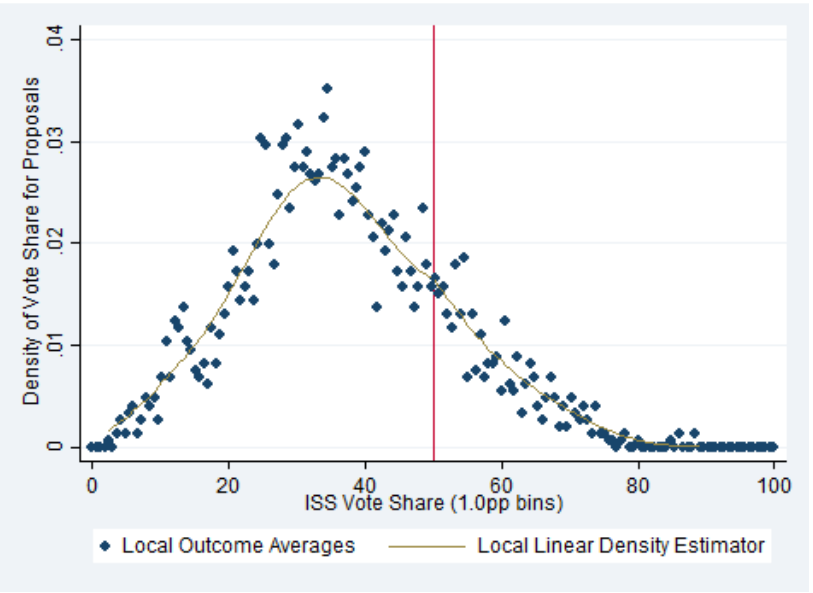
Figure A.3: Distribution of Voting Shares Around the Approval Thresholds

Proposals are grouped into one percentage-point bins: proposals that passed by between 0% and 1% are assigned to the first bin to the right of the red vertical line, and those that failed by similar margins are assigned to the first bin to the left of that line. The local linear regression is estimated using the bandwidth suggested by McCrary (2008). The first figure shows the results for proposals at the CII threshold (voting rule: For/(For+Against), the second figure at the Management threshold, and the third figure at the ISS threshold (voting rule: For/Outstanding). Proposals for which the threshold of interest overlaps (or differs by less than 0.5% of cast votes) with another threshold are excluded. Source : ISS (1997-2011).

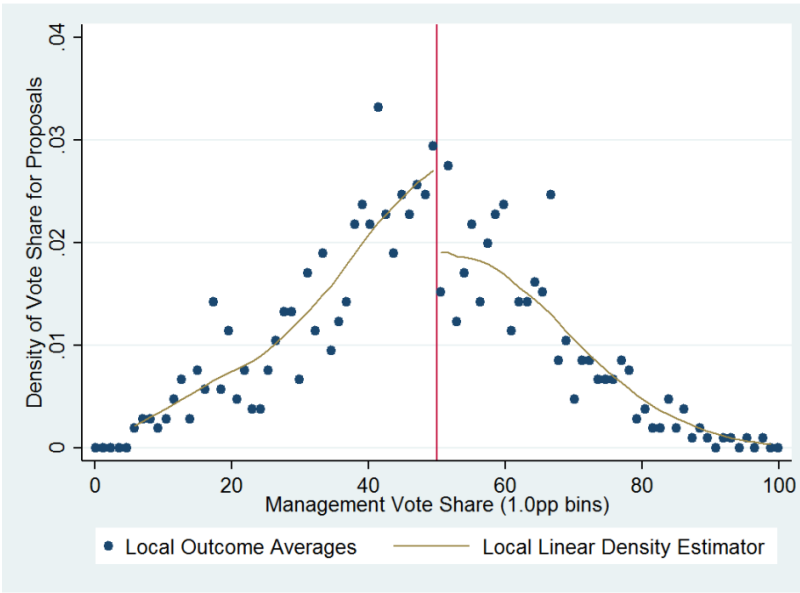
CII



ISS



Management



Management (full sample)

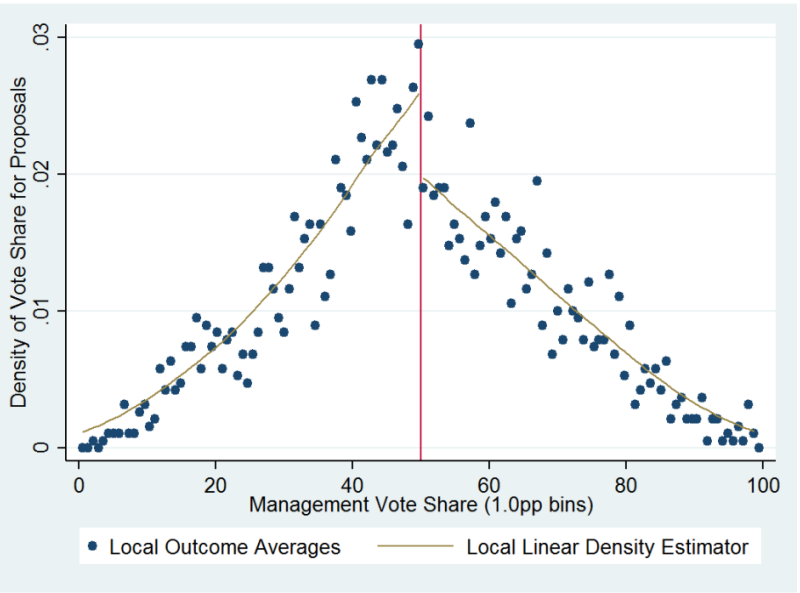
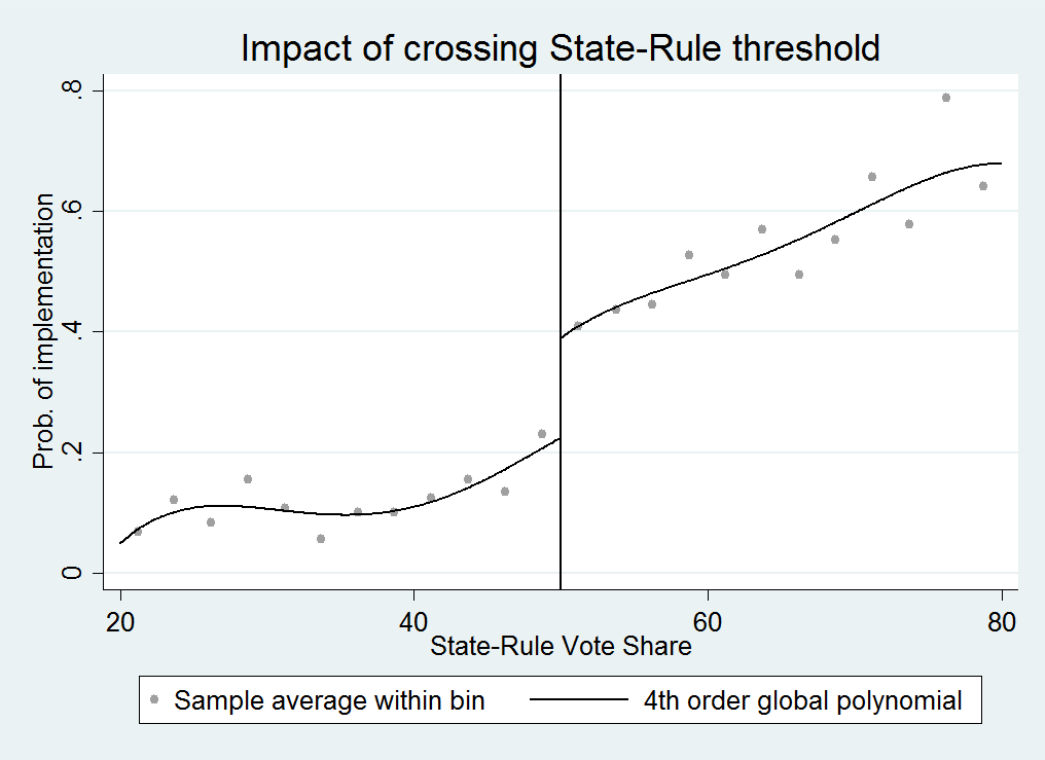


Figure A.4: Ex-post Implementation of Shareholder Proposals and Shareholder Voting

Implementation is a dummy variable equal to one if the proposal is implemented in the year after the shareholder meeting in which a proposal is put to the vote. The figure shows the results for proposals at the state-level threshold. Source : DEF 14A filings (1997-2011).



6 Tables

Table A.1: Internal and External Validity of the Vote Discontinuity Quasi-Experiment

For placebo tests, each column presents the treatment effect on the outcome titled on the leftmost column of passing a proposal at either the CII or the ISS threshold using different sample restrictions (baseline and full sample) and different estimation methods (local linear regression with triangular kernel and IK bandwidth, and difference-in-means in a -3/+3 window around the threshold). For external validity tests, we perform difference-in-means tests between observations that correspond to heavily contested proposals (either according to the CII or to the ISS threshold) and those where there is little uncertainty over the outcome. Variables are described in Table A.5. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, ExecuComp, Compustat (1997-2011).

Panel A: CII Threshold

	Placebo Tests						
	Local Linear Regressions						**OLS**
Log(Assets)	-0.02	-0.19	-0.03	0.54	-0.10	0.44	0.38
	(0.22/566)	(0.33/295)	(0.19/746)	(0.24/394)**	(0.19)	(0.26/451)	(0.25/197)
Tobin's Q	0.25	0.60	0.13	-0.13	-0.01	0.24	0.01
	(0.31/572)	(0.47/301)	(0.24/761)	(0.26/367)	(0.14)	(0.33/397)	(0.25/197)
ROE	-0.01	0.02	-0.01	0.04	-0.02	0.03	0.02
	(0.02/704)	(0.02/454)	(0.02/809)	(0.03/234)	(0.01)	(0.03/312)	(0.02/160)
Log(Wage Ratio)	-0.21	-0.21	-0.25	-0.12	-0.16	-0.01	0.05
	(0.16/693)	(0.21/395)	(0.14/855)*	(0.25/355)	(0.12)	(0.2/449)	(0.19/196)
CEO Age	-1.74	-2.22	-1.21	-0.89	0.66	0.07	0.27
	(1.25/400)	(1.72/201)	(1.01/566)	(1.17/412)	(0.89)	(1.54/377)	(1.12/197)
G-Index	-0.50	-0.63	-0.47	-0.24	-0.42	-0.67	-0.54
	(0.32/525)	(0.45/268)	(0.28/694)	(0.37/331)	(0.25)	(0.37/429)	(0.37/189)
Ownership (HHI)	0.006	0.009	0.006	0.004	0.005	0.003	0.003
	(0.004/600)	(0.005/325)*	(0.004/786)*	(0.005/338)	(0.003)	(0.004/652)	(0.005/189)
Share of top20 inst. investors	0.013	0.012	0.020	0.006	0.011	-0.021	-0.016
	(0.02/564)	(0.02/302)	(0.01/749)	(0.02/399)	(0.01)	(0.02/361)	(0.02/189)
Scaling	100%	50%	150%	100%	100%	100%	N/A
Sample		Mngt-CII > 1%		Mngt-CII > 2%	Mngt-CII > 0%	No cont.	(47,53)

External Validity

	Non-Contested proposals		**Contested proposals (47,53)**		**Difference**	
Assets (Log)	9.60	2171	9.73	341	0.13	0.1
Tobin's Q	1.28	2169	1.38	341	0.09	0.09
ROE	0.12	1841	0.13	292	0.01	0.01
CEO compensation (Log)	8.75	2162	8.81	338	0.06	0.07
CEO Age	56.32	2171	56.74	341	0.42	0.4
G-Index	6.51	2052	6.55	326	0.04	0.13
Ownership (HHI)	0.043	2077	0.040	332	-0.003	0.0014**
Share of top20 institutional investors	0.66	2077	0.65	332	-0.02	0.01**

Panel B: ISS Threshold

Placebo Tests

	Local Linear Regressions				**OLS**
Log(Assets)	-0.32	-0.38	-0.17	-0.37	-0.31
	(0.19/993)*	(0.28/503)	(0.17/1534)	(0.24/632)*	(0.17/227)*
Tobin's Q	0.04	0.17	0.03	0.18	0.13
	(0.16/1525)	(0.22/730)	(0.14/2092)	(0.25/598)	(0.18/227)
ROE	0.02	0.03	0.01	0.04	0.02
	(0.01/1171)	(0.02/568)	(0.01/1674)	(0.02/424)	(0.02/206)
Log(Wage Ratio)	0.00	-0.06	0.08	-0.05	-0.04
	(0.12/1259)	(0.19/609)	(0.11/1831)	(0.16/697)	(0.12/227)
CEO Age	-1.04	-1.03	-1.27	-2.14	-1.69
	(0.69/1988)	(0.97/1028)	(0.61/2356)**	(1.26/507)*	(0.86/227)*
G-Index	-0.19	-0.03	-0.13	-0.13	0.00
	(0.23/989)	(0.32/503)	(0.19/1498)	(0.3/547)	(0.22/217)
Ownership (HHI)	-0.001	0.002	-0.001	0.002	0.001
	(0.002/1391)	(0.003/664)	(0.002/1954)	(0.003/554)	(0.002/217)
Share of top20 institutional investors	0.006	0.015	0.001	0.003	0.012
	(0.01/1027)	(0.02/516)	(0.01/1560)	(0.01/990)	(0.01/217)
Scaling	100%	50%	150%	100%	N/A
Sample		Mngt-CII > 0,1,2%		No cont.	(47,53)

External Validity

	Non-Contested proposals		**Contested proposals (47,53)**		**Difference**	
Assets (Log)	9.68	2275	9.03	237	-0.65	0.12***
Tobin's Q	1.29	2273	1.36	237	0.07	0.09
ROE	0.12	1919	0.11	214	-0.01	0.01
CEO compensation (Log)	8.77	2263	8.68	237	-0.09	0.07
CEO Age	56.42	2275	55.95	237	-0.47	0.44
G-Index	6.48	2151	6.84	227	0.36	0.14**
Ownership (HHI)	0.0430	2183	0.0428	226	-0.0001	0.0017
Share of top20 institutional investors	0.66	2183	0.68	226	0.02	0.01**

Table A.2: Voting Rules according to the State Law

This table shows the voting rule according to the state low for the different states in the US. We collect data on the voting rules on state level from LexisNexis.

State	Voting Rule	State	Voting Rule
Alaska	F/(F+A+AB)	Mississippi	F/(F+A)
Alabama	F/(F+A)	Montana	F/(F+A)
Arkansas	F/(F+A)	North Carolina	F/(F+A)
Arizona	F/(F+A)	North Dakota	F/(F+A+AB)
California	F/(F+A)	Nebraska	F/(F+A)
Colorado	F/(F+A)	New Hampshire	F/(F+A)
Colorado	F/(F+A+AB)	New Jersey	F/(F+A)
Connecticut	F/(F+A)	New Mexico	F/(F+A+AB)
District of Columbia	F/(F+A)	Nevada	F/(F+A)
Delaware	F/(F+A+AB)	New York	F/(F+A)
Florida	F/(F+A)	Ohio	F/(F+A)
Georgia	F/(F+A)	Oklahoma	F/(F+A+AB)
Hawaii	F/(F+A)	Oregon	F/(F+A)
Iowa	F/(F+A)	Pennsylvania	F/(F+A)
Idaho	F/(F+A)	Rhode Island	F/(F+A+AB)
Illinois	F/(F+A+AB)	South Carolina	F/(F+A)
Indiana	F/(F+A)	South Dakota	F/(F+A)
Kansas	F/(F+A+AB)	Tennessee	F/(F+A)
Kentucky	F/(F+A)	Texas	F/(F+A+AB)
Louisiana	F/(F+A)	Utah	F/(F+A)
Massachusetts	F/(F+A)	Virginia	F/(F+A)
Maryland	F/(F+A)	Vermont	F/(F+A)
Maine	F/(F+A)	Washington	F/(F+A)
Michigan	F/(F+A)	Wisconsin	F/(F+A)
Minnesota	F/(F+A+AB)	West Virginia	F/(F+A)
Missouri	F/(F+A+AB)	Wyoming	F/(F+A)

Table A.3: Deviations from the State Rule

This table shows the frequencies of the different majority rules by state and corporate level respectively on proposal level. The columns show frequencies of the different thresholds according to the state law, while the columns represent the corresponding thresholds according to the corporate charter (the management threshold).

		State rule		
		F+A	F+A+AB	Total
Corporate rule	F+A	717	340	1057
	F+A+AB	95	1153	1248
	F+A+AB+NV	15	57	72
	Outstanding	57	39	96
	Total	884	1589	2473

Table A.4: The Effect of Passing Governance Proposals on Proposal Implementation

Each column presents the treatment effect on implementation of passing a proposal at the state-level threshold using the full sample. We use different estimation methods (medium, small and large bandwidth, and OLS). The implementation dummy is a dummy variable that is equal to 1 if the firm has implemented the proposal within one year after the shareholder meeting. Standard errors clustered at firm-level in parentheses. *** p<0.01 ** p<0.05 * p<0.1 Source: ISS, CRSP, ExecuComp, Compustat (1997-2012).

	State-level threshold			
	Local Linear Regressions			OLS
Coeff.	18.09%	20.18%	19.68%	18.83%
s.e.	(4.99)***	(7.18)***	(4.25)***	(5.11)***
Scaling	100%	50%	150%	N/A
Covariates		No		Yes
Sample		Full		(47,53)

	State-level threshold			
	Local Linear Regressions			OLS
Coeff.	18.09%	20.18%	19.68%	18.83%
s.e.	(4.99)***	(7.18)***	(4.25)***	(5.11)***
Scaling	100%	50%	150%	N/A
Covariates		No		Yes
Sample		Full		(47,53)

Table A.5: List of Variables

Panel A: Firm and CEO Characteristics

Variable Name	**Description**	**Database**
CEO age	Age of incumbent CEO at the time of the meeting	Execucomp
CEO excess compensation (log)	Total compensation of CEO at end of the year before the meeting over market cap	Execucomp + Compustat
Market cap (M$)	Logarithm of market cap at end of the year before the meeting	Compustat
Book-to-market	Book-to-market is the ratio of book value of common equity (previous fiscal year) to market value of common equity (end of previous fiscal year).	Compustat
ΔBook/Mkt (x100) (after one, two, three years)	The difference between the book-to-market ratio one, two, three years after the shareholder meeting compared to book-to-market in the year before the meeting.	Compustat
ROE	Return on Equity is the ratio of Net income to book value of equity plus Deferred Taxes and Investment Tax Credit.	Compustat
ΔROE (x100) (after one, two, three years)	The difference between ROE one, two, three years after the shareholder meeting compared to ROE in the year before the meeting.	Compustat
G-index	G-index is the governance index of the firm in the end of the year before the meeting	RiskMetrics

Panel B: Voting Outcomes, Proposal Implementation, Valuation

Variable Name	Description	Database
Vote share CII (F/(F+A))	Percentage of votes for proposal over votes for plus votes against proposal	RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR
Vote share Management	Percentage of votes for proposal over denominator according the the bylaws of the company	RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR
Vote share ISS (F/Outstanding)	Percentage of votes for proposal over shares outstanding	RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR
Passing CII	Dummy for when a proposal reaches 50% of votes according to the CII threshold, i.e., if the vote share CII reaches 50%	RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR
Passing Management	Dummy for when a proposal reaches 50% of votes according to the Management threshold, i.e., if the vote share Mangement reaches 50%	RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR
Passing ISS	Dummy for when a proposal reaches 50% of votes according to the ISS threshold, i.e., if the vote share ISS reaches 50%	RiskMetrics, ISS/Voting Analytics, Georgeson corporate governance reviews, and SEC filings in EDGAR
CAR[0,0] meeting	CAR[0,0] for meeting day (Market Model, Value-weighted), winsorized at the 1% level	CRSP
Implementation	Dummy for implementation of the proposal by the government in the year after the shareholder meeting.	SEC filings in EDGAR

Panel C: CEO Turnover

Variable Name	Description	Database
CEO turnover	Dummy for when a turnover occurs in the two years following meeting	Factiva
CEO turnover CARs	CAR[0,+1] for CEO turnover day (Market Model, Value-weighted)	Factiva + CRSP
Bad CEO turnover	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below the lowest quartile of the CARs at the announcement days of CEO turnovers	Factiva + CRSP
Medium CEO turnover	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] above the lowest quartile and below the highest quartile of the CARs at the announcement days of CEO turnovers	Factiva + CRSP
Good CEO turnover	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] above the highest quartile of the CARs at the announcement days of CEO turnovers	Factiva + CRSP
Bad CEO turnover and good ROA	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below the lowest quartile of the CARs at the announcement days of CEO turnovers and a previous positive industry-and-performance-adjusted ROA	Factiva + Compustat
Bad CEO turnover and bad ROA	Dummy for when a turnover occurs in the two years following meeting, with a CAR[0,+1] below the lowest quartile of the CARs at the announcement days of CEO turnovers and previous negative industry-and-performance-adjusted ROA	Factiva + Compustat

Panel D: Director Recommendation and Elections

Variable Name	Description	Database
Mean votes against directors	Mean withholding vote share of incumbent directors (in place by the year of the initial shareholder meeting) at the next year's shareholder meeting	SEC filings in EDGAR
Log votes against incumbent directors	Average logarithm of the withholding vote share across incumbent directors (in place by the year of the initial shareholder meeting) at the next year's shareholder meeting	SEC filings in EDGAR
Mean votes against CEO	Mean withholding vote share of incumbent CEO (in place by the initial shareholder meeting) at the next year's shareholder meeting	SEC filings in EDGAR
Log votes against CEO	Logarithm of the withholding vote share of incumbent CEO (in place by the initial shareholder meeting) at the next year's shareholder meeting	SEC filings in EDGAR
Log of Votes against best director	Logarithm of votes against the incumbent management nominee that receives the highest fraction of support at the next year's shareholder meeting, i.e., 100%-votes of best director.	SEC filings in EDGAR
Votes against best director	Withholding vote share of the incumbent management nominee that receives the highest fraction of support at the next year's shareholder meeting.	SEC filings in EDGAR
Log of Votes against worst director	Logarithm of votes against the incumbent management nominee that receives the least fraction of support at the next year's shareholder meeting. i.e., 100%-votes of worst director.	SEC filings in EDGAR
Votes against worst director	Withholding vote share of the incumbent management nominee that receives the lowest fraction of support at the next year's shareholder meeting.	SEC filings in EDGAR
Recommendation against a director	Dummy equal to one if ISS recommends "vote no" against at least one of the incumbent management nominees at the next year's shareholder meeting.	ISS/Voting Analytics
Recommendation against all directors	Dummy equal to one if ISS recommends "vote no" against all incumbent management nominees at the next year's shareholder meeting.	ISS/Voting Analytics

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