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

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Abstract

We study how managers react to shareholder empowerment that makes votes on shareholder proposals binding. We empirically exploit staggered legislative changes that introduce such empowerment for proposals regarding majority voting in director elections. We find that managers become more responsive to shareholder requirements by initiating majority voting through either management proposals or governance guidelines. This early action crowds out shareholder proposals. Further results suggest compromised implementation: Managers adopt provisions that give them greater control over the channel of implementation and allow them to retain directors who fail in elections. Our results suggest that managers retain substantial discretion to modulate shareholder requirements. This article was partially completed when Wu was at Fudan University. Any errors are attributable solely to the authors.

I. Introduction

Shareholders can influence firms through two distinct voting mechanisms. The first is an indirect democracy mechanism analogous to the election of political representatives. Under this mechanism, shareholders elect directors, who then make decisions about who runs the firm and how it is managed. The second is a direct democracy channel that requires a shareholder referendum on specific proposals

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submitted either by shareholders or by management. While an indirect democracy confers authority on the board of directors (Bainbridge (2005)), a direct democracy enables shareholders to intervene in a firm's operation directly (Bebchuk (2004)). Regulators often change the rules of both direct and indirect shareholder democracies to improve the effectiveness of voting and to adjust managerial authority.

Managers are responsive to shareholder proposals even when they are advisory (Cuñat, Gine, and Guadalupe (2012)). Managers can also modify the impact of shareholder proposals by adjusting the specific details and conditions of their implementation. Managerial responsiveness to shareholder proposals could, therefore, reflect not only managers' will to compromise and follow shareholders' demands, but also their incentives to moderate and modulate shareholders' proposals by keeping control over their implementation timing and details. This moderation may be an attempt to maximize shareholder value by including the viewpoints of better-informed managers. However, it may also result from managerial objectives being misaligned with those of shareholders and, thus, may reflect a compromised implementation of shareholder demands (Bebchuk (1989), Min (2017)).

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

The legislative change provides a suitable setting to study how managers react to shareholder empowerment in a direct democracy. Before the new legislation, plurality voting was the default standard in director elections in almost all U.S. states and met with increasing criticism for its disregard of withheld votes.[1] The new legislation makes the shareholder approval of a majority-voting standard via a bylaw binding, preventing managers from unilaterally amending or repealing the standard and, thus, effectively raising their non-compliance costs for not implementing shareholder requests.[2] More broadly, the law fosters stricter voting rules and can create peer pressure from other firms that adopt majority-voting standards.

We exploit the staggered enactment of the new law in a difference-in-differences (DiD) setting to causally explore a broad set of managerial responses to shareholder empowerment. First, we examine how managers respond to

[1]Plurality voting has faced criticism for disregarding withheld votes. In an uncontested board election, a single vote in favor can secure a win. This contrasts with a majority standard, which requires the elected director to receive support from the majority of the votes. Although the percentage of directors who fail to obtain a majority of votes in elections is low (Proxy Pulse reports 5% in 2019), this figure is high relative to the low annual turnover rate of directors (9%). Director elections also influence the directors' actions to maintain shareholder support.

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

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shareholder empowerment through the adoption of majority-voting standards. Post-legislation, managerial submissions of proposals for majority voting in director elections increase by 26.5%. Managers also increase the direct implementation of the majority-voting standard through internal governance guidelines, which do not require a vote. At the firm level, a management proposal on the majority-voting standard in director elections is associated with a lower likelihood of a subsequent shareholder proposal on the same issue. In aggregate, shareholder proposals do not increase after the legislation. The overall implementation of majority-voting standards significantly increases, but most of this increase is due to management's initiative. This contrasts with management's previous, almost universal, rejection of majority-voting standards. Hence, managers take early action rather than passively waiting for the shareholder proposals that are strengthened by the new legislation.

We conduct several robustness tests for our main findings and validation tests for our identification strategy. We start by verifying that our results are not driven by pre-existing differences across proposals in treatment and control states. We show that the enactment of the law is not correlated with relevant characteristics, such as macroeconomic conditions or previous proposals. Next, we mitigate the concern of correlated shocks by running placebo regressions on proposals related to executive compensation, for which we find no impact from the new legislation. We then confirm that our results are not driven by specific states and that they are robust to both direct and reverse reweighting by state relevance. Finally, we verify that our results are not identified by early treatment states acting as a control group for late treatment states.[3]

Second, while the above results suggest that managers become more responsive to shareholders' previous demands, we also show evidence of compromised implementation. When adopting majority-voting standards, managers try to retain control over the specific channel by which the standards are implemented. Managers are more likely to initiate proposals related to majority voting through a charter amendment giving them exclusive rights to amend than through a bylaw amendment for which the new law gives shareholders future exclusive rights to amend. Additionally, managers commonly adopt majority voting through internal governance guidelines, bypassing the need for shareholder approval. In other words, while the legislative changes effectively make bylaw amendments a more attractive option for shareholders, managers lock in governance changes through channels that deny shareholders comparable legal influence.

The compromised implementation of shareholders' demands is not easy to amend via subsequent shareholder proposals and can potentially deter future shareholder activism. Shareholders cannot change a management proposal implemented via charter without the collaboration of the board (see Bebchuk (1989), (2004), Min (2017)). Moreover, an early action by management (via either a management proposal or guidelines) disincentivizes future shareholder proposals for several additional reasons: Shareholders would still face substantial costs in proxy contests (Gantchev (2013)) to implement marginal improvements; it is also more difficult to

[3]This could be a problem if the treatment effects are heterogeneous. However, this is not the case in our sample: treated versus never-treated states identify 93% of the effect. Our results are also robust to using stacked regressions in which only never-treated states act as controls.

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rally other shareholders to bring limited changes.[4] Additionally, although managers cannot unilaterally block the vote on a shareholder proposal, they can request that the SEC grants a no-action letter that precludes the vote on a shareholder proposal when a related management proposal has been proposed or implemented (Matsusaka, Ozbas, and Yi (2021)).[5]

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

Finally, we document changes in the proposal narratives and the voting recommendations issued by management. Proposals from both shareholders and managers become shorter, as they draw on the ideas outlined by the new legislation. At the same time, managers become more contentious, increasing the number of reasons they use in their recommendations against shareholder proposals.

Our article contributes to the existing literature in several dimensions. First, it is the first article to explore the reaction of managers to enhanced direct democracy, which makes it harder for managers to not comply with shareholder demands. The prior literature that studies direct democracy focuses primarily on shareholders' advisory proposals (Cuñat, Gine, and Guadalupe (2012), Denes, Karpoff, and McWilliams (2017)). We contribute to this literature by showing that managers respond to binding shareholder proposals by initiating governance changes before shareholders even express their views and by modulating the specific implementation of majority voting.

Second, our article emphasizes that managers exercise their discretionary power when implementing proposals. Managers can affect the channel by which the standard is implemented (e.g., guidelines or charter amendments) and its specific terms (e.g., resignation or no-resignation policies). Managers' early actions may compromise the implementation of shareholder demands and, consequently, undermine shareholder power. Thus, we contribute to the shareholder activism literature by showing that compromised implementation can moderate and modulate the intended effects of such activism, highlighting the need to account for managerial actions when assessing the effectiveness of shareholder initiatives.[6] Our work also expands upon existing studies on managerial influence over proposal outcomes (Listokin (2008), Bach and Metzger (2019), and Babenko, Choi, and Sen

[4]A similar argument can be found in Donaldson, Malenko, and Piacentino (2020).

[5]See Matsusaka, Ozbas, and Yi (2021) for a detailed description of how no-action letters work. The SEC accepts the existence of a contemporaneous or previously implemented related management proposal as an argument to validate a management no-action letter against a shareholder proposal. The two proposals need to be related but can also differ substantially. Some of the most common valid reasons for the SEC to accept a no-action letter are that it "conflicts with [the] company's own proposal," that the "company has already substantially implemented a proposal," that it "substantially duplicates another proposal," or that it "deals with substantially the same subject as another proposal from previous years that received (specified) low support from shareholders." A no-action letter allows management to exclude a shareholder proposal from the vote.

[6]See Bebchuk (2004) and Min (2017) for papers that focus on management implementation of shareholder proposals.

(2023)) by revealing additional ways in which managers can shape the approval and content of shareholder proposals.

Finally, this article adds to the ongoing discussion of shareholder empowerment in the law and finance literature. Prior studies discuss the benefits and costs of shareholder empowerment.[7] Levit and Malenko (2011) argue that non-binding votes may fail to convey shareholder information adequately, whereas Arrow (1974) posits that binding votes make it harder to incorporate management information into decision-making. Our article is also related to the literature on majority-voting systems. Prior studies (e.g., Ertimur, Ferri, and Oesch (2015), Cai, Garner, and Walkling (2009), (2013)) find mixed evidence on market response to firms adopting a majority-voting standard.[8] We show that making shareholder proposals binding is, indeed, effective at encouraging management to accommodate shareholder demands. However, managers retain the flexibility to moderate shareholder proposals. More generally, our article can inform regulators about how managers, through their actions, adjust the effectiveness of a new legal standard of shareholder empowerment.

II. The Staggered Enactment of the Legislation

Director elections are crucial for shareholders to hold directors accountable and to ensure that they monitor and advise managers. However, for a while, state laws simply required a plurality-voting standard. Plurality voting disregards withheld votes, so a single vote in favor can be sufficient to ensure success in an uncontested board election. As a result, incumbent directors rarely failed to get reelected under plurality voting.[9]

Shareholder activists have criticized the plurality-voting standard for its inability to hold directors accountable for their performance.[10] As a consequence, two amendments, DGCL and MBCA, were passed in 2006 to facilitate the adoption of a

[7]For example, Bebchuk (2004) argues that shareholders' existing power to replace directors is insufficient to secure the adoption of the value-increasing governance arrangements; other scholars (Easterbrook and Fischel (1989), Pozen (2003), Bainbridge (2005), and Gillan and Starks (2007)) reason that shareholder empowerment could be potentially costly and even a deterrent to managerial efficiency and long-term strategic stability.

[8]For example, Ertimur, Ferri, and Oesch (2015) show that, on average, shareholder proposals related to majority voting in director elections receive a positive market reaction, with firms that adopt majority voting being more responsive to shareholder demands. Cai, Garner, and Walkling (2013) find that the announcement returns surrounding the adoption of majority voting are insignificant, on average, and that the adoption of majority voting has little effect on director votes, director turnover, or firm performance. Relatedly, Hsu, Lü, Wu, and Xuan (2024) find that the adoption of majority voting induces directors' concern about their job security and, hence, reduces innovation output.

[9]For example, DGCL §216(3) formerly stated that "Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors." The MBCA, as the basis for the corporate laws of most U.S. states, also set plurality voting as the default standard, according to §7.28(a).

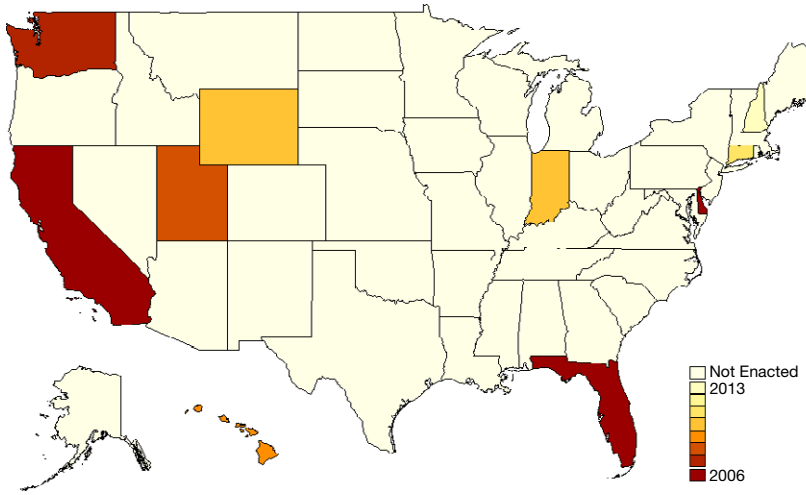
[10]Managers have been under increasing pressure to change the voting standard to a majority-voting standard, including initiatives made by the Council of Institutional Investors and the International Corporate Governance Network. For example, the Council of Institutional Investors launched a letter-writing campaign to 1,500 of the largest U.S. corporations, urging them to consider adopting majority voting to elect their boards of directors. These initiatives pre-date our natural experiment and affect both treatment and control firms in our sample, so they do not participate in our identification strategy.

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FIGURE 1

States That Enacted Legislative Changes

Figure 1 presents the states that enacted legislative changes that make bylaw amendments to voting standards in director elections binding. The years in which the new laws were enacted are marked in different colors.



majority-voting standard in director elections. The amendments state that if shareholders approve the adoption of the majority-voting standard through a bylaw, managers cannot unilaterally repeal it, thus making it harder for managers not to comply with such changes.

Over time, other states that use the MBCA as the basis for their state corporation laws have followed suit. Figure 1 and Supplementary Material Table A.1 jointly present the implementation dates and the state corporate law sections for the 10 U.S. states, plus the District of Columbia, that enacted the legislative change.

A. Legislation Content: Empowering Shareholders via Bylaw Amendments

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

Before the legislative changes, shareholders had limited power to change the voting standard in director elections. Shareholders could file an advisory proposal, and directors had discretion over its implementation. Majority-voting standards were rare, and directors could propose bylaw amendments to alter shareholder-initiated changes.[11] Prior to the legislation, only 19.9% of the shareholder requests for majority voting were implemented. Even among the passed proposals, the implementation rate was just 30.9%. Additionally, bylaw changes proposed by

[11]Note that shareholders are entitled to initiate bylaw amendments, while changes in the corporate charter need to be initiated by the board (Bainbridge (2002)). The right of directors to amend bylaws may be authorized by state laws (as in the MBCA §10.20(b)) or by a specific firm provision (as in DGCL §109(a)).

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shareholders could be invalid if they conflicted with a corporation's charter (Min (2017)).[12,13]

As mentioned at the beginning of this section, DGCL and MBCA pioneered the legislative change across different states – a change that prescribes a set of rules to facilitate the adoption of a majority-voting standard in director elections. More specifically, the Delaware Amendments §216 (effective Aug. 1, 2006) state that the board of directors may not repeal or amend any shareholder-adopted bylaw amendment that specifies the votes needed to elect directors. Amendments to the MBCA §10.22 (effective June 20, 2006) establish that the board of directors cannot repeal or amend any bylaw amendment that requires directors elected in plurality voting to serve for no more than 90 days if the director receives more votes "against" than "for." DGCL and MBCA revisions reduce uncertainty around shareholder-initiated bylaw amendments for majority voting, preventing boards from unilaterally undermining such bylaws. They also increase management's non-compliance costs for not implementing a passed shareholder proposal that requests the adoption of a majority-voting standard through bylaw amendments. As a result, the proportion of implemented shareholder proposals increases from 19% to 23% after the legislation. Among passed proposals, 42% are implemented after the legislation, up from 30.9% before.[14]

B. Compromised Implementation of the Majority-Voting Standard

In this section, we discuss the different ways in which managers can influence the implementation of majority voting and, thus, the effectiveness of the majority-voting standard.

The first way in which managers can moderate the implementation of majority voting is by influencing whether it is implemented via guideline, bylaw, or charter. Each version differs in the degree of management's control over initiating and amending it. Before the legislative changes, all three options constrained shareholders to some extent: For bylaws, the board could make them either invalid under DGCL or costly through counter-amendments under MBCA, as discussed in Section II.A; the board had the exclusive right to initiate charter amendments; and the board could always unilaterally change guidelines without shareholder approval. The legislative changes make shareholder-initiated bylaw amendments

[12]More precisely, Delaware law (DGCL §109(a)) provides that, by default, only shareholders have the power to amend bylaws. However, the articles of incorporation may also expressly confer this power on the board of directors, which is the case for most corporations incorporated in Delaware (Min (2017)). In contrast, the MBCA (§10.20(b)) allows the directors to amend the bylaws unless i) the articles of incorporation give that power solely to the shareholders or ii) the shareholders amend the bylaw in question and provide that the directors cannot thereafter further amend the bylaw. By implication, MBCA authorizes the shareholders to amend the bylaws, even though the directors also have that power.

[13]For instance, if a charter granted the board the power to amend bylaws, a bylaw prohibiting such changes would be invalid. For a summary of who can amend corporate bylaws, more details can be found at https://www.professorbainbridge.com/professorbainbridgecom/2006/01/who-can-amend-corporate-bylaws.html.

[14]These figures refer solely to the implementation of strict majority voting. When including implementations that also feature a resignation policy (discussed in Section II.B), 62% of passed proposals are implemented after the legislation.

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more attractive to shareholders, as they become binding and cannot be amended or repealed by the board.

In response to the legislative changes, managers may have an incentive to strategically secure core corporate governance arrangements by initiating amendments to charters or guidelines rather than to bylaws. More generally, the existing literature on corporate charters also expresses concerns about managers' opportunistic charter amendments.[15] Such concerns are bolstered by two important observations. First, directors' sole authority to initiate charter amendments enables them to act only when the amendment is advantageous to them. Moreover, even when a charter amendment reflects shareholders' demands, the specific terms of the amendment are largely up to management's discretion. Second, once the initial charter provisions (that likely favor managers) are set, managers rarely fail to summon the majority support of shareholders to pass the charter amendments.[16] In addition, as the charter is a corporation's primary set of rules, proposed bylaw changes by shareholders are invalid if they conflict with charters.

The second way in which management can moderate shareholder demands is by implementing a majority-voting standard jointly with a resignation policy that provides more leniency when directors fail to get elected. A director resignation policy allows for a transitional period after a director loses an election, grants the board discretion in accepting resignations, and potentially maintains "holdover directors" until a successor is found or indefinitely if none is appointed.

In general, managers can implement a strict majority-voting standard (strict MV), a rejectable majority-voting standard by combining majority voting with a resignation policy (rejectable MV), or a plurality-plus standard (plurality-plus) under which a director is duly elected by a plurality vote but is expected to submit a resignation letter to the board in the event that she receives more votes "withheld" than votes cast in favor.[17] Managers may prefer plurality-plus to majority voting, as it provides more leniency for directors who might fail in elections.

C. Data Description

Data for proposals related to voting requirements in director elections are sourced from Shark Repellent, and we manually complemented it with information from Schedule 14A for proposal content and implementation details. Our

[15]See Bebchuk (1989), (2004) and Min (2017). As Bebchuk (2004) points out, "Management's control over charter amendments, as we have seen, distorts the evolution of charter provisions in management's favor."

[16]As Min (2017) nicely summarizes it: first, when it comes to the issue of granting a new right to shareholders, proxy advisory firms have not sufficiently alerted shareholders to vote against management proposals that place onerous restrictions on that right. For instance, ISS consistently recommends voting for management-modified proposals. Second, no-action letters can be used to ex post support compromised implementation should shareholders raise objections. Third, shareholders cannot effectively prevent amendments that destroy shareholder value from being adopted due to problems of information asymmetry and collective action, as well as a voting system that favors management. Most proposals traditionally receive shareholder approval even when they favor management. One can also find similar arguments in Bebchuk (1989).

[17]Under plurality-plus, a director is elected by a plurality vote but is expected to submit a resignation letter to the board if she receives more votes "withheld" than votes cast in favor. The board then accepts or rejects the resignation.

TABLE 1

Summary Statistics on Firms and Proposals

Table 1 provides summary statistics on proposals related to voting requirements in director elections and firms with such proposals for Russell 3000 firms between 2005 and 2015. Panel A reports results on management proposals, Panel B on shareholder proposals, and Panel C on management and shareholder proposals. *Proposal length* and *Management recommendation length* are the word count of the proposal statement and the management recommendation section in a proposal, respectively. *Number of reasons against* is the number of reasons managers give when recommending against a shareholder proposal. Firm characteristics include total assets, leverage (the sum of long-term debt and debt in current liabilities divided by the book value of common equity), and ROA (net income divided by total assets).

Variables	N	Mean	Median	Std. Dev.
	1	2	3	4
Panel A. Management Proposals				
Proposal length	247	819.757	754.000	408.824
Management recommendation length	247	4.211	0.000	38.447
Number of reasons against	–	–	–	–
Total assets	247	19,493.650	3,328.590	68,510.850
ROA	247	0.084	0.070	0.081
Leverage	247	0.221	0.204	0.185
Panel B. Shareholder Proposals				
Proposal length	440	383.941	400.000	74.691
Management recommendation length	440	697.814	667.500	372.764
Number of reasons against	409	4.557	4.000	2.097
Total assets	440	38,208.450	8,531.475	135,166.000
ROA	440	0.068	0.069	0.203
Leverage	440	0.256	0.233	0.189
Panel C. Management and Shareholder Proposals				
Proposal length	687	540.632	413.000	327.575
Management recommendation length	687	448.440	433.000	447.652
Number of reasons against	409	4.557	4.000	2.097
Total assets	687	31,479.840	6,364.912	115,998.200
ROA	687	0.073	0.069	0.170
Leverage	687	0.244	0.221	0.188

sample consists of 247 management proposals and 440 shareholder proposals on majority voting in director elections from 2005 to 2015 for the Russell 3000 universe. We also manually collect legislative changes vis-à-vis majority voting from each state's corporation laws. Additional financial and labor market information is sourced from Compustat and the Federal Reserve System. Table 1 reports summary statistics.[18]

To study the narratives of management and shareholders, we construct *Proposal length* and *Management recommendation length*, which are, respectively, the word count of the proposal statement and the management recommendation section in a proposal.[19] We also code the number of reasons that managers give for recommending against a shareholder proposal as *Number of reasons against*.[20]

[18]Firms in the sample have, on average, $3.1 billion in assets, an ROA of 7.3%, and a leverage ratio of 24.4%.

[19]All the variable definitions are included in the main text of the article, as well as in Supplementary Material Appendix A.

[20]For example, First Solar, Inc. stated in the DEF 14A filed on 5/23/2012 that "the majority voting standard suggested by the Proponent creates the potential for 'failed elections' in an uncontested election where a nominee does not receive a majority of the votes cast. […] It is possible that the Board could be faced with a potentially large number of vacancies at one time that could adversely affect our ability to comply with applicable NASDAQ listing standards or federal securities law requirements regarding qualified Audit and Compensation Committees, the number of independent directors and financial

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On average, we find that managers use approximately five reasons to argue against the implementation of a majority-voting standard.

Supplementary Material Table A.2 provides summary statistics on the number of proposals by year and by state. Panel A reports that, over the sample period, the number of management proposals increased steadily, but that of shareholder proposals declined. Panel B presents additional information on the number of proposals and voting outcomes by state.

Table 2 reports the descriptive statistics of pre- and post-vote characteristics of majority-voting proposals. The rows classify the proposals based on what is being requested and who the proponent is, while the columns reflect the voting and implementation outcomes one year after the proposal is voted on. First, we classify proposals into ones that request bylaw amendment, charter amendment, or no clear indication. Alternatively, we classify proposals based on their proposed form of adopting the majority-voting standard following definitions in Section II.B: strict MV, rejectable MV, and plurality-plus. Then, based on each type of proposal, in columns 2–5, we examine the following statistics: the number of each type of proposal, the percentage of votes for, and the implementation rate. We also take a closer look at the implementation approaches. In columns 6 and 7, we construct two dummy variables: *Implement via bylaw*, which equals 1 when the proposal is implemented via bylaw and 0 otherwise, and *Implement via charter*, which equals

TABLE 2

Summary Statistics on Proposal Requests, Voting, and Implementation

Table 2 reports the descriptive statistics of voting and implementation outcomes based on classifications of proposals by type and proponent. Implementation is measured 1 year after the proposal is voted. Column 1 reports the type of proposals requested. We examine the following statistics in columns 2–5: the number of each type of proposal, the percentage of votes for, and the implementation rate. In columns 6–11, we report different types of implementation as a percentage of the number of proposals submitted in column 2 in the respective row. We investigate proposals implemented via a bylaw and a charter in columns 6 and 7, respectively. In columns 8–11, we examine implementation as strict MV, rejectable MV, and plurality-plus, respectively. Panel A reports the results on shareholder proposals and Panel B on management proposals.

					MV Implemented via:		Implemented Standards:			
Requested	N	Pass	Vote for Percentage (%)	MV Implemented	Bylaw	Charter	Strict MV	Rejectable MV	Plurality-Plus	No Change
1	2	3	4	5	6	7	8	9	10	11
Panel A. Shareholder Proposals										
Total number	440	0.489	53.293	0.389	0.320	0.102	0.216	0.173	0.277	0.334
Bylaw amendment	347	0.507	54.253	0.403	0.372	0.072	0.233	0.170	0.236	0.360
Charter amendment	85	0.424	50.047	0.318	0.094	0.224	0.129	0.188	0.435	0.247
Others	8	0.375	46.175	0.500	0.500	0.125	0.375	0.125	0.375	0.125
Strict MV	279	0.606	57.678	0.380	0.326	0.079	0.280	0.100	0.158	0.462
Rejectable MV	161	0.286	45.694	0.404	0.311	0.143	0.106	0.298	0.484	0.112
Plurality-plus	–	–	–	–	–	–	–	–	–	–
Panel B. Management Proposals										
Total number	247	1.000	96.272	0.915	0.478	0.709	0.567	0.348	0.040	0.045
Bylaw amendment	83	1.000	95.904	0.880	0.807	0.386	0.627	0.253	0.048	0.072
Charter amendment	156	1.000	96.561	0.949	0.314	0.897	0.532	0.417	0.026	0.026
Others	8	1.000	94.475	0.625	0.250	0.375	0.625	0.000	0.250	0.125
Strict MV	165	1.000	96.249	0.903	0.503	0.661	0.697	0.206	0.030	0.067
Rejectable MV	82	1.000	96.317	0.939	0.427	0.805	0.305	0.634	0.061	0.000
Plurality-plus	–	–	–	–	–	–	–	–	–	–

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1 when the proposal is implemented via charter and 0 otherwise. In columns 8–11, we examine implementation as strict MV, rejectable MV, and plurality-plus, as explained in Section II.B.

Panels A and B of Table 2 report results for shareholder and management proposals, respectively. The pass rates for shareholder and management proposals are 48.9% and 100%, respectively.[21] The average vote in favor of shareholder proposals is 53.3%, compared with 96.3% for management proposals.[22] The percentage of shareholder proposals that demand adoption via bylaw is 78.9% (i.e., 347/440), while it is 33.6% (i.e., 83/247) for management proposals. This stark contrast could reflect shareholders' incentives to adopt the majority-voting standard via bylaw when such an option is made binding by the legislation.

In terms of implementation, we find that 91.5% of the management proposals are implemented after 1 year, compared with 38.9% of the shareholder proposals. Conditional on implementing a majority-voting standard, 52.2% (i.e., 0.478/0.915) and 77.5% (i.e., 0.709/0.915) of the management proposals adopt the majority-voting standard via bylaw and via charter, respectively, while 82.3% (i.e., 0.320/0.389) and 26.2% (i.e., 0.102/0.389) of the shareholder proposals adopt the majority-voting standard via bylaw and charter, respectively.[23] When looking at implemented standards, we find that 4% of the management proposals and 27.7% of the shareholder proposals are implemented as plurality-plus; 34.8% of the management proposals and 17.3% of the shareholder proposals are implemented as rejectable MV; and 56.7% of the management proposals and 21.6% of shareholder proposals are implemented as strict MV. As a fraction of implemented majority-voting proposals, managers implement strict MV 61.9% (i.e., 56.7%/91.5%) of the time when they propose and 55.5% (i.e., 21.6%/38.9%) of the time when shareholders propose. Finally, 4.5% of the management proposals and 33.4% of the shareholder proposals lead to no change in the standard.

III. Managerial Response to Shareholder Empowerment

In this section, we examine empirically how managers respond to shareholder empowerment before and after the legislation. We focus on the filing of

experts. Similarly, a majority-voting standard could leave the Board with an insufficient number of directors to conduct business or perform its duties. We do not believe such a result furthers shareholder democracy."

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

[22]We match our shareholder proposal data to ISS Voting Analytics data in order to obtain the base for calculating *Vote for Percentage (%)*. For matches, we take the base variable in Voting Analytics to calculate *Vote for Percentage (%)*. If an abstention counts as a no-vote, the base is For+Against+Abstention. If an abstention counts as a non-vote, the base is For+Against. For unmatched cases that are all under the rule of "majority of votes cast," we use For/(For+Against+Abstention) to be conservative.

[23]There are proposals that were implemented via both bylaw and charter. Thus, the sum of ratios in columns 6 and 7 could exceed that in column 5. In fact, 29.7% of the implemented management proposals and 9.9% of the implemented shareholder proposals adopt the majority-voting standard via both bylaw and charter. As only two shareholder proposals are implemented via guideline, we focus on implementation via bylaw versus charter.

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management and shareholder proposals that seek to change the voting standard in director elections to majority voting. We also explore how managers voluntarily adopt the majority-voting standard through internal guidelines.

A. Empirical Strategy: Staggered DiD

To obtain causal estimates of the managerial response to the legislation, we implement a staggered DiD estimation, taking advantage of different U.S. states enacting it. Compared with a simple DiD estimation, in which there is only one shock, a staggered DiD estimation has the advantage that the multiple rounds of shocks are less likely to be confounded by the same omitted variable. Consider the following specification:

$$Y_{ist} = \beta_1 \text{Enactment}_{st} + \delta_s + \lambda_t + \varepsilon_{it}, \tag{1}$$

where Y_{ist} is an outcome variable for proposal i, in state s, measured in period t. The variable $Enactment_{st}$ takes a value of 1 if state s enacts the legislation before period t, and 0 otherwise.[24] We introduce state-group fixed effects δ_s and year dummies λ_t to complete the DiD estimation. States that enact the legislation in the same year are considered one group, including a group for those that never enact the legislation. The coefficient of interest, β_1, measures the effect of the legislation, controlling for any cross-sectional and time-series variation. The estimate of β_1 can be interpreted as causal if the dependent variables for treated and non-treated states follow parallel trends in the absence of the treatment. This assumption is not directly testable, but we can find evidence for it by using lagged treatment variables to show the parallel trends in the years before the law's enactment. Note that, in parts of the article, we aggregate Y_{ist} at the firm or state level.

B. Submission of Management and Shareholder Proposals

1. Main Results

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

Column 1 in Panel A of Table 3 shows that the enactment of legislative changes leads to a 26.5% increase in management proposals on majority voting in director elections; the effect is statistically significant at the 5% level. In column 3, we find no statistically significant change in the number of shareholder proposals after the legislation's enactment. Because the legislation empowers shareholders to change the voting rule, the results suggest that managerial actions might offset the shareholders' additional incentives – created by the legislation – to submit shareholder proposals.

In principle, one could use any single wave of legislation enactment for identification in a standard DiD specification. The staggered nature of the

[24]We consider the year in which the law is enacted for only some months as non-treated.

TABLE 3

Legislation Enactment and the Number of Proposals

Table 3 reports the analysis of the effect of the legislation's enactment on the number of proposals. The dependent variables *Log management proposals* in columns 1 and 2 and *Log shareholder proposals* in columns 3 and 4 are, respectively, the natural logarithm of 1 plus the number of management proposals and 1 plus the number of shareholder proposals related to a majority-voting standard in director elections per state per year. *Enactment* equals 1 for the years after the legislation is enacted, and 0 otherwise. In Panel A, we include all states of incorporation in columns 1 and 3 and exclude Delaware in columns 2 and 4. In Panel B, we weight each observation based on the number of Russell 3000 firms incorporated in the state in columns 1 and 3 and 3000 minus that number in columns 2 and 4. All models control for state-group fixed effects and year fixed effects in Panels A and B. In Panel C, we conduct a stacked DiD test following Cengiz et al. (2019). For each enactment event, we construct a "database" in which the observations include the enacted states in the event (the treated) and all the never-enacted states (the control). We then stack all databases and run a DiD regression with a common treatment variable and with enactment event-year fixed effects and enactment event-state group fixed effects. In columns 1 and 3, we keep all years; in columns 2 and 4, we keep the years within 3 years from the enactment year. In Panel D, following Gardner (2022), we first regress the logarithm of management and shareholder proposals on year and state-group dummies using only the never-enacted states. We then calculate residual values of this regression on the whole sample and regress the residual outcomes on the treatment variable. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Dependent Variable			
	Log Management Proposals		Log Shareholder Proposals	
	1	2	3	4
Panel A. With and Without Delaware				
Enactment	0.265**	0.133**	−0.062	0.030
	(0.110)	(0.053)	(0.106)	(0.118)
Excluding Delaware	No	Yes	No	Yes
R^2	0.152	0.030	0.291	0.038
N	668	657	668	657
Panel B. Weighted Regressions				
Enactment	0.426*	0.209**	−0.202	−0.033
	(0.216)	(0.065)	(0.152)	(0.102)
Weights	Direct	Reverse	Direct	Reverse
R^2	0.275	0.076	0.412	0.182
N	668	668	668	668
Panel C. Stacked DiD				
	All years	[−3, +3]	All years	[−3, +3]
Enactment	0.260**	0.329**	−0.069	−0.128
	(0.110)	(0.114)	(0.109)	(0.120)
R^2	0.050	0.030	0.081	0.076
N	4,602	2,433	4,602	2,433
Panel D. Two-Stage DiD				
Enactment		0.390***		−0.183*
		(0.098)		(0.093)
R^2		0.083		0.014
N		668		668

legislation further allows us to control for cohort-specific effects. However, it is useful to understand whether the results are driven by a few states or are widespread. Thus, we exclude Delaware in columns 2 and 4 in Panel A and find that the effect of the enactment of the legislation is robust, indicating that it also causes increases in management proposals in other treatment states. The magnitude of the effect is, nevertheless, smaller in other states.

Moreover, in Panel B of Table 3, we weight each observation based on the number of Russell 3000 firms incorporated in the state in columns 1 and 3 and 3000 minus that number in columns 2 and 4. A direct weighting approach reweights the states according to their representation in Russell 3000. A reverse weighting approach gives more weight to those that are underrepresented and aims to alleviate

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TABLE 4

Dynamics Effects of Legislation Enactment and the Number of Proposals

Table 4 reports the dynamic analysis of the effect of the legislation on the number of proposals after its enactment. *Enactment 0* is the year when the legislation is enacted. *Enactment+1*, *Enactment+2*, *Enactment+3*, and *Enactment+4*, respectively, equal 1 for 1, 2, 3, and 4 or more years after the legislation is enacted in the state, and 0 otherwise. We take all the years before the enactment year as *Pre-enactment* and use it as a reference for comparison. The dependent variables are the natural logarithms of 1 plus the number of management and shareholder proposals related to a majority-voting standard in director elections per state per year in columns 1 and 3, respectively. We compute the cumulative increase in the number of proposals starting from *Enactment+1* in columns 2 and 4 next to the noncumulative specification. All models control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Dependent Variable			
	Log Management Proposals		Log Shareholder Proposals	
	Noncumulative	Cumulative	Noncumulative	Cumulative
	1	2	3	4
Enactment 0	−0.077	–	−0.011	–
	(0.090)		(0.060)	
Enactment+1	0.228**	0.228**	−0.011	−0.011
	(0.090)	(0.090)	(0.096)	(0.096)
Enactment+2	0.207	0.435*	−0.163	−0.174
	(0.117)	(0.192)	(0.103)	(0.179)
Enactment+3	0.357**	0.792***	0.021	−0.153
	(0.132)	(0.231)	(0.139)	(0.297)
Enactment+4	0.224	1.016**	−0.079	−0.232
	(0.183)	(0.337)	(0.118)	(0.394)
Year FE	Yes		Yes	
State-group FE	Yes		Yes	
R^2	0.149		0.288	
N	668		668	

the concern that a few states with a lot of firms are driving the results. We find similar qualitative results across both settings.

While, as mentioned above, the staggered DiD design has the advantage of relying on multiple shocks to identify the effect, it also has potential problems that arise from both treated and non-treated states acting as controls (Baker, Larcker, and Wang (2022)). To address this concern, we conduct several robustness tests. First, we conduct a stacked DiD specification in Panel C of Table 3. Specifically, following Cengiz, Dube, Lindner, and Zipperer (2019), for each state-group that enacts the legislation, we construct a "database" in which we take observations of the enacted state-group as the treated and all the never-enacted states as the control. We call each database a cohort. We then stack all cohorts and run a DiD regression with a common treatment variable and with enactment-event-specific year fixed effects and enactment-event-specific state-group fixed effects. Second, in Panel D of Table 3, following Gardner (2022), we conduct a two-stage DiD test that is robust to treatment-effect heterogeneity when treatment is staggered.[25] Our results based on both approaches suggest that the effect is driven by never-treated states acting as controls. Finally, we conduct a decomposition of the DiD estimation (Goodman-

[25]More specifically, we first regress the logarithm of the dependent variable on year and state-group dummies using only observations of the never-enacted states. We then construct the residuals of this first stage for the whole sample. Finally, we regress the residual outcomes on the treatment variable.

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Bacon, Goldring, and Nichols (2019)) and find that, in our baseline specification, 94% of the effect is estimated on the enacted versus the never-enacted states.

We then investigate in Table 4 how the legislation takes effect over time. For each state-year combination, we define *Enactment 0*, or year *t*, as the year in which the legislation is enacted in that state. Then, we create lead indicator variables *Enactment+1, Enactment+2*, and *Enactment+3* for years $t+1$, $t+2$, and $t+3$, and *Enactment+4* for year $t+4$ or later. All the years before the enactment constitute the omitted variable. We also compute the *cumulative* increase in the number of proposals next to each specification to have a sense of the incidence of these proposals. We find a surge in the number of management proposals in the first and third years after enactment. The cumulative effects show that the effect of management proposals starts 1 year after the legislative change and keeps growing monotonically for the next 4 years. In contrast, the post-enactment coefficients for shareholder proposals are not statistically significant for any horizon.

Overall, our results show across several specifications that, after the new legislation's enactment, managers respond to shareholder empowerment by submitting more management proposals to adopt majority voting in director elections. This early action can be seen as managers adapting to the expected new voting standards. It can also be a way for managers to moderate shareholder influence by initiating proposals early, thus avoiding future shareholder proposals for which the cost of managerial non-compliance increases with the new legislation.

2. Validation and Robustness

In this subsection, we conduct analyses to lend support to the validity of our DiD design.

We start by performing a pre-trend analysis (Panel A of Supplementary Material Table A.3). Our sample starts from 2005, just 1 year before the first legislative change occurred. Thus, we also use a longer pre-shock period that begins in 2003 as a robustness check by supplementing our sample with proposals from a second source, ISS Voting Analytics. We report pre-trend analysis based on the main sample in columns 1 and 2 and the extended sample in columns 3 and 4. For each state-year combination, we define year *t* as the first year after the legislation is enacted in that state. Then, we create the lag indicator variables *Enactment−1, Enactment−2*, and *Enactment−3* for years $t-1$, $t-2$, and $t-3$, respectively. *Post Enactment* takes the value of 1 for all years after the legislation is enacted in the state, and 0 otherwise. The year $t-4$ or earlier is taken as the basis for comparison. Across all columns and both samples, we find that, before the enactment of the law, the trend of management and shareholders submitting proposals on majority voting in director elections in treated states follows a pattern similar to that in control states. We summarize these results graphically in Figure 2, where we plot the cumulative impact of the legislation on management and shareholder proposals based on the extended sample.

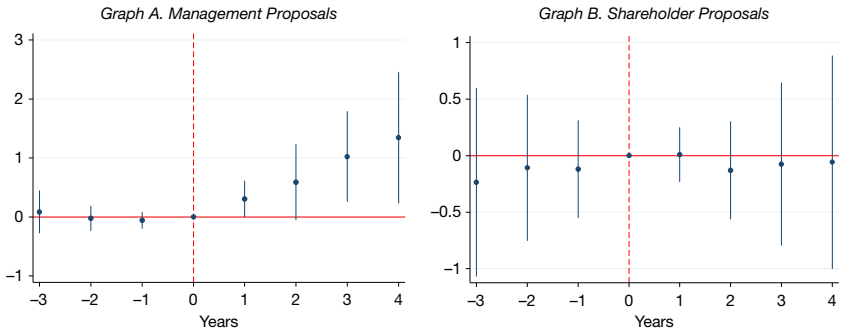
To further address the concern that the increase in majority-voting management proposals may be correlated with a general trend of managerial responsiveness, in Panel B of Supplementary Material Table A.3, we show the results of a placebo test using the submission of compensation-related proposals. The submission of such proposals, initiated by either management or shareholders, does not change after

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FIGURE 2

Dynamic Cumulative Effect of Majority-Voting Legislation

Figure 2 presents the DiD coefficients of the dynamic effect of the legislation on the number of proposals after its enactment, based on an extended sample of proposals starting from 2003. The dependent variables are the natural logarithms of 1 plus the number of management and shareholder proposals related to a majority-voting standard in director elections per state per year in Graphs A and B, respectively. Year 0 is the year when the legislation is enacted. Years −1, −2, and −3 represent 1 year, 2 years, and 3 years or more before the legislation is enacted in the state. Years 1, 2, 3, and 4 represent 1, 2, 3, and 4 years or more after the legislation is enacted in the state. We take the enactment year as a reference for comparison, indicated by red vertical dashed lines. We compute the cumulative change backward for years before enactment and forward for years after enactment. All models control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. The blue solid circles represent estimated DiD coefficients. The blue solid vertical lines indicate 90% confidence intervals.



enactment, suggesting that the legislative change is unlikely to be driven by a wider call for shareholder voting or broader corporate governance reforms.

One might argue that the increased submission of management proposals and even the changes to state laws could be driven by omitted variables such as shareholder activism or macroeconomic conditions. To address these concerns, in Panel C of Supplementary Material Table A.3, we run hazard regressions that relate how long it takes for the state to enact the new legislation to state-level macroeconomic variables, including *Employment rate*, *Real GDP*, and *Real GDP Per Capita*. To reflect the call for governance reforms of the voting standard in each state, we also include the number of management and shareholder proposals as explanatory variables. None of these variables is strongly correlated with the legislative changes.

3. The Effect of Management Proposals on Shareholder Proposals

In this subsection, we examine whether the submission of a management proposal on majority voting in director elections reduces the likelihood that a shareholder proposal on the same topic is submitted in the same firm. Our conjecture is that managers might view shareholder and management proposals differently and might seek to implement their own version of the majority-voting standard through management proposals. A necessary condition for this strategy to have some value to managers is that management proposals "crowd out" future shareholder proposals.

We test this conjecture by focusing on all the firm-year observations belonging to firms for which we observe at least one management or shareholder proposal on majority voting in the sample. Table 5 reports the results. Dependent variables *SHD Proposal t +1*, *SHD Proposal t +2*, and *SHD Proposal t +3* in columns 1–3 are

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TABLE 5

The Effect of Submitting Management Proposals on Shareholder Proposals

Table 5 analyzes the effect of management proposals on the submission of shareholder proposals, using the sample of firms that have had at least one management or shareholder proposal related to majority voting in director elections in our sample. The dependent variables are *SHD Proposal t+1*, *SHD Proposal t+2*, and *SHD Proposal t+3*, dummy variables that equal 1 if shareholders submit at least one proposal within, respectively, 1, 2, and 3 years in columns 1–3, and 0 otherwise. *Enactment* equals 1 for the years after the legislation is enacted in the state in which the firm is incorporated, and 0 otherwise. *MGT proposal* is a dummy variable that equals 1 if there is a management proposal submitted in that year, and 0 otherwise. All models control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Dependent Variable		
	SHD Proposal $t+1$	SHD Proposal $t+2$	SHD Proposal $t+3$
	1	2	3
Enactment	−0.081**	−0.049	0.028
	(0.024)	(0.036)	(0.036)
MGT proposal	−0.109***	−0.217***	−0.304***
	(0.006)	(0.009)	(0.012)
Enactment × MGT proposal	−0.031*	−0.069**	−0.147***
	(0.014)	(0.024)	(0.023)
Year FE	Yes	Yes	Yes
State-group FE	Yes	Yes	Yes
R^2	0.030	0.021	0.019
N	2,516	2,313	2,083

dummy variables that equal 1 if shareholders submit a proposal within 1–3 years, respectively, and 0 otherwise. *MGT proposal* is a dummy variable that equals 1 if a management proposal is submitted in that year, and 0 otherwise.

Table 5 reports that the introduction of a management proposal reduces the future submissions of shareholder proposals in the same firm. All columns show that, after the legislative changes, this effect is amplified, as suggested by the significantly negative coefficients on the interaction between *Enactment* and *MGT proposal.* Therefore, the post-legislation increase in management proposals appears to partially offset the intended incentive to submit shareholder proposals. An existing management proposal might disincentivize shareholders from making proposals, given that contemporaneous or existing management proposals can be explicitly used as an argument to request that the SEC precludes a shareholder vote (Matsusaka, Ozbas, and Yi (2021)). More generally, shareholders may be discouraged from filing proposals that might bring only limited change, given that winning a shareholder vote is costly (Gantchev (2013)).

C. The Prevalence of the Majority-Voting Standard

In this section, we analyze the overall prevalence of the majority-voting standard among Russell 3000 firms before and after the regulatory change. The majority standard can be implemented as the result of a proposal or directly by the board through an internal guideline.

We obtain the voting standard in director elections from ISS.[26] Panel A of Table 6 reports results for all firms, whether or not they have proposals, whereas Panel B reports results for firms for which we do not observe a shareholder or

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

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TABLE 6

Prevalence of the Majority-Voting Standard

Table 6 analyzes the majority-voting standard's prevalence among Russell 3000 firms over the sample period. Panel A uses the full sample of firms; Panel B uses the sample of firms without proposals; Panel C uses the sample of firm-years when the majority-voting standard was implemented. In Panels A and B, the dependent variable *Majority voting in place* is a dummy variable that equals 1 if the firm has a majority-voting standard in place, and 0 otherwise. Columns 1–3 are based on the full sample of Russell 3000 firms; columns 4–6 include firms that survive through our sample period. In Panel C, the dependent variable is *MGT-initiated change*, a dummy variable that equals 1 if management adopts a majority-voting standard, and 0 otherwise. *Enactment* equals 1 for the years after the legislation is enacted in the state in which the firm is incorporated, and 0 otherwise. We use a linear probability model and control for state-group and year fixed effects in all models; for additional industry fixed effects in columns 2, 3, 5, and 6 in Panels A and B and columns 4 and 6 in Panel C; and for additional firm characteristics in columns 3 and 6 in Panels A and B and column 6 in Panel C. These firm characteristics include the logarithm of total assets, leverage, and ROA. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Firms With and Without Proposals

	Dependent Variable: Majority Voting in Place					
	All Firms			Full-Panel Firms		
	1	2	3	4	5	6
Enactment	0.024***	0.020***	0.013**	0.039***	0.039***	0.038***
	(0.007)	(0.007)	(0.007)	(0.015)	(0.015)	(0.014)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State-group FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	Yes	No	Yes	Yes
Firm controls	No	No	Yes	No	No	Yes
R^2	0.085	0.115	0.249	0.128	0.165	0.308
N	36,599	36,599	36,274	19,778	19,778	19,704

Panel B. Firms Without Proposals

	Dependent Variable: Majority Voting in Place					
	All Firms			Full-Panel Firms		
	1	2	3	4	5	6
Enactment	0.029***	0.027***	0.020***	0.048***	0.048***	0.047***
	(0.010)	(0.010)	(0.009)	(0.021)	(0.021)	(0.020)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State-group FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	Yes	No	Yes	Yes
Firm controls	No	No	Yes	No	No	Yes
R^2	0.074	0.101	0.205	0.110	0.153	0.266
N	32,291	32,291	31,976	16,401	16,401	16,334

Panel C. Firm-Years When a Majority-Voting Standard Is Implemented

	Dependent Variable: MGT-Initiated Change		
Enactment	0.216***	0.186***	0.165**
	(0.060)	(0.066)	(0.061)
Year FE	Yes	Yes	Yes
State-group FE	Yes	Yes	Yes
Industry FE	No	Yes	Yes
Firm controls	No	No	Yes
R^2	0.062	0.127	0.168
N	1,432	1,432	1,423

management proposal on majority-voting standards in director elections. For both panels, the dependent variable *Majority voting in place* is a dummy variable that equals 1 if the firm has a majority-voting standard in place, and 0 otherwise. Columns 1–3 use the full sample of Russell 3000 firms, while columns 4–6 include only firms present during our sample period. We use a linear probability model and control state-group and year fixed effects in all columns, industry fixed effects in columns 2, 3, 5, and 6, and firm assets, leverage, and ROA in columns 3 and 6.

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All columns in Panel A of Table 6 report that the likelihood of establishing a majority-voting standard significantly increases after the enactment of the legislation. Panel B reports that the effect is also robust among firms without management or shareholder proposals. This result indicates that installing majority voting via guidelines, which does not require shareholder approval, becomes more common after enactment.

In Panel C of Table 6, to examine whether the increase in the prevalence of the majority-voting standard is driven by managers (via guidelines or proposals) or by shareholders (via proposals), we focus on the sample of firm-years in which a majority-voting standard is established. The dependent variable is *MGT-initiated change*, a dummy variable that equals 1 if the majority-voting standard is brought by management, and 0 if by shareholders. Overall, we find that after the adoption of the legislation, the fraction of manager-induced introductions of the majority-voting standard significantly increases.

Taken together, the results in this section indicate that the legislation leads to broader implementation of the majority-voting standard. Managers are more likely to initiate these changes either by submitting their own proposals or directly via guidelines.

IV. Details of Proposal Implementation

In this section, we analyze changes in the *composition* of the different versions of majority voting among the firms that implemented a proposal. While we focus on characteristics that are important and easy to code (channel of implementation and resignation policy), the results presented in this section should be seen as indicative of a broader phenomenon, as numerous legal details may lead to differences in the implementation of proposals.

A. Modulating Direct Shareholder Democracy: Bylaw Versus Charter

In this section, we measure the effect of the legislation on the submission and implementation of majority voting via charter versus bylaw.[27] Managers may want to modulate direct shareholder democracy by requesting their own version of majority voting or by implementing their preferred version after a shareholder proposal. While there are multiple possible reasons for managers to choose a charter over a bylaw implementation (see Section II.B), the legislative changes make bylaw amendments relatively more attractive to shareholders, as the board is precluded from repealing bylaw amendments while keeping the exclusive right to amend the charter.

We start by analyzing the *submission* of bylaw and charter proposals. In column 1 in Panels A and B of Table 7, we include all shareholder and management proposals and show whether the submission requests a bylaw or charter modification. Before the enactment of the law, shareholders are 34.3% more likely than managers to submit bylaw proposals. After the law, managers decrease their likelihood of submitting bylaw proposals by 16%. Shareholders increase their submission of bylaw

[27] We do not examine guidelines in this section, given that implementing a majority-voting standard via guideline after a vote is very rare (2% of all implemented shareholder proposals that request bylaw amendment and none of the management proposals).

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TABLE 7

Implementation via Bylaw Versus Charter

Table 7 analyzes the implementation patterns of the majority-voting standard. Panel A investigates the submission and implementation of proposals that request a bylaw change and Panel B a charter change. In column 1, the sample consists of all shareholder and management proposals. The dependent variables are *Submitted via bylaw* and *Submitted via charter* in column 1 in Panels A and B, respectively. Other columns consist of proposals that request a bylaw change in Panel A or a charter change in Panel B. In addition, columns 2 and 3 use a sample of implemented proposals that passed, and columns 4 and 5 implemented proposals that either failed or passed. In columns 2 and 4, but not in other columns, we drop proposals implemented via both bylaw and charter. We code the dependent variable *Implement bylaw only* in columns 2 and 4 as 1 only if the proposal is implemented via bylaw, and 0 otherwise. In columns 3 and 5, the dependent variable is *Implement bylaw*, a dummy variable that equals 1 if the proposal is implemented via bylaw, and 0 otherwise. *Enactment* equals 1 for the years after the legislation is enacted in the state in which the firm is incorporated, and 0 otherwise. *SHD proposal* is a dummy variable that equals 1 when the proposal is a shareholder proposal, and 0 otherwise. We control for state-group fixed effects and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Bylaw Proposals

	Sample				
	All Proposals	Passed and Implemented Bylaw Proposals		All Implemented Bylaw Proposals	
	Dependent Variable				
	Submitted via Bylaw	Implement Bylaw Only	Implement Bylaw	Implement Bylaw Only	Implement Bylaw
	1	2	3	4	5
SHD proposal	0.343***	−0.140***	−0.185***	−0.069***	−0.117***
	(0.017)	(0.002)	(0.009)	(0.005)	(0.012)
Enactment	−0.160*	0.075	−0.012	0.071	−0.013
	(0.058)	(0.091)	(0.057)	(0.077)	(0.045)
SHD proposal	0.095**	0.151**	0.204***	0.085	0.138***
× Enactment	(0.022)	(0.031)	(0.017)	(0.039)	(0.021)
R^2	0.397	0.300	0.219	0.242	0.165
N	687	137	174	171	213

Panel B. Charter Proposals

	Sample				
	All Proposals	Passed and Implemented Charter Proposals		All Implemented Charter Proposals	
	Dependent Variable				
	Submitted via Charter	Implement Bylaw Only	Implement Bylaw	Implement Bylaw Only	Implement Bylaw
SHD proposal	−0.321***	0.236***	0.055***	0.218**	0.038
	(0.019)	(0.020)	(0.009)	(0.068)	(0.083)
Enactment	0.139*	−0.134**	−0.268**	−0.248*	−0.302
	(0.055)	(0.042)	(0.065)	(0.113)	(0.213)
SHD proposal	−0.087**	−0.170	−0.093	0.257	0.101
× Enactment	(0.023)	(0.237)	(0.261)	(0.329)	(0.178)
R^2	0.388	0.305	0.285	0.385	0.280
N	687	121	165	131	175
Year FE	Yes	Yes	Yes	Yes	Yes
State-group FE	Yes	Yes	Yes	Yes	Yes

proposals by 9.5% relative to managers, but the overall effect on the submission of bylaw proposals by shareholders is not statistically different from zero.[28]

In columns 2–4 in Panels A and B of Table 7, we examine the likelihood of *implementation* through bylaw or charter. Panel A focuses on proposals that request a bylaw modification, and Panel B focuses on a charter modification. We restrict the sample to proposals implemented as majority voting. Additionally, in columns

[28]Note that there are 16 proposals that do not mention the exact implementation route and are coded as 0 in both regressions, so column 1 in Panels A and B is not the exact mirror image of each other.

2 and 3, we impose that the proposal passed. As noted in Section II.C, some proposals are implemented via both bylaw and charter. Columns 2 and 4 focus on proposals implemented via a single channel.[29]

Column 2 in Panel A of Table 7 reports that passed shareholder bylaw proposals were 14% less likely to be implemented via bylaw before the enactment of the law. However, after the law, their implementation via bylaw increased by 15% compared with management proposals. This highlights the effectiveness of the law in strengthening the binding nature of shareholder proposals. The results are qualitatively similar, although larger if we include proposals implemented via both routes (column 3 in Panel A).

When we include both passed and failed proposals implemented in columns 4 and 5 in Panel A Table 7, we observe weaker effects on the interaction between *SHD proposal* and *Enactment.* Since the legislation does not apply to failed proposals, there is a higher occurrence of failed shareholder bylaw proposals being implemented via charter subsequent to the legislation. This suggests that managers utilize the flexibility provided by the law to implement their preferred version of majority voting for failed proposals.

As column 2 in Panel B of Table 7 reports, before the enactment of the law, shareholder charter proposals were 23.6% more likely than management charter proposals to be implemented via bylaw. This finding suggests that managers have some resistance to implementing shareholder-initiated charter proposals and that they prefer to channel them via bylaw changes. When we include proposals implemented via both routes, this number drops to 5%, showing that many of the charter implementations following a shareholder charter proposal were also coupled with changes to the bylaws. This dual implementation locks in some aspects of the majority voting in the charter but leaves some others in the bylaws, which are easier to amend.

After the enactment, managers decreased their implementation via bylaw by 13.4% (and by 26% when including dual implementation), thus favoring implementation via charter instead. Intuitively, management charter proposals are more likely than management bylaw proposals to be implemented via charter. The enactment of the law does not significantly change the implementation channel of shareholder charter proposals.

Overall, the results in Table 7 imply the legislation's effectiveness in increasing the implementation of shareholder bylaw proposals. However, they also indicate a managerial tendency to shift requests toward charter proposals and to implement them whenever possible.

B. Modulating Indirect Shareholder Democracy: Resignation Policy

In this subsection, we investigate how managers moderate indirect shareholder democracy by retaining discretion over the actual terms of majority voting. We examine three versions of the majority-voting standard: plurality-plus, rejectable

[29]We present the result of implementation via bylaw only, but not implementation via charter only, for the sample that excludes proposals implemented via both routes, as the coefficients are mirror images of each other.

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TABLE 8

Implementation Through Resignation Policies

Table 8 analyzes the implementation of resignation policies. We include the sample of management and shareholder proposals that are implemented with either a plurality-plus or a majority-voting standard. Panel A uses passed proposals and Panel B failed and passed ones. In column 1, the dependent variable is *Plurality Plus*, a dummy variable that equals 1 if the version of majority voting implemented is plurality-plus, and 0 if it is rejectable or strict majority voting. In column 2, the dependent variable is *Rejectable MV*, a dummy variable that equals 1 if the version of majority voting implemented is rejectable majority voting, and 0 if it is plurality-plus or strict majority voting. In column 3, the dependent variable is *Strict MV*, a dummy variable that equals 1 if the version of majority voting implemented is strict majority voting, and 0 if it is plurality-plus or rejectable majority voting. *Enactment* equals 1 for the years after the legislation is enacted in the state in which the firm is incorporated, and 0 otherwise. *SHD proposal* is a dummy variable that equals 1 when the proposal is a shareholder proposal, and 0 otherwise. For all columns, we control for state-group and year fixed effects. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Dependent Variable		
	Plurality-Plus	Rejectable MV	Strict MV
	1	2	3
Panel A. Passed Proposals Implemented via Either MV or Plurality-Plus			
SHD proposal	0.254***	−0.133***	−0.121***
	(0.012)	(0.010)	(0.018)
Enactment	0.073**	0.044	−0.117
	(0.024)	(0.054)	(0.068)
SHD proposal × Enactment	−0.243***	0.222***	0.021*
	(0.013)	(0.019)	(0.009)
R^2	0.107	0.104	0.105
N	385	385	385
Panel B. All Proposals Implemented via Either MV or Plurality-Plus			
SHD proposal	0.427***	−0.189***	−0.237***
	(0.012)	(0.006)	(0.011)
Enactment	0.299***	−0.230***	−0.068
	(0.061)	(0.047)	(0.053)
SHD proposal × Enactment	−0.082***	0.200***	−0.119***
	(0.011)	(0.022)	(0.022)
R^2	0.224	0.094	0.142
N	529	529	529
Year FE	Yes	Yes	Yes
State-group FE	Yes	Yes	Yes

MV, and strict MV (see Section II.B). For these tests, we include management and shareholder proposals implemented in one of the abovementioned versions.

Table 8 reports the results. Panel A uses all passed and implemented proposals; Panel B uses implemented proposals that either passed or failed. For both panels, the dependent variables are *Plurality Plus, Rejectable MV*, and *Strict MV* in columns 1–3, respectively. Note that there are no failed management proposals. For management proposals, we find that the coefficients on *Enactment* are positively significant in column 1 in both Panels A and B, but negatively significant in column 2 in Panel B and insignificant in column 3 in both panels. This suggests that, after the enactment of the law, management implements the weakest form of majority-voting standard (i.e., plurality-plus) to pre-empt shareholders.

For passed shareholder proposals in Panel A of Table 8, we find that the coefficients on *SHD proposal* × *Enactment* are negatively significant in column 1 and positively significant in column 3. As intended by the legislation, the implementation of strict majority voting for shareholder proposals increases. Column 2 further reports that after the legislative change, managers are more likely to implement a majority-voting standard combined with a resignation policy that provides

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leniency when directors lose their election, potentially as a partial response to shareholder demands.

When also including failed proposals in Panel B of Table 8, we find that the coefficient on *SHD proposal* × *Enactment* is negatively significant in column 3, suggesting that managers are less likely to implement strict majority voting for failed shareholder proposals for which they retain flexibility in the implementation channel. While the coefficients on *SHD proposal* × *Enactment* are still positively significant in column 2 and negatively significant in column 1, as in Panel A, the inclusion of failed shareholder proposals results in the sum of coefficients on *SHD proposal* × *Enactment* and *Enactment* changing signs. This shows that managers opt for plurality-plus as a partial response to failed shareholder proposals, minimizing deviation from the status quo while pre-empting future shareholder-initiated changes by reducing their incremental benefits.

Together with the results in Sections III and IV.A, the results in Table 8 suggest that, in majority voting's implementation process, managers adapt their policies to the increased shareholder empowerment. When shareholders propose majority-voting standards via bylaws, managers comply with the legislation and implement them if the proposal passes. This shows that managers are complying with the new legislation requirements. However, managers are also moderating and potentially undermining shareholder empowerment by initiating changes to the voting standard themselves, or by implementing shareholder proposals in a way that differs from the shareholders' initial proposal and gives managers control over future modifications. Such compromised implementation could be the result of managerial objectives being misaligned with those of shareholders, but it could also be the result of better-informed managers trying to maximize shareholder value.

C. Changes in the Narrative of Proposals and Management Recommendations

In this section, we study how the new legislation impacts the length of proposals. We also examine the impact of the voting advice regularly issued by management for each proposal. The new law provides shareholders and managers with a pre-packed standard way to implement majority voting. Therefore, we may expect less need to specify details in both shareholder and management proposals. On the other hand, the non-compliance costs for managers go up, making a lost vote more costly. For this reason, managers might decide to exert more effort to persuade shareholders to support management proposals or to oppose shareholder proposals. As a result, when managers issue their recommendations on how to vote, these should be longer and argue more forcefully against shareholder proposals.

To examine shifts in proposal narratives, Table 9 introduces two new dependent variables, as detailed in Section II.C: *Rank proposal length* and *Rank management recommendation length.* These are the word count ranking of *Proposal length* and *Management recommendation length* over the whole sample, normalized between 1 (lowest) and 100 (highest). We also introduce a third dependent variable, *Number of reasons against*, which quantifies the reasons cited in

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TABLE 9

Length of Proposal Content

Table 9 reports the results for the analyses of the terms of shareholder and management proposals. Panel A reports the results on passed proposals and Panel B on failed and passed ones. In column 1, the dependent variable is *Rank proposal length*, the ranking based on the word count of the proposal. In column 2, the dependent variable is *Rank management recommendation length*, the ranking according to the word count of management's vote recommendations. These variables are constructed so that 1 indicates the lowest and 100 the highest word count. In column 3, the dependent variable *Number of reasons against* is the number of reasons management gives in arguing against the adoption of a shareholder proposal. Columns 1 and 2 use both shareholder and management proposals; column 3 uses the sample of shareholder proposals. *Enactment* equals 1 for the years after the legislation is enacted in the state in which the firm is incorporated, and 0 otherwise. *SHD proposal* is a dummy variable that equals 1 when the proposal is a shareholder proposal, and 0 otherwise. We control for state-group fixed effects and year fixed effects in all models. Standard errors are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Dependent Variable		
	Rank Proposal Length	Rank Management Recommendation Length	Number of Reasons Against
	1	2	3
SHD proposal	−11.452**	5.437***	
	(3.879)	(1.099)	
Enactment	−21.839**	4.547**	0.302***
	(6.598)	(1.357)	(0.063)
SHD proposal × Enactment	7.395	−2.676*	
	(4.689)	(1.216)	
Year FE	Yes	Yes	Yes
State-group FE	Yes	Yes	Yes
R^2	0.299	0.068	0.044
N	687	687	409

management's voting recommendations against a shareholder proposal. Column 3 includes only shareholder proposals, whereas columns 1 and 2 are based on both management and shareholder proposals. We use the sample of all proposals and report the results in Table 9.

The coefficients on *Enactment* and *SHD proposal* × *Enactment* in column 1 of Table 9 confirm that, after the legislative change, shareholder proposals decrease in length and management proposals even more so. This is consistent with the law providing a pre-packed structure and rationale for majority voting. Shareholder proposals can use the content of the law as a model and, hence, require less explanation. Management proposals may diverge from the law more often but still benefit from its content, making them shorter.

In column 2 of Table 9, we focus on the length of management's vote recommendations, which increases for shareholder proposals and even more for managers' own proposals. This suggests that managers try to be more persuasive, especially when they initiate the changes. Column 3 reports that the legislation leads to an increase in the number of reasons against a shareholder proposal. These two results indicate that managers become more contentious in their argumentation both in favor of their own proposals and against shareholder proposals.

V. Conclusion

We explore how managers react to shareholder empowerment due to legislation that strengthens direct shareholder democracy. The legislation makes shareholder votes on majority-voting standards in director elections both binding and

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harder to reverse. While the previous literature on proxy voting focuses on the effectiveness of shareholder proposals, little is known about management's role in modulating and moderating the influence of shareholder voting.

We document that, after the legislation's enactment, managers submit more proposals on majority voting in director elections and increase the direct implementation of the majority-voting standard. Overall, the legislation causes the implementation of a majority-voting standard to significantly increase, and most of the implementation is initiated by management. Thus, managers act preemptively, rather than passively waiting for shareholder proposals. Accordingly, the number of shareholder proposals does not increase.

Even under a direct democracy, managers have substantial leeway in handling shareholder demands. Whenever implementation is done through proposals, managers tend to adopt the majority-voting standard via charter (which they have the exclusive right to initiate or amend) or corporate guidelines (which do not require a shareholder vote) and tend to use only bylaws (as opposed to other methods) when forced by shareholders and the new legislation. Management also strategically chooses the specifics of the implementation: they tend to avoid strict implementation of the majority-voting standard, preferring a more management-friendly version with, for instance, director resignation policies. We also observe that post-legislation, managers adjust their rhetoric to persuade shareholders to vote against shareholder-initiated majority-voting proposals.

Our research contributes to the discussion about whether corporate governance regulations should empower shareholders through stronger direct democracy. While shareholder activism is a growing trend, some industry practitioners are calling for the recognition of managers' pivotal role in harmonizing shareholders' interests and exercising business judgment to implement the company's long-term objectives (Lipton, Rosenblum, Niles, Lewis, and Watanabe (2016)). Our findings suggest that managers have ways to modulate shareholder influence. This moderation can take the form of opposing shareholder proposals, proposing management proposals in anticipation of future shareholder proposals, and implementing modified versions of shareholder proposals, all of which are covered in our analysis. The aim of the moderation could be to maximize shareholder value, or it may be driven by managerial objectives being misaligned with shareholders'. While it is beyond the scope of this article to research the value implications, we believe that imposing a one-size-fits-all approach that seeks to empower shareholders in all firms may neglect the heterogeneity in managerial responses to shareholder empowerment and their underlying motives.

Supplementary Material

To view supplementary material for this article, please visit http://doi.org/10.1017/S0022109025000146.

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