Democracy or Disruption: An empirical analysis of majority elections for directors

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Abstract

In the most recent proxy seasons, the majority election of board members has emerged as a major corporate governance initiative. Proponents suggest that majority elections are more democratic than the current plurality voting system, allowing greater shareholder power. Opponents believe that the costs of failed elections as well as other unfavorable outcomes outweigh the benefits of the process. In addition, recent academic evidence on the level of voting for directors suggests that almost all directors currently receive a majority of votes anyway. We examine the impact of financial and other governance characteristics on both the probability that a firm receives a majority election proposal and on the probability of adoption. We also examine abnormal returns surrounding proposals and adoptions. Our evidence suggests that poorly performing firms with high outside board representation are more likely to receive majority proposals. These firms as well as those with fewer shareholder rights are more likely to adopt the proposals. Firms announcing proposals earn significantly positive abnormal returns. Although firms adopting majority voting on average earn insignificant return, the returns are significantly lower for more binding majority provisions. Our results suggest that shareholders value majority voting, particularly in situations where the benefits are likely to be high.

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Introduction

The Sarbanes-Oxley (SOX) legislation was intended to promote better corporate governance in the wake of the Enron, Worldcom, and other scandals. Since the initiation of SOX in 2002, many companies have changed the composition of key board committees, increased disclosure of financial data, and established better internal controls systems. All of these actions are intended to promote better director accountability and shareholder empowerment.

Arguably a more direct method of empowering shareholders is to increase their ability to select and reject the directors that represent them. Recent evidence suggests that the level of votes for directors generally exceeds 90% and that shareholder votes have little impact on the election of directors and changes in a firm's performance [Cai, Garner, and Walkling (2008)]. One possible explanation for these results is the existence of plurality voting. Plurality voting was the standard among most public companies until recently and it allows nominees who receive the greatest number of votes to be elected, even if they do not receive a majority of votes.[1] Majority voting, on the other hand, requires that directors receive more than 50% of the votes to be elected. The problem with plurality voting is that in uncontested elections (i.e., the number of nominees equals the number of board seats to be filled), directors could be elected with a single vote. Indeed, Cai, Garner, and Walkling (2008) report that only four out of 2,488 elections in a recent period were contested. Perhaps in recognition of this situation, the latest trend in corporate governance and one of the dominant topics of the recent proxy seasons involves majority voting.

[1] Morrison and Cates, 2005.

In the last three proxy seasons many institutional shareholders and shareholders' organizations have presented companies with shareholder proposals which would require majority voting. In the spring of 2005, the Council of Institutional Investors (CII) issued a policy statement which supports the elimination of the plurality vote and encourages majority voting when allowed by state law. Other supporters include the AFL-CIO and the CFA Institute Centre for Financial Market Integrity.[2] Some firms have voluntarily adopted majority voting, even without receiving a proposal. Others have refused to implement the practice in spite of proposals with a high level of shareholder support. Our results suggest that the market reaction does not differ between voluntary and involuntary adoptions.

As viewed by its proponents, majority voting is another mechanism to ensure board accountability and increase a shareholder's ability to elect their desired representatives. To opponents, majority voting has many drawbacks, the most obvious of which is a failed election. Failing to elect certain directors may result in the inability of firms to meet listing requirements.[3] Moreover, the majority system may result in a director acceding to the demands of a minority stockholder who is a "one-issue voter" in order to minimize the number of "withhold votes."[4]

The objective of this paper is to investigate the determinants and efficacy of proposals and adoptions of majority voting procedures. We examine factors related to the likelihood a firm will receive a majority voting proposal and those factors related to the likelihood a firm will adopt such a provision. Hypotheses related to majority voting

[2] Morrison and Cates, p. 2.
[3] For example, in order to sustain listing on the NYSE, firms must have a majority of independent directors and three committees (nominating, compensation, and audit) which must be comprised entirely of independent directors.
[4] Raymond, p. 14.

suggest refutable predictions about the wealth effects surrounding announcements, the level of votes that proposals receive, and adoptions of majority voting provisions. Our results indicate that the likelihood of receiving a proposal or making an adoption is significantly negatively related to firm performance and significantly positively related to the percentage of outside directors. Firms adopting the proposals also have fewer shareholder rights. Firms with directors sitting on other boards that already have majority voting are also significantly more likely to adopt, suggesting a learning process. Firms announcing proposals earn significantly positive abnormal returns. Finally, announcement returns surrounding adoption are significantly higher in firms more insulated from takeover. Taken together, these results are consistent with the view that shareholders value the possibility of majority voting, particularly in firms with poor performance or fewer shareholder rights.

1. Background and hypotheses

1.1 Shareholder proposals

SEC Rule 14a-8 adopted under the 1934 Act covers the situations where shareholder initiated proposals must be included in a firm's proxy statement. Any shareholder who has owned $2,000 or more or 1% of a firm's voting stock for at least a year may submit one proposal for inclusion on the proxy. In general, a firm must include the proposal. Firms can exclude a proposal that: would cause the firm to violate applicable laws or SEC proxy rules, are not significantly related to a firm's business, are unenforceable by the firm, that further the personal interests of a shareholder, or that address personal claims or grievances. In addition, proposals which deal with the "ordinary course of business" are excluded since these are viewed as the purview of the

board. To circumvent this latter issue, many governance related proposals, including those for majority voting are designed to be precatory, or non-binding on management. If a firm does exclude a proposal from the proxy, the corporation must notify the shareholder and the SEC stating the reasons for exclusion.

1.2 Early literature on shareholder proposals

Gillan and Starks (1998) note that until the mid-80's most proposals were used by individual shareholders, religious groups, or political groups. Since that time, shareholder proposals aimed at governance reforms have increased dramatically. Early literature on shareholder initiated proposals includes Karpoff, Malatesta, and Walkling (1996), Gillan and Starks (1998), and Strickland, Wiles and Zenner (1996). The literature, however, is quite extensive. For useful summaries, see Karpoff (1998), Gillan and Starks (1998), and Black (1998). Despite a few exceptions, the general conclusion of this literature is that shareholder activism has little impact on a firm's stock price. This could be because the proposals receive low votes, because they are precatory in nature, or because they would have little impact on the firm, even if implemented. Another explanation, discussed in Bethel and Gillan (2000) is that management exerts control over the voting process. In particular, mangers hire proxy solicitors when faced with non-routine proposals and often bundle these proposals in ways to affect the outcome of a vote.

1.3 Plurality vs. majority

Although the early evidence on shareholder activism reports little price impact, the post SOX period has focused renewed interest in the process. In the wake of SOX legislation and the dramatic news coverage of corporate scandals, shareholders

(especially institutions) are devoting increased attention to governance issues including shareholder access to the proxy and the rules under which directors are elected.

One of the most recent types of shareholder proposal involves the very mechanism by which shareholders are represented - the election of directors.[5] Shareholders have limited access to place director candidates on the ballot. Currently, the only way to place their own candidates on a board is to mount a proxy contest which is estimated to cost several hundred thousand dollars.[6] The only practical means for shareholders to voice displeasure is to withhold votes for a particular director. Yet under the plurality standard (the dominant form in the United States), these withheld votes are generally meaningless. Prior to the majority vote movement, most companies required just a plurality of votes for a director to be elected.[7] That is, the directors receiving the largest amount of votes are elected. At the extreme, a director could be elected with a single vote even if all remaining votes are withheld. Thus, in uncontested elections (where the number of director candidates is the same as the number of positions), withheld votes are meaningless. Cai, Garner and Walkling (2008) report that only four of 2,488 director elections are contested. In fact, the Council of Institutional Investors considers the plurality system, and specifically, the worthlessness of withheld votes to be "a fundamental flaw in the U.S. corporate governance system." [8]

The SEC proposed changing the proxy process in October 2003 to give shareholders easier access to nominating their own directors. "As it became clear that the

[5] A recent update on these issues from a practitioner point of view is contained in the December issue of a newsletter circulated by the Law firm of Foley and Lardner. See http://www.foley.com/files/tbl_s31Publications/FileUpload137/3123/LegalNews-Transactional&Securities-December2005.pdf

[6] The American Federation of State, County and Municipal Employees.

[7] According to Allen (2007), in November of 2007, 66% of S&P 500 firms have adopted some form of majority vote provision. Prior to 2006, only 16% of firms had majority vote in place.

[8] Yerger, p. 2

SEC would not adopt these proposed rules, certain institutional shareholders and their representatives shifted their focus to changing the required vote for the election of directors."[9][10] The proposed alternative centers on majority voting which provides for the election of nominees only when they receive a majority of shares cast or outstanding.

1.4 Proposals and adoption

Proposals and adoptions have evolved over the past three years. There are three main types of majority vote. First, early proposals and adoptions were "plurality plus" provisions. These provisions, which are often incorporated in firm corporate governance guidelines, allow a director to be elected under a plurality standard. As mentioned previously, the plurality standard allows nominees who receive the greatest number of votes to be elected, even if they do not receive a majority of votes. The "plus" part of this standard requires that a director resign if he or she receives more "withhold" votes than "for" votes. Under this standard, the vote determines the conditions under which a director resigns, rather the conditions under which she is elected. In fact, as with any plurality standard, a director is elected as long as she receives one "for" vote in an uncontested election. . In general, the plurality plus provisions are policies which are not binding. While the "plurality plus" provisions call for the conditions under which directors resign, most corporate governance experts find this provision to be inferior to a "true majority" standard. A second category includes those firms that have a bylaw linking a resignation policy to a plurality standard (Allen, 2007). These provisions are

[9] Foley and Lardner, ibid.

[10] On November 28, 2007, The Securities and Exchange Commission (SEC) voted to allow firms the right to exclude any shareholder proposals related to the election of directors, including the nomination of a director. The ruling effectively repealed a 2006 decision rendered by the U.S. State Court of Appeals for the 2nd Circuit. That 2006 decision, rendered in American Federation of State, County and Municipal Employees versus A.I.G., allowed shareholders the ability to submit proposals regarding director elections which could then be voted on by all shareholders (see Morgenson, New York Times, October 14, 2007, Morgenson, New York Times, December 2, 2007, and Dash, New York Times, November 29, 2007).

"plurality plus" provisions that are placed in the firm's bylaws. The third category includes "true majority" mechanisms, which are generally included in a bylaw or charter and require a majority vote of shares cast in order to be elected. Under the majority standard, the vote actually determines if the director is elected, rather than whether the director must resign. That is, under the plurality plus standard, a director should *resign* if she receives more withheld votes than for votes, but she is still elected. In a true majority standard, a director *is not elected* unless she meets the vote requirement. Many firms also include a director resignation policy which addresses the issues of holdover directors. Holdover directors are those incumbent directors who fail to be elected under the majority standard but nevertheless hold the board seat until a new director is elected. The director resignation policies usually limit the term of holdover directors. A new "gold standard" of majority vote provisions has emerged where the majority standard is included in the company charter. According to Allen (2007), ISS refers to these charter provisions as gold standards because presumably the majority provision in a charter cannot be amended without a vote from the shareholders. This category is a subset of the "true majority" provision group, but it is more binding given the provision is added to the firm charter.

As discussed previously, proposals are generally initiated by institutional shareholders and shareholder votes on such proposals are often non-binding. Consequently, a firm receiving a proposal need not adopt it, even if the vote for the proposal exceeds 50%. Moreover, firms may adopt majority voting even without receiving a proposal. The impact of shareholder proposals and adoptions on the election

of directors as well as on stock returns are empirical issues. We next outline hypotheses suggesting positive, negative and neutral impacts.

1.5. The democracy hypothesis

Arguments for majority voting are straightforward: Becht, Bolton and Roell (2002) in an extensive review of corporate governance, list five solutions for protecting dispersed ownership interests in the modern corporation: 1) elect a board of directors 2) the takeover market, 3) monitoring by a large blockholder, 4) the design of contracts, and 5) legal remedies.[11] In terms of the individual shareholder, however, we note the extreme importance of the first item, the board of directors. After all, shareholders typically do not own large blocks of shares nor do they usually mount takeovers. They certainly do not design contracts. While shareholders have recourse to the courts, such actions are costly and are not generally feasible for the individual shareholder. While the latter four items are important, shareholders typically utilize three of them through the board of directors. Boards investigate takeovers, react to lawsuits and design contracts (including specific duties of the CEO and other officers). The influence of blockholders is typically demonstrated by their election of a representative to the board. Thus, the importance of electing a representative board is pivotal in shareholder protection. Without the ability to elect directors, shareholders have little protection. Even if a typical director has little chance of removal by the majority voting provision, the mere threat of removal can deter

[11] The subject of shareholder nomination of directors has been hotly debated in the law literature. Bebchuk (2003, 2005) argues for increased shareholder access to the ballot since the possibility that incumbents face any significant probability of dismissal through the election process is low. Bebchuk (2005) goes further, suggesting that shareholders be given access to the corporate ballot every two years and that shareholders be reimbursed for campaign expenses for candidates receiving a substantial number of votes.

undesirable actions. Thus, the democracy hypothesis suggests positive abnormal returns at the announcement of proposals or the adoption of majority voting provision.

1.6 The disruption hypothesis

An alternative view is that shareholder activism works as a deterrent to managerial efficiency. Karpoff, Malatesta, and Walkling (1996) refer to this as the "Gadfly hypothesis." Pozen (2003) and Bainbridge (2005) argue that the benefit of these measures is unlikely to outweigh the cost. Atomistic shareholders neither have the incentive nor the power to affect corporate voting. Institutional investors, however, have increased incentives and the ability to change voting outcomes. Bainbridge argues that institutional activism is rare and can even be counter productive. Bainbridge quotes Kenneth Arrow, noting that intense monitoring can detract management. "…the system of corporate governance is designed to function largely without shareholder input and, despite the bad press corporate capitalism has received in recent years, the system works reasonably well."

Camara (2004) also discusses the cost of shareholder voting. It is costly because of "diseconomies of incorrect voting caused by inadequate incentives." According to Camara, additional control of management by shareholders can be disruptive, since shareholders are less informed and more likely to sell the stock when "things turn sour."

Del Guercio, Seery, and Woidtke (2008) analyze the corporate response to "vote no" campaigns which encourage other shareholders to withhold votes for directors to communicate dissatisfaction. Interestingly, they do not find a significant association between "vote no" campaigns and improvements in either governance or performance

measures. To the contrary, firms subjected to such campaigns have an increased likelihood of adding management-friendly provisions.

Thus, majority voting could reduce firm value. Commonly cited arguments against majority voting also have merit. For example, in contested elections where more directors are nominated than elected, and under plurality voting, withheld votes actually have more effect. The use of the majority method may cause firms to fail to comply with SEC or exchange requirements regarding the number of independent directors. Heightened proxy costs could also result from administering a majority standard and designing contingent plans for failed elections. Termination costs could be triggered if a CEO fails to win election and is dismissed.[12] Finally, shareholders could withhold votes for personal or political issues unrelated to firm value. Thus, the disruption hypothesis suggests negative abnormal returns surrounding the announcement of majority proposals.

1.7 The efficacy hypothesis

The alternatives to both of these hypotheses suggest insignificant abnormal returns. Thomas and Cotter (2005) examine shareholder proposals in the 2002-2004 period. Consistent with earlier literature, poorly performing firms are more likely to be targeted. Governance issues receive a higher level of shareholder support than social responsibility issues with anti-takeover proposals receiving the highest support. Institutional ownership is positively related to shareholder support while insider ownership is negatively related. In general, however, the stock price reaction to these proposals is insignificant.

Insignificant returns might result from the fact that majority voting may be proposed (and possibly adopted) along with other initiatives. The market may be unable

[12] Deane and Maramarco.

to distinguish the impact of majority voting relative to other proposals. Second, insignificant returns might result from vast differences in the opinions of market participants regarding the benefits and costs of majority voting. There is also reason to believe that majority voting just may not matter. Cai, Garner and Walkling (2008) find that shareholders vote for directors as if financial performance, director performance and firm governance matters, but that the difference in votes (while statistically significant) is economically trivial. Even poorly performing firms routinely receive over 90% "for" votes.[13] This may indicate that majority voting will not matter because almost all directors already receive a majority of votes.[14] Each of these arguments suggests the absence of significant wealth effects.

2. Data and Methodology

2.1. Data

We analyze two samples related to majority voting. Our first sample consists of majority voting proposals made by shareholders. The second sample consists of cases where majority voting is adopted; a subset of these was initiated by a proposal, while the remainder was adopted voluntarily.[15] A third data set consists of a matched sample of control firms. The initial sample of 264 majority-voting proposals made by shareholders is obtained from Institutional Shareholder Services (ISS). The ISS dataset provides the firm name, shareholder meeting date, management and ISS recommendations for the

[13] There are two exceptions, firms without a positive recommendation receive 18% fewer votes on average. Directors attending less than 75% of board meetings receive 14% fewer votes. Even here, however, the level of votes is generally well above 50%.

[14] On the other hand, it can be argued that the high level of votes is representative of shareholder apathy simply *because* plurality provisions are the norm. Improving the election process might result in increased shareholder attention to director elections, reducing the high level of votes and putting substance into the process. Once again, the best way to test this inference is to examine the data. To the extent abnormal returns are significantly positive, shareholders find positive value in the proposals.

[15] Of the 481 adoption firms, 204 firms had previously received proposals, sometimes more than once. The remaining 277 adoptions appear to be voluntary.

proposal, and the amount of votes the proposal received. We verify these proposals by examining SEC filings of proxy statements (Def-14a) to collect the proxy filing and mailing dates, as well as the sponsoring shareholder's identity and stock holdings. We further require these firms to be available from the CRSP, Compustat, and IRRC databases. The net result is 229 majority voting proposals during the 2005-2007 proxy seasons.[16] The announcement date of the proposals is defined as the earlier of the proxy mailing date and the proxy filing date.

Our sample of majority voting adoptions is primarily from Allen (2007). While Allen provides the adoption (announcement) date for many firms, some firms do not have this information. We limit our analysis to those firms for which we have the announcement date for the adoption. Our final adoption sample consists of 481 adoptions for the 2004-2007 proxy season.

Table 1 reveals the distribution of our samples over the 2004-2007 period. The number of adoptions increases dramatically over this period. As we would expect, the majority of proposals are made during the regular proxy season, April and May of each year.[17]

2.2 Methodology

2.2.1 Match firms

Our control sample is developed by identifying an industry and size matched firm for each of our sample firms. We require the matching firms to be available from the CRSP, Compustat, and IRRC governance and director databases in the year before the

[16] Preliminary analysis indicates that a large portion of our proposals are initiated by unions. We are continuing to explore this issue.

[17] While proposals appear in the proxy, their receipt occurred prior to the annual meeting date. In the prior year's proxy, the firm designates a deadline by which it will accept a shareholder proposal. Generally, this is several months prior to the annual meeting.

announcement date. The sample firms and firms with a majority voting provision in place are excluded from the matching firm pool. For each firm in the proposal and adoption sample, we select the matching control firm as the one in the same Fama and French (1997) industry with the closest market value of equity to the sample firm.

Panel A of Table 2 compares the characteristics of the firms receiving majority proposals with their matching firms. Although we match by size, the proposal firms are still significantly larger than the matching firms. Thus, we control for size in multivariate regressions. These firms are poor performers, as marked by lower levels of Q, ROA, ROE, and prior year excess return. However, they also seem to have less entrenched managers, as suggested by shorter CEO tenure, lower CEO stock holdings and higher fraction of outside directors. Their directors are more likely to be busy and less likely to be appointed by the CEO. Most of the majority proposals are sponsored by labor unions. In general, the labor unions in our sample have a very small equity position in the firms they target. To better understand the motivation behind their proposals, we also examine their role as stakeholder. We find that, compared to the matching firms, the targeted firms have higher pension obligations and expenses, as well as higher industry union membership.[18] This evidence suggests that the labor unions target firms where they have more 'stakeholder' interests and their motivation may not be aligned with those of the shareholders. Overall, it seems the activist shareholders target poor-performing firms but with more shareholder-friendly management.

[18] We obtain industry union membership from the *Union Membership and Coverage Database*, as developed by Hirsch and Macpherson (2003), which define industry by NAICS. NAICS codes provide a finer classification of industry than Fama and French (1997). Therefore, even though we identify the matching firms from the same Fama-French industry as the sample firms, the sample firms have significant higher industry union membership than the matching firms.

Panel B of Table 2 compares firms that actually adopt majority voting with their matched firms. The firms that adopt a majority vote provision have similar characteristics to the firms that receive a majority voting proposal; adopting firms have lower levels of Q, ROA, and prior year excess return. They also have shorter CEO tenure and lower CEO ownership, along with a higher fraction of independent directors who are busy. However, adoption firms have more protection from the corporate control market as evidenced by their higher G-index than the matching firms. They also have higher pension obligations and expenses, although their industry union membership is not significantly different from the matching firms. Finally, the adopting firms have significantly higher number of directors who sit on the board of another firm that has a majority vote provision in place.

2.2.2 Empirical tests

Our empirical tests fall into four major categories: 1) the characteristics of firms receiving proposals and/or adopting majority provisions, 2) the determinants of the level of votes for the proposals, 3) the efficacy of adopting majority voting, and 4) the market reaction to the announcement of majority voting proposals and adoptions.

Understanding the characteristics of firms associated with majority proposals or adoptions provides the first tests of the democracy and disruption hypotheses. Consistent with the democracy hypothesis, the benefits from empowered shareholders should be greater where existing management is underperforming. If these factors are not significantly related to majority proposals and adoptions, the motives and the benefits of such proposals become less clear.

The second area of analysis involves the *adoption* of majority proposals. If the proposals are expected to improve performance, the level of votes should be higher in cases with poor performance and fewer shareholder rights. The decision to adopt a proposal could follow from this same line of thought. Management may feel more pressure to adopt if the level of support for the proposal is high.[19]

Ultimately, the impact of majority proposals, the level of votes they receive, and subsequent adoptions are empirical issues. Consequently, the third set of tests examines the wealth impact surrounding the announcement of votes for majority proposals surrounding their approval. These tests provide direct evidence of the benefit, harm, and efficacy of such proposals.

3. Results

3.1 Characteristics of firms that receive proposals

The majority-voting provision gives shareholders more power in the removal of directors. When shareholders' interests are compromised by poor performance and/or poor governance, investors are more likely to seek governance changes and submit the majority-voting proposals. In theory, firms with poor governance may refuse to allow the proposal on the proxy. However, according to SEC commissioner, Roel Campos, firms are generally not permitted to ignore majority voting proposals (Coglianese and Michael,

[19] Ultimately, however, the adoption decision is made by management. Members of management that are reluctant to cede any power are only likely to approve such proposals when they think adoption would be ineffective. The decision to adopt, under this viewpoint, is more of an attempt to improve public relations. Cai, Garner and Walkling (2009) document that few directors receive less than 80% of the vote, and therefore, under current standards, a majority clause would not alter elections for the majority of firms. Nevertheless, the proposals would be effective if the level of shareholder voting shifted and the very adoption of such a proposal could be a step taken in that direction. That is, the adoption of the proposal is not without potential repercussions to management.

2006).[20] Therefore, we expect a negative relation between governance and performance of a firm and its probability of receiving a majority-voting proposal. On the other hand, most of the majority voting proposals are sponsored by labor unions. Unions may have different agendas than the other shareholders and target the firms with a heavy labor interest, such as firms with higher union membership and pension obligations.

We test these predictions in Table 3 with logistic regressions. The dependent variable is a proposal dummy, which equals one for the proposal firms and zero for the industry and size matched firms that have not received a proposal.[21] Since the pension variables are not available for a substantial number of firms, we estimate Models (1) to (3) without the pension variables and Models (4) to (6) with these variables. Models (1) to (3) indicate that firms with poor performance (lower ROA, Q and prior year return), and good governance (as indicated by a higher fraction of outside directors) are more likely to receive majority voting proposals. The significantly lower level of performance is consistent with the conjecture that these firms are underperforming. Proposal firms have higher outside representation on their board, consistent with the idea that outside board members are more receptive to the proposals.[22] In Models (4) to (6) we include the pension variables. All three pension variables have positive coefficients, and one of them is statistically significant at the 1% level, the other two at the 10% level. In addition, we find that in all six specifications, the percent of unionized workers has positive

[20] Statements made by the Honorable Roel C. Campos, Commissioner of the Securities and Exchange Commission on May 9, 2006 (Coglianese and Michael, 2006).
[21] Some firms receive a proposal but it is later withdrawn. While we are aware of these firms, we recognize that some firms that receive a proposal may not be covered by ISS.
[22] Cai, Garner and Walkling (2008) find that outside directors receive higher votes than their inside counterparts. This may make them more receptive to shareholder proposals.

coefficients, and three of them are statistically significant. These results indicate that unions target firms with heavier labor interests.

3.2 Firms that adopt majority provisions

We test the relation between firm characteristics and adoption with the logistic regressions in Table 4. The dependent variable is the adoption dummy, which equals one for adoption firms and zero for the industry and size matched firms that have not adopted a provision. The results indicate that firms with poorer performance (lower Q, ROA, and stock returns) are more likely to adopt majority voting. These firms may need to have more shareholder monitoring to improve performance. Given that most directors receive over 90% of support votes (see Cai, Garner, and Walkling, 2008), it is also possible that they adopt majority voting to divert shareholder attention to their performance. Similar to the firms receiving proposals, the adopting firms also have higher pension obligations and expenses. One conjecture is that they adopt majority voting under union pressure.

We find mixed results of the effect of corporate governance on the probability of adopting majority voting. On the one hand, the Governance Index, which measures the number of takeover defenses, is significantly positively related to adoption. Perhaps these firms use majority voting to improve their image. On the other hand, firms with higher levels of independent directors are also more likely to adopt a majority voting standard. Learning from other board memberships also appears to be a factor. Firms with more directors sitting on the boards of other firms with majority provisions in place are more likely to adopt this measure.

3.3 Voting Results from majority-voting proposals

We now turn our attention to the level of votes for majority proposals. We measure the voting outcome with the percent of "for" votes of the proposal. This can be interpreted as a measure of shareholder support and the level of pressure on management. The democracy hypothesis predicts higher "for" votes for firms that would benefit the most from the majority-voting provision. These firms are likely to have poor performance, and poor governance. The disruption hypothesis predicts lower "for" votes for firms that have higher potential costs associated with a majority-voting provision.

In Panel A of Table 5, we show that the majority voting proposals receive an average of 44.9% "for" votes. The more recent proposals and repeated proposals also receive higher "for" votes, suggesting shareholders are growing more supportive of majority voting provisions over time.[23]

Panel B of Table 5 reveals the determinants of votes on shareholder proposals for majority voting. . The results are not consistent with the democracy hypothesis. Firm performance, as measured by industry adjusted ROA, the prior year excess return, and industry adjusted Q, is insignificantly related to the level of votes that proposals receive. Firms with a higher level of outside directors receive higher votes for the proposals. This may be because shareholders believe an outsider-dominated board is more likely to later adopt such a proposal. Board holdings are positively related to the votes in one specification. This is unexpected since the board of directors is typically against such shareholder proposals. We also find that institutional holdings, especially the quasi-indexer holdings, have a significantly positive effect on the votes, suggesting that the

[23] Of the 131 proposals, 23 firms were the subject of "repeat" proposals.

institutions, in particular the ones cannot easily vote with their feet, tend to favor majority voting. Holdings by dedicated institutions have the opposite effect on the vote. Perhaps these long-term institutions are more aligned with the management. However, the concentration of institutional holdings has a negative effect on the votes, suggesting that the large shareholders are more likely to vote against the majority voting proposals. Ironically, the efficacy of majority voting increases with the level of shareholder concentration; larger blocks have the impact to cause votes to fall below 50%. Nevertheless, the existence of a blockholder is unrelated to the level of vote. Finally, we find the ISS recommendation has a significantly positive effect on the votes.[24]

3.4 The effect of Proposals and adoptions on director elections

In an effort to determine if the adoption of a majority proposal impacts the outcome of director votes, we examine the average votes for adoption firms prior to and after the adoption. We present our results in Table 6. The average director vote increases by an insignificant 0.5% subsequent to the adoption. We also examine the average level of ISS recommendation prior to and after the adoption of a majority provision. We find that ISS recommends voting 'for' directors 93.9% of the time prior to the adoption, while their recommendation level increases significantly to 97.5% subsequent to the adoption. ISS appears to consider the adoption of a provision in their recommendation of directors.

3.5. Market reaction

3.5.1. Market reaction to proposals and adoptions

As mentioned in section 2, majority-voting proposals may be viewed as a mechanism that improves governance and value (the democracy hypothesis), or one that

[24] We define a proposal as passed if the votes exceed the median level of votes. In unreported tests, we define a proposal as passed if the votes exceed 50%. Results are similar.

obstructs the performance of management (the disruption hypothesis). Alternatively, since the proposals are often precatory and since directors almost always receive a majority of votes, the market might not react to the proposals (the apathy hypothesis). The testable predictions associated with these ideas suggest significantly positive (negative) abnormal returns for the democracy (disruption) hypotheses and zero abnormal returns for the absence of valuation effects. In Table 7, we document that the price reaction to proposal announcements is positive, with average and median three-day abnormal returns of 0.46% and 0.23%, both statistically significant at conventional levels. The positive market reaction to proposals is consistent with the democracy hypothesis. Since we use the proxy filing/mailing date as the announcement date of the proposals, there may be confounding information released with the proxy statement, in particular other management or shareholder proposals. To control for this, we match the sample firm proxy statement with a matching firm proxy statement that is from the same industry and year and with the closest categories of other proposals. For example, if the sample firm's proxy statement also has a management proposal for approval of stock option plans, we try to find a matching firm in the same industry that has a such proposal but without majority voting proposal. We use ISS classification to determine proposal types. Table 7 shows that the market reaction to the matching firms' filing/mailing of their proxy is insignificantly different from zero. Thus, we conclude that the positive market reaction of the proposal sample firms is driven by the majority voting proposals. Table 7 also reveals that the average and median voting-day abnormal returns are insignificantly different from zero. Effects associated with the voting of the proposals are likely to have been anticipated and incorporated at the announcement. Intuition suggests

that the voting-day price reaction may be related to the voting outcome as well as the level of the votes. We study this relation in a later section.

The last rows of Table 7 present abnormal returns around the actual adoption of majority voting proposals. Of the 481 adoptions, 99 were follow-up adoptions subsequent to one that had occurred earlier. Typically, the subsequent adoptions altered some additional provision of the proposal. For example, Pfizer adopted a "plurality plus" provision in June of 2005. Later that same year, Pfizer amended its policy to include a detailed director resignation policy. In 2007, Pfizer adopted a true majority provision which requires that a director is not elected unless he/she receives more "for" votes than "against" votes. These results, shown in Table 7, are consistent with the apathy hypothesis and the disruption process, but not democracy. Both the average and median adoption announcement returns for the full sample of adoptions and the first adoptions are insignificant. However, the announcement returns for subsequent adoptions are significantly negative. Subsequent adoptions are usually more binding, and the market reacts negatively to this news. We find that the announcement returns of "true majority" adoptions are significantly more negative than for the less binding adoptions. In unreported tests, we also compare the announcement returns of the "gold standard" adoptions to the less binding adoptions and find that the market reacts significantly more negatively for these provisions. These findings suggest that the more binding the adoption, the more negatively the market reacts, consistent with the disruption hypothesis.

3.5.2. Characteristics that impact the adoption announcement return

Although the average adoption announcement return is insignificant, these returns may be related to firm characteristics. The majority voting provision gives more power to shareholders to remove poor directors. Thus, it may have a larger effect on firms with entrenched management where the benefits of such power are greater. For other firms, the majority voting provision may be more of a distraction adding administrative costs but little benefit. Therefore, we examine two of the most popular entrenchment mechanisms: staggered boards and poison pills.

Table 8 shows that announcement returns at adoption are significantly negatively related to prior year excess returns and prior year director votes. These findings suggest that poorly performing firms and those with lower director votes would benefit from majority vote provisions, consistent with the democracy hypothesis. The market reacts less favorably to true majority adoptions, consistent with the findings in Table 7 and supportive of the disruption hypothesis.

4. Conclusion

This paper presents an analysis of majority voting, the dominant theme in the most recent proxy seasons. We develop and test two main hypotheses regarding the impact of majority voting proposals and their adoption. The democracy hypothesis maintains that the benefits of majority voting outweigh the costs, allowing greater shareholder power. The disruption hypothesis, maintains that the costs of majority voting are larger than the benefits. There are numerous debates about the benefits and costs of majority voting, particularly in regulatory, legal and advisory circles. To our knowledge no study has empirically examined the financial and governance impact of majority vote proposals or their subsequent adoptions. In the absence of such an analysis,

policy implications regarding the implementation of majority provisions are simply unclear.

Our evidence suggests that poorly performing firms with high outside board representation are more likely to receive majority proposals. These firms as well as those with fewer shareholder rights are more likely to adopt the proposals. Firms announcing proposals earn significantly positive abnormal returns. Although firms adopting majority voting on average earn insignificant return, the returns are significantly lower in firms where the majority provision is more binding.

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Table 1

The distribution of proposals and adoptions of majority-voting provisions

The number of majority-voting proposals in each month is based on the shareholder meeting/voting date of the proposals. The proposal voting date is the shareholding meeting date. The number of the majority-voting adoptions in each month is based on the announcement date of the adoptions. The adoption announcement date is the first day the adoption of majority voting provision is publicly announced, posted on company website, or filed with SEC.

Date	Number of Proposals	Number of Adoptions
February 2004		1
May 2004	5	
June 2004	2	
January 2005		1
April 2005	8	
May 2005	41	
June 2005	9	1
July 2005	1	1
August 2005	2	5
September 2005	1	12
October 2005	2	11
November 2005	1	12
December 2005	1	18
January 2006		23
February 2006		37
March 2006	3	20
April 2006	35	12
May 2006	61	14
June 2006	8	7
July 2006	3	14
August 2006	1	9
September 2006	3	25
October 2006	2	28
November 2006	2	20
December 2006		37
January 2007	1	20
February 2007		52
March 2007	1	19
April 2007	12	14
May 2007	19	29
June 2007	2	9
July 2007	1	5
August 2007		9
September 2007		8
October 2007	2	7
November 2007		1
Total	229	481

Table 2
Descriptive statistics

The samples of 229 majority-voting proposals and 482 majority-voting adoptions are described in Table 1. We select one matching firm for each sample firm as follows. First, we select firms that are available from the Compustat annual file, CRSP daily file, and IRRC governance file to form a matching firm pool. The sample firms and firms known to have majority voting provisions are excluded from the matching firm pool. Second, for each sample firm, we identify all firms from the same industry as defined by Fama and French (1997) and select the firm with the closest market value of equity to the sample firm as our matching firm. Market value of equity equals the price of the common stock (Compustat data item 199) times the number of outstanding common shares (Compustat Data item 25) at the previous fiscal year-end. Total assets equals the book value of total assets (Compustat data item 6). Book-to-market ratio equals the book value of common equity (Compustat data item 60) divided by the market value of equity. Q equals the book value of total assets less the book value of equity plus the market value of equity divided by the book value of total assets. ROA equals the operating income before depreciation (Compustat data item 13) divided by total assets at the previous fiscal year-end. ROE equals the income before extraordinary items (Compustat data item 18) less preferred stock dividend (Compustat data item 19) divided by book value of common equity at the previous fiscal year-end. Assets turnover equals sales (Compustat data item 12) divided by the total assets at the previous fiscal year-end. FCF (free cash flow) equals operating income before depreciation subtract tax (Compustat data item 16), capital expenditures (Compustat data item 128), and change in working capital, where working capital equals the sum of receivables (Compustat data item 2), inventories (Compustat data item 3), and other current assets (Compustat data item 68) minus current liabilities (Compustat data item 5). Market leverage equals total debt (Compustat data items 9 plus34) divided by total assets subtract book value of equity plus market value of equity. Book leverage equals total debt divided by total assets. Accumulated Pension obligation (Compustat data item 285), Projected pension obligation (Compustat data item 286), and Pension Expense Compustat data item 43) are from Compustat. Industry union membership is the fraction of workers who belong to a union in the firm's industry. Governance index equals the count of 24 anti-takeover provisions as described in Gompers, Ishii, and Metrick (2003). Classified board dummy equals one if a firm's board is classified and zero otherwise. Board size equals the number of directors. Fraction of outside director equals the independent directors as defined by IRRC divided by the total number of directors. Percent outside directors after CEO is the percent of outside directors that began their terms after the current CEO was in place. Outside director stock holdings equals the total number of shares held by all outside directors divided by the number of outstanding shares. CEO stock holdings equals the number of shares held by the CEO divided by the number of outstanding shares. We define an outside director as busy if she holds three or more board seats. Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. The Herfindahl index is the sum of squared individual institutional holdings divided by total institutional holdings. The institutional block holder dummy equals one if the firm has at least one institutional shareholder with more than 5% stock ownership, and zero otherwise. Board holdings equal the aggregate percent of outstanding shares of a company held by the board of directors. CEO Tenure is the number of years that the CEO has served in the position. Classifications of institutions are from Brian Bushee. See Bushee (1998, 2001) for the details of the classification methodology. Prior year excess return equals the cumulated stock return less the cumulated market return during the previous calendar year, where market return is measured by CRSP value-weighted index including dividend (VWRETD). Number of MV directors refers to the number of directors in a company's board that also sites of the board of another firm that has adopted majority voting standard. ***, **, or * denotes that the variable of the sample firms are statistically significantly different from that of the matching firms at the 1%, 5%, or 10% level, respectively.

Panel A: Majority-voting proposals

	Sample Firms		Matching firms	
	Mean	Median	Mean	Median
Q	1.796***	1.551***	2.300	1.870
ROA	-0.465	0.091***	0.148	0.124
ROE (before extraordinary items)	-0.802	0.165*	0.152	0.183
Prior-year excess return	0.037***	0.015**	0.134	0.052
Market value of equity ($billion)	32.746**	14.537	22.544	12.587
Total Assets ($billion)	71.945*	16.889***	42.751	10.218
Book-to-Market ratio	0.398	0.365***	0.353	0.342
G-index	9.421	9.000	9.391	9.000
CEO stock holding	0.912	0.117***	1.008	0.166
CEO_tenure	6.171**	5.000***	7.611	6.000
Fraction of outside director	0.742**	0.778***	0.711	0.727
Board size	10.827**	11.000**	10.242	10.000
Outside director stock holdings	0.485	0.108	0.927	0.102
Fraction of busy outside directors	0.367***	0.333***	0.307	0.286
Fraction of outside directors join after CEO	0.372*	0.333*	0.433	0.429
Institutional Holdings (%)	73.031	74.815	72.733	74.269
Herfindahl Index of Inst'l holdings (%)	3.944	3.590	4.129	3.619
Holdings by dedicated institutions (%)	4.169	2.491	4.385	2.908
Holdings by quasi-indexer institutions (%)	49.387**	49.332**	46.597	45.770
Holdings by transient institutions (%)	7.084***	5.423***	12.853	9.314
Block holder dummy	0.808	1.000	0.832	1.000
Accumulated Pension obligation ($ billion)	6.536***	1.979***	2.414	1.031
Projected pension obligation ($ billion)	6.407***	2.065***	2.443	1.058
Pension Expense ($ billion)	0.216***	0.080***	0.095	0.034
Industry Union membership	10.686**	4.550*	7.956	4.000

Panel B: Majority-voting Adoptions

	Sample Firms		Matching firms	
	Mean	Median	Mean	Median
Q	1.846***	1.538***	2.151	1.643
ROA	0.107***	0.091**	0.127	0.100
ROE (before extraordinary items)	0.188	0.156	0.143	0.159
Prior-year excess return	0.006***	-0.023**	0.057	-0.004
Market value of equity ($billion)	28.617***	10.589***	11.445	8.616
Total Assets ($billion)	65.433***	11.446***	31.073	6.405
Book-to-Market ratio	0.417	0.375	0.417	0.412
G-index	9.717***	10.000***	9.008	9.000
CEO stock holding	0.786***	0.141***	1.425	0.222
CEO tenure	6.653***	5.000***	8.522	6.000
Fraction of outside director	0.750***	0.778***	0.696	0.714
Board size	10.350***	10.000***	9.850	10.000
Outside director stock holdings	0.606	0.119***	0.609	0.224
Fraction of busy outside directors	0.344***	0.333***	0.265	0.250
Fraction of outside directors join after CEO	0.409*	0.400	0.449	0.429
Institutional Holdings (%)	73.901	75.509	73.990	76.325
Herfindahl Index of Inst'l holdings (%)	4.084	3.739*	4.226	3.840
Holdings by dedicated institutions (%)	3.712	2.030**	3.214	0.798
Holdings by quasi-indexer institutions (%)	50.530***	49.783**	48.391	47.993
Holdings by transient institutions (%)	7.536***	6.269***	9.766	7.808
Block holder dummy	0.831	1.000	0.858	1.000
Accumulated Pension obligation ($ billion)	4.301***	1.407***	1.073	0.298
Projected pension obligation ($ billion)	4.513***	1.480***	1.237	0.417
Pension Expense ($ billion)	0.136***	0.042***	0.043	0.017
Industry Union membership	8.172	3.400	7.692	3.400
Number of MV directors	1.975***	1.000***	0.996	1.000

Table 3
Who receives majority-voting proposals?

The proposal dummy equals one if a firm receives a shareholder proposal of majority provision of director elections and zero if it is a matching firm. Given the binary nature of the dependent variable, we report logistic regression results in this table. See Table 2 for the definition of the independent variables. Board size, pension obligation, and pension expenses of a company are correlated with its firm size. Therefore, we estimate a regression of board size and log pension variables on log market capitalization and use the residuals from these regression as the independent variables in the following reported tests. T-statistics are reported in parentheses. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

	Dependent Variable = Proposal Dummy					
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-1.37	-1.52	-1.48	-2.39	-2.01	-0.32
	(-1.09)	(-1.28)	(-1.79)*	(-1.18)	(-1.20)	(-0.32)
Q	-0.50			-0.41		
	(-3.74)***			(-2.14)**		
ROA		-4.57			-4.52	
		(-2.77)***			(-2.02)**	
Prior year excess return			-0.87			-0.57
			(-2.07)**			(-1.24)
Percent of unionized industry workers	0.01	0.02	0.02	0.04	0.03	0.00
	(1.17)	(1.40)	(1.84)*	(2.42)**	(1.83)*	(0.37)
Residual of Accumulated pension obligations				0.50		
				(1.92)*		
Residual of projected pension obligations					0.48	
					(1.81)*	
Residual of pension expense						0.37
						(3.00)***
Fraction of outside directors	1.22	1.92	1.68	-0.85	-0.20	0.87
	(1.49)	(2.09)**	(2.11)**	(-0.69)	(-0.16)	(0.96)
Governance index	-0.02	-0.01	0.00	-0.04	0.01	-0.05
	(-0.41)	(-0.17)	(-0.10)	(-0.67)	(0.20)	(-0.86)
CEO tenure	-0.02			0.04		
	(-1.20)			(1.14)		
Fraction of outside directors appointed by CEO		0.11	-0.30		0.90	-0.04
		(0.27)	(-0.88)		(1.66)*	(-0.11)
Fraction of busy outside directors	0.91	0.65	0.99	0.85	0.16	1.78
	(1.55)	(0.99)	(1.73)*	(1.05)	(0.19)	(2.67)***
Residual of board size	0.03	0.03	0.07	0.01	0.01	0.04
	(0.55)	(0.43)	(1.44)	(0.10)	(0.15)	(0.79)
Institutional Holdings	0.01			0.03		
	(1.35)			(2.16)**		
Herfindahl Index	-0.06			-0.11		
	(-1.06)			(-1.07)		

Holdings by dedicated institutions (%)		-0.02			0.02	
		(-0.63)			(0.56)	
Holdings by quasi-indexer institutions (%)		0.03			0.04	
		(1.97)**			(2.36)**	
Holdings by transient institutions (%)		-0.13			-0.11	
		(-5.07)***			(-3.71)***	
Blockholder dummy			-0.30			-0.58
			(-0.97)			(-1.59)
Log Market Cap	0.25	0.12	0.09	0.53	0.36	-0.01
	(1.96)*	(0.89)	(0.77)	(2.81)***	(2.04)**	(-0.05)
N (dep. Var. = 1)	171	165	177	115	124	149
N(dep. Var. = 0)	181	171	178	98	104	159
Pseudo R^2	0.118	0.241	0.079	0.177	0.253	0.125

Table 4
Who adopts majority-voting provisions?

The adoption dummy equals one if a firm adopts the majority provision of director elections and zero if it is a matching firm. Given the binary nature of the dependent variable, we report logistic regression results in this table. See Table 2 for the definition of the independent variables. Board size, pension obligation, and pension expenses of a company are correlated with its firm size. Therefore, we estimate a regression of board size and log pension variables on log market capitalization and use the residuals from these regression as the independent variables in the following reported tests. T-statistics are reported in parentheses. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

	Dependent variable = Adoption Dummy					
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-2.70	-2.87	-2.58	-3.64	-3.13	-2.19
	(-3.93)***	(-4.66)***	(-5.02)***	(-4.00)***	(-4.31)***	(-3.97)***
Q	-0.26			-0.26		
	(-3.66)***			(-2.34)**		
ROA		-3.07			-2.99	
		(-3.41)***			(-2.35)**	
			-0.55			-0.48
Prior year excess return			(-2.14)**			(-1.77)*
	0.24	0.27	0.24	0.24	0.23	0.20
Number of MV directors	(4.55)***	(4.98)***	(4.67)***	(3.52)***	(3.59)***	(3.66)***
Residual of Accumulated pension obligations				0.61		
				(3.17)***		
Residual of projected pension obligations					0.60	
					(3.66)***	
Residual of pension expense						0.28
						(4.02)***
Fraction of outside directors	1.99	1.93	2.08	1.52	1.65	2.06
	(3.59)***	(3.44)***	(3.97)***	(2.06)**	(2.35)**	(3.72)***
Governance index	0.09	0.10	0.08	0.09	0.11	0.04
	(3.23)***	(3.29)***	(2.71)***	(2.44)**	(3.06)***	(1.36)
CEO tenure	-0.03			0.00		
	(-2.25)**			(-0.28)		
Fraction of outside directors appointed by CEO		-0.01	-0.15		0.27	-0.05
		(-0.03)	(-0.71)		(0.93)	(-0.23)
Fraction of busy outside directors	0.01	0.16	0.25	-0.15	-0.16	-0.06
	(0.02)	(0.39)	(0.65)	(-0.29)	(-0.31)	(-0.14)
Residual of board size	-0.04	-0.06	-0.01	-0.04	-0.05	-0.01
	(-0.97)	(-1.63)	(-0.19)	(-0.82)	(-1.05)	(-0.37)
Institutional Holdings	0.00			0.01		
	(0.45)			(1.41)		
Herfindahl Index	0.00			0.07		
	(0.08)			(1.12)		

Holdings by dedicated institutions (%)		0.01			0.02	
		(0.58)			(0.70)	
Holdings by quasi-indexer institutions (%)		0.01			0.01	
		(1.76)*			(1.84)*	
Holdings by transient institutions (%)		-0.04			-0.05	
		(-3.28)***			(-2.95)***	
Blockholder dummy			-0.17			-0.21
			(-0.80)			(-0.94)
Log Market Cap	0.23	0.11	0.09	0.43	0.23	0.13
	(3.28)***	(1.64)	(1.37)	(4.30)***	(2.64)***	(1.85)*
N (dep. Var. = 1)	427	439	462	295	327	409
N(dep. Var. = 0)	437	424	436	238	275	397
Pseudo R^2	0.140	0.145	0.109	0.177	0.180	0.117

Table 5
Voting outcome of majority vote proposals and its determinants

Percent of "for" vote is calculated as the number of "for" votes divided by the sum of the numbers of "for", "against", and "abstain" votes. Success dummy equals one if percent of "for" vote is greater or equal to 50% and zero otherwise. Most of the independent variables are defined in Table 2. Executive holdings equal the aggregate percent of outstanding shares of a company held by top five executives. Regressions (1) and (2) are estimated with OLS and regressions (3) and (4) are estimated with logistic regression. T-statistics are reported in parentheses. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively. Coefficients with ^{A} have been multiplied by 100.

Panel A: distribution of Shareholder votes on Majority voting proposals

Votes	Below 10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	Above 90%
Number of Proposals	2	7	11	35	73	35	21	4	3

Panel B:

Independent variables	Dependent variable = % votes for proposal		
and statistics	(1)	(2)	(3)
Intercept	0.10	-0.23	0.12
	(0.41)	(-1.04)	(0.77)
Industry adjusted ROA	0.05		
	(0.44)		
Industry adjusted Q			-0.46[A]
			(-0.47)
Prior year excess return (%)		0.07	
		(1.34)	
Log market cap	-0.30[A]	0.01	0.28[A]
	(-0.20)	(1.19)	(0.23)
Governance index	0.65[A]	0.01	
	(1.20)	(2.16)**	
Entrenchment index			0.60[A]
			(0.59)
Percent of outside directors	0.14	0.22	0.16
	(1.70)*	(2.69)***	(1.91)**
Percent outside directors after CEO		0.02	0.02
		(0.45)	(0.44)
Directors with outside board seats (%)			0.05
			(0.83)
Number of outside board seats	0.01	-0.05[A]	
	(0.48)	(-0.02)	
Board holdings	0.13[A]	0.30[A]	0.10[A]
	(0.92)	(1.99)**	(0.69)
CEO Tenure	-0.12[A]		
	(-0.47)		
Institutional holdings	0.23[A]		
	(2.13)**		
Herfindahl index	-0.02		
	(-2.66)***		
Blockholder dummy			0.03
			(1.04)
Holdings by dedicated institutions (%)		-0.50[A]	
		(-1.90)**	
Holdings by quasi-indexer institutions		0.22[A]	
(%)		(1.97)**	
Holdings by transient institutions (%)		-0.18[A]	
		(-0.50)	
ISS Recommendation	0.14	0.18	0.15
	(1.67)*	(2.77)***	(2.14)***
Management recommendation	-0.03	0.02	-0.13[A]
	(-0.48)	(0.37)	(-0.02)
Other proposals	-0.04[A]	-0.02	-0.02
	(-0.01)	(-0.84)***	(-0.52)
Residual of Accumulated pension	0.03	0.02	0.30[A]
obligations	(1.75)*	(1.26)	(0.19)

N (dependent variable = 1)			
N (dependent variable = 0)			
N	104	110	110
Adjusted R^2	0.096	0.0837	0.0236

Table 6

Director election votes and ISS recommendation before and after proposals and adoptions

Director votes equals the average percent "for" votes a firm's director receives in the shareholder meeting, where percent "for" votes equals the number of "for" votes a director receive divided by the sum of "for" and "withhold" votes. Minimum director vote is the lowest director vote in the shareholder meeting. ISS recommendation is the average of the positive recommendation given by Institutional Shareholder Services (ISS). We present votes and ISS recommendations before and after the adoption of a majority vote provisions. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

Variable	N	Mean	T-value	Median	Standard Deviation
Average Director For Votes (%)					
Before Adoption	364	94.90		96.90	6.73
After Adoption	364	95.41		97.14	6.00
Change (%)	364	0.51	1.22	0.17	8.05
Minimum director votes (%)					
Before Adoption	364	90.41		94.97	11.22
After Adoption	364	90.88		94.76	10.34
Change (%)	364	0.47	0.69	0.16	13.04
ISS Recommendation (%)					
Before Adoption	363	93.87		1.00	18.67
After Adoption	362	97.45		1.00	12.10
Change (%)	362	3.60	3.37	0.00	20.33

Table 7
Market reaction to proposals and adoptions of majority-voting provision

The proposal announcement date is the earlier of the proxy mailing date and the proxy filing date, where the shareholder proposal concerning majority voting provision of director election is included in the proxy statement. The proposal voting date is the shareholding meeting date. The adoption announcement date is the first day the adoption of majority voting provision is publicly announced, posted on company website, or filed with SEC. The abnormal returns are calculated during a three-day window centered on the announcement day as the difference between the cumulative stock returns and the cumulative market returns. We calculate stock returns with the price and dividend information from finance.yahoo.com since the 2006 data are not available from CRSP yet. Statistical significance of mean returns is determined by t-test and of median returns by signed rank test. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

	N	Mean (%) (t-stat)	Median (%) (% positive)
Proposal announcement return	226	0.46 (3.32)***	0.23 (55.46%)***
Proposal voting day return	229	0.07 (0.38)	0.08 (52.40%)
Adoption announcement return	481	-0.12 (-1.01)	-0.11 (46.57%)
True majority adoption	229	-0.25 (-1.35)	-0.08 (45.41%)
Non-true majority adoption	247	0.00 (0.03)	-0.15 (47.78%)
First Adoption announcement return	382	-0.02 (-0.15)	-0.07 (47.91%)
Subsequent Adoption announcement return	99	-0.49 (-2.01)**	-0.31 (41.41%)*
Voluntary adoptions	277	-0.15 (-0.90)	-0.04 (49.10%)
Involuntary adoptions	204	-0.08 (-0.48)	-0.19 (43.14%)
Adoptions with subsequent proposals	32	0.19 (0.70)	0.12 (53.13%)
Adoptions without subsequent proposals	449	-0.14 (-1.14)	-0.14 (46.10%)

Table 8

What affects the adoption announcement abnormal returns?

The adoption announcement abnormal return is calculated during a three-day window centered on the announcement date as the difference between the cumulative stock returns and the cumulative market returns. The adoption announcement date is the first day the adoption of majority voting provision is publicly announced, posted on company website, or filed with SEC. Many of the variables are defined in Table 2. Type equals 1 if the firm adopted a bylaw, 2 if the firm adopted a policy, 3 if the firm adopted a bylaw and policy, 4 if the firm adopted a charter provision, 5 if the firm adopted a charter provision and policy, 6 if the firm adopted a bylaw and charter revision, 7 if the firm adopted a charter provision that allows for a majority vote provision, and 8 if the firm adopted a bylaw, charter and policy provision. Poison pill dummy equals one if a company has a poison pill, and zero otherwise. Classified board dummy equals one if a company has a classified board, and zero otherwise. Prior year director votes equals the average percent "for" votes a firm's director receive in the last shareholder meeting, where percent "for" votes equals the number of "for" votes a director receive divided by the sum of "for" and "withhold" votes. Definition of other variables are described in Table 2. T-statistics are reported in parentheses. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

Independent variables and statistics	*Dependent variable = Adoption announcement CAR (%)*			
	(1)	(2)	(3)	(4)
Intercept	0.02	0.02	0.02	0.02
	(1.21)	(1.12)	(1.19)	(1.20)
First adoption	<0.01	<0.01	<0.01	<0.01
	(1.07)	(1.00)	(0.96)	(0.93)
Type	<-0.01	<-0.01	<-0.01	<-0.01
	(-1.85) *	(-1.82) *	(-1.84) *	(-1.92) *
Classified board and Poison pill dummy	<0.01			
	(0.47)			
Poison pill dummy		<0.01		
		(1.15)		
Classified board			<0.01	
			(1.11)	
Entrenchment Index				<0.01
				(0.97)
Percent of outside directors	0.01	0.01	0.01	0.01
	(1.10)	(1.08)	(1.05)	(1.09)
Percent outside directors after CEO	<0.01	<0.01	0.01	<0.01
	(0.14)	(0.22)	(0.11)	(0.15)
Percent directors with outside board seats	<0.01	<0.01	0.01	0.01
	(0.75)	(0.78)	(0.79)	(0.78)
Outsider director holdings (%)	-0.01	0.01	-0.01	<0.01
	(-0.02)	(0.07)	(0.01)	(0.04)
Prior year excess return (%)	-0.01	-0.01	0.01	-0.01
	(-1.76)*	(-1.73)**	(-1.86)**	(-1.79)**
Prior year director votes (%)	-0.04	-0.04	-0.04	-0.04
	(-1.97) **	(-1.93) **	(-1.97) **	(-1.99) **
N	357	357	357	357
Adjusted R^2	0.0145	0.0174	0.0176	0.0165