

Online Appendix

for

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

Appendix A: Variable Definitions

Variable	Definition
Employment rate	The rate of employment in a state
Enactment	Dummy variable that equals one for the years after the legislation is enacted in the state in which the firm is incorporated, and zero otherwise
Enactment-1/2/3	Dummy variable that equals one for the year of enactment in the state, one year before, and two years before the legislation is enacted in the state, and zero otherwise
Enactment 0	Dummy variable that equals one for the year the legislation is enacted in the state and zero otherwise
Enactment+1/2/3/4	Dummy variable that equals one for one, two, three and four years or later after the legislation is enacted in the state, and zero otherwise
Post Enactment	Dummy variable that equals one for any years after the legislation is enacted in the state and zero otherwise
MV Implemented	Dummy variable that equals one if the management changes the voting standard to majority voting via bylaw, charter, or guideline, and zero otherwise. Implementation is measured one year after the proposal is voted.
Submitted via bylaw (charter)	Dummy variable that equals one if the proposal requests a bylaw (charter) amendment
Implement via bylaw (charter)	Dummy variable that equals one if the proposal is implemented via bylaw (charter) and zero otherwise
Implement via bylaw only	Dummy variable that equals one if the proposal is implemented via bylaw only, and zero otherwise
Plurality plus	Dummy variable that equals one if the proposal is implemented as a plurality-plus system, and zero if it is implemented as rejectable or strict majority voting
Strict MV	Dummy variable that equals one if the proposal is implemented as a strict majority-voting system, and zero if it is implemented as a rejectable majority-voting or a plurality-plus system

Rejectable MV	Dummy variable that equals one if the proposal is implemented as a rejectable majority-voting system, and zero if it is implemented as a plurality-plus or strict majority-voting system
Leverage	Total debt (dltt+dlc) divided by equity (ceq)
Log(Real GDP)	Log of real GDP
Log(Total Assets)	Log of total assets (at)
MGT(SHD) proposal	Dummy variable that takes the value of one if there is a management (shareholder) proposal submitted in that year, and zero otherwise
Management recommendation length	The word count of the management recommendation portion of a shareholder or management proposal
Majority voting in place	Dummy variable that equals one if the firm has a majority-voting standard in place and zero otherwise
MGT-initiated change	Dummy variable that equals one if the majority-voting standard is brought by management and zero if it is brought by shareholders
Number of reasons against	Number of reasons management gives in arguing against implementation of a majority-voting standard
Log management proposals	$\ln(1 + \text{Total number of proposals brought by the management})$ for each state and in each year
Log shareholder proposals	$\ln(1 + \text{Total number of proposals brought by shareholders})$ for each state and in each year
Pass	Dummy variable that equals one if a proposal is passed by shareholders
Proposal length	The word count of a shareholder (management) proposal
Difference in ranks	Difference between the rank variable of the number of words in a proposal statement and the rank variable of the number of words in the management recommendation section of a proposal
Rank proposal length	The word count ranking of a shareholder (management) proposal over the whole sample of shareholder (management)

	proposals, normalized between 1 to 100. Thus, 1 indicates the lowest and 100 the highest word count
Rank management recommendation length	The word count ranking of the management recommendation portion of a shareholder (management) proposal over the whole sample of shareholder (management) proposals, normalized between 1 to 100. Thus, 1 indicates the lowest and 100 the highest word count
Real GDP per capita	Real GDP divided by population
ROA	Return on assets, calculated by net income (ni) divided by total assets (at)
Shareholder proposal $t+1/2/3$	Dummy variables that equal one if shareholders submit a proposal within one, two, or three years, and zero otherwise
Votes for percentage (%)	Votes “for” as a percentage of all votes cast. If an abstention is counted as no, the base is For+Against+Abstention. If an abstention is counted as a non-vote, the base is For+Against

Table A.1. The Adoption of Majority-voting Legislation across States

Table A.1 shows the years in which majority-voting legislation passed in ten U.S. states and Washington, D.C. as part of their state corporate laws. It also presents the sections for this legislation in the relevant state corporate law.

State	Year	Sections
Delaware	2006	§8.1.216
California	2006	<i>S.B.</i> 1207
Florida	2006	§36.607.728
Washington	2007	§23B.10.205
Utah	2008	§16-10a-1023
Hawaii	2009	§23.414.302
Indiana	2010	§23.1.39
Wyoming	2010	§17-16-1022
Connecticut	2011	§33.601.809
District of Columbia	2012	§29.308.22
New Hampshire	2013	§27.293A.10

Table A.2. Summary Statistics on the Passage of Proposals

Panel A of this table provides the number of proposals brought by management and shareholders on voting requirements for director elections for Russell 3000 firms from 2005 to 2015. The proposals are further categorized by the voting results. Panel B provides statistics on the number of proposals brought by management and shareholders regarding voting requirements for director elections for Russell 3000 firms by state. The proposals are further categorized by voting results.

	Management proposals			Shareholder proposals			All proposals		
Year	Pass	Fail	Total	Pass	Fail	Total	Pass	Fail	Total
<i>Panel A: Number of Proposals by Year</i>									
2005	3	0	3	15	46	61	18	46	64
2006	2	0	2	37	53	90	39	53	92
2007	36	0	36	18	24	42	54	24	78
2008	33	0	33	11	13	24	44	13	57
2009	26	0	26	30	18	48	56	18	74
2010	32	0	32	19	13	32	51	13	64
2011	20	0	20	21	16	37	41	16	57
2012	26	0	26	23	13	36	49	13	62
2013	24	0	24	18	15	33	42	15	57
2014	17	0	17	15	11	26	32	11	43
2015	28	0	28	8	3	11	36	3	39
Total	247	0	247	215	225	440	462	225	687
<i>Panel B: Number of Proposals by State</i>									
California	0	0	0	3	3	6	3	3	6
Colorado	3	0	3	1	0	1	4	0	4
Delaware	85	0	85	105	143	248	190	143	333
Florida	4	0	4	2	1	3	6	1	7
Georgia	5	0	5	3	3	6	8	3	11
Indiana	8	0	8	2	3	5	10	3	13
Iowa	2	0	2	0	0	0	2	0	2
Kansas	0	0	0	1	0	1	1	0	1
Kentucky	1	0	1	1	1	2	2	1	3

Louisiana	0	0	0	1	0	1	1	0	1
Massachusetts	11	0	11	5	4	9	16	4	20
Maryland	6	0	6	23	7	30	29	7	36
Maine	2	0	2	0	0	0	2	0	2
Michigan	7	0	7	4	12	16	11	12	23
Minnesota	14	0	14	4	0	4	18	0	18
Nebraska	1	0	1	0	0	0	1	0	1
Nevada	1	0	1	1	2	3	2	2	4
New Jersey	4	0	4	4	9	13	8	9	17
New York	8	0	8	7	5	12	15	5	20
North Carolina	11	0	11	2	3	5	13	3	16
Ohio	19	0	19	12	10	22	31	10	41
Oklahoma	1	0	1	1	0	1	2	0	2
Oregon	5	0	5	2	0	2	7	0	7
Pennsylvania	19	0	19	10	3	13	29	3	32
Tennessee	8	0	8	6	2	8	14	2	16
Texas	1	0	1	2	1	3	3	1	4
Utah	1	0	1	5	0	5	6	0	6
Virginia	3	0	3	2	1	3	5	1	6
Washington	2	0	2	2	6	8	4	6	10
Wisconsin	15	0	15	4	6	10	19	6	25
Total	247	0	247	215	225	440	462	225	687

Table A.3: Validation and Robustness

This table reports results on the validation of the DiD design. Panel A reports results on the pre-trend analysis, using the main sample in columns 1 and 2 and a sample of proposals starting from 2003 in columns 3 and 4. We retrieve proposals that require majority voting in director elections from ISS Voting Analytics, which classifies proposals that require majority voting in director elections under several categories (M0230, M0605, S0212, and S0810). We first include all proposals under these categories with an item description that contains “majority” and then retain the ones that require majority voting in director elections. The dependent variables *Log management proposals* and *Log shareholder proposals* are the natural logarithms of one plus the number of management and shareholder proposals related to a majority-voting standard in director elections per state per year. *Enactment-1*, *Enactment-2*, and *Enactment-3*, respectively, take the value of one for the year of enactment, one year before, and two years before in the state, and zero otherwise. We take the period of three years or more before the legislation is enacted as the basis for comparison. *Post Enactment* includes all years after the legislation is enacted in the state and zero otherwise. Panel B reports the analysis of the legislation’s enactment and the number of proposals related to executive compensation. The dependent variables are the natural logarithms of one plus the number of management and shareholder proposals related to executive compensation per state per year. We weight each observation based on the number of Russell 3000 firms incorporated in the state in columns 2 and 4. All models in Panels A and B control for state-group fixed effects and year fixed effects. Panel C reports the hazard model estimations of the timing for enacting the legislation across different states. In column 2, we include only *Log management proposals* and *Log shareholder proposals*, the natural logarithm of one plus the number of management proposals and shareholder proposals, respectively. In column 4, we include state-level macroeconomic variables obtained from the Federal Reserve System: *Employment rate*, *Log(Real GDP)* and *Real GDP Per Capita*. Standard errors in both panels are clustered at the state-group level and are given in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	1	2	3	4
<i>Panel A: Pre-trend analysis</i>				
	Main sample		Extended sample	
Dep. Var.:	Log management proposals	Log shareholder proposals	Log management proposals	Log shareholder proposals
Enactment-3	0.031 (0.047)	0.174 (0.114)	-0.077 (0.081)	0.137 (0.111)
Enactment-2	-0.182 (0.102)	-0.001 (0.171)	-0.073 (0.058)	0.005 (0.152)
Enactment-1	-0.123 (0.130)	0.119 (0.092)	-0.111 (0.095)	0.125 (0.124)
Post Enactment	0.190** (0.067)	0.097 (0.063)	0.210* (0.108)	0.116 (0.070)
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.151	0.267	0.158	0.284
N	668	668	767	767

<i>Panel B: Placebo test</i>				
Dep. Var.:	Log management proposals		Log shareholder proposals	
Enactment	-0.023	-0.002	-0.102	-0.042
	(0.099)	(0.087)	(0.145)	(0.099)
Weights	No	Yes	No	Yes
State-group fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.149	0.072	0.119	0.067
N	668	668	668	668
<i>Panel C: Predicting Enactment</i>				
Log management	0.552		0.47	
proposals	(0.673)		(0.701)	
Log shareholder	0.705		0.754	
proposals	(0.526)		(0.531)	
Employment rate			5.478	
			(7.930)	
Log(Real GDP)			0.16	
			(0.421)	
Real GDP Per Capita			-35.911	
			(67.757)	
N	445		445	

