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***JEL classification*: G34, G18**

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Abstract

In the most recent proxy season, 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 the probability that a firm receives a majority election proposal and on the probability of adoption. We also examine the abnormal return surrounding proposals and adoptions. Our evidence suggests that poorly performing firms with high outside board representation are more likely to receive and adopt majority proposals. Firms with poor performance and 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 higher in firms more insulated from takeover. Our results suggest that shareholders value majority voting, particularly in situations where the benefits are likely to be high.

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1. 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, or changes in a firm's governance or performance [Cai, Garner, and Walkling (2006)]. One possible explanation for these results is the existence of plurality voting which is the standard among most public companies.[1] Plurality allows nominees who receive the greatest number of votes to be elected, even if they do not receive a majority of votes. 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 where 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 (2006) report that only three out of 1741 elections were contested. Perhaps in recognition of this situation, the latest trend in corporate governance and one of the dominant topics of the current proxy season involves shareholder proposals to replace plurality voting with majority voting.

[1] Morrison and Cates, 2005.

In the last two 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 supported the elimination of the plurality vote and encouraged majority voting when allowed by state law. Other supporters include the AFL-CIO and the CFA 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.

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 downfall 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 the proposals and adoptions of majority vote procedures. We examine the 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 suggest refutable predictions about the wealth effects surrounding announcements, the level of votes that proposals receive, and adoptions of majority voting provisions. Our

[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 are comprised entirely of independent directors.
[4] Raymond, p. 14.

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 announcing proposals earn significantly positive abnormal returns. Finally, the adoption announcement returns 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.

2. Background and hypotheses

2.1 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 one percent 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. Proposals that may be excluded are those 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 address personal claims or grievances. In addition, proposals that 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.

2.2 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.

2.3 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. Most companies require just a plurality of votes for a director to be elected. 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 (2006) report that only three of 1,741 director elections are contested. In fact, the Council of Institutional Investors considers the plurality system, and specifically, the worthlessness of withhold votes to be "a fundamental flaw in the U.S. corporate governance system". [7]

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 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

[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] Yerger, p. 2

directors."[8] 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.

2.4 Proposals and adoption

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. The next few paragraphs outline hypotheses suggesting positive, negative and neutral impacts.

2.5 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.[9] 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

[8] Foley and Lardner, ibid.

[9] 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.

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

2.6 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, however, 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, Wallis, and Woidtke (2005) 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,[10] Finally, shareholders could withhold votes for personal, political issues unrelated to firm value. Thus, the disruption hypothesis suggests negative abnormal returns surrounding the announcement of majority proposals.

2.7 The efficacy hypothesis

The alternatives to both 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

[10] Deane and Maramarco.

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 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 (2006) 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.[11] This may indicate that majority voting will not matter because almost all directors already receive a majority of votes.[12] Each of these arguments suggests the absence of significant wealth effects.

3. Data and Methodology

3.1 Data

We analyze two samples related to majority voting. First we identify majority voting proposals made by shareholders. The second sample consists of cases where majority voting is adopted; a subset of these were initiated by a proposal, while the

[11] 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%.

[12] 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.

remainder were adopted voluntarily.[13] A third data set consists of a matched sample of control firms. The initial sample of 131 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 proposal, and the amount of votes the proposal received. We verify these proposals by examining SEC filings of proxy statements (Def-14a) and collect the proxy filing and mailing dates, proposing shareholder's identity, and their stock holdings from these fillings. We further require these firms to be available from the CRSP, Compustat, and IRRC databases. The net result is 126 majority voting proposals during the 2005-2006 proxy seasons.[14] The announcement date of the proposals is defined as the earlier of the proxy mailing date and the proxy filing date.

Our second data set starts with an initial sample of 247 majority-voting adoptions is obtained from the IRRC Corporate Governance Bulletin, Allen (2006), and a Google web search. While Allen provides the adoption (announcement) date for many firms, a large portion of the sample does not have this information. To identify the announcement date of these adoptions, we contacted the investor relations department of 59 companies. We received responses from thirteen companies, and six of them are able to provide us with the announcement date. The remaining seven companies indicated that their majority-voting provision had been established for many years. A web search on Google which yields another 32 adoption announcements of the majority-voting provision. Our final adoption sample consists of 166 adoptions for the 2005-2006 proxy season.

[13] Of the 166 adoption firms, 60 firms had previously received proposals, sometimes more than once. The remaining 106 adoptions appear to be voluntary.

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

Table 1 reveals the distribution of our sample over the 2005-2006 period. Naturally, the majority of proposals are made during the regular proxy season, April and May of each year. The number of adoptions however, is heaviest in the middle part of our sample, particularly the September 2005 through March 2006 period.[15]

3.2 Methodology

3.2.1 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 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.

3.2.2 Empirical tests

Our empirical tests fall into three major categories: 1) the characteristics of firms receiving proposals and/or adopting majority provisions, 2) an analysis of the level of votes for the proposals and its relation to the adoption decision and 3) the market reaction to proposals, the strength of the vote, 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 and in firms with fewer

[15] The drop in the number of adoptions after March 2006 may be because the events have not been identified in the press.

shareholder rights. 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 set of tests is closely related. 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.[16]

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 and level of votes for majority proposals and surrounding their approval. Arguably, these tests provide the direct evidence of the benefit, harm, and efficacy of such proposals. Results are presented in the following section.

4. Results

4.1 Financial and governance characteristics

We begin by analyzing the financial and governance characteristics of our sample firms in contrast to their matched samples. In Panel A of Table 2, we report the performance and governance characteristics for the companies which received majority proposals ("proposal firms") and for their matching counterparts. Compared to the matching firms, the proposal firms are larger even though we match by size. This may be

[16] Ultimately, however, the adoption decision is management's decision. 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. 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 proposals is not without potential repercussions to management.

because the shareholders target the industry leaders or because these firms receive greater analyst and shareholder attention. The proposal firms also exhibit significantly lower Tobin's Q, ROA, ROE, free cash flow, and prior-year stock returns, suggesting that poor performance may have led to the proposal. The proposal firms have higher outside representation on their board, consistent with the idea that outside board members are more receptive to the proposals.[17] The proposal firms also have larger boards, consistent with findings that larger boards may be inefficient (See Yermack (1996)).

In Panel B of Table 2, we compare the characteristics for the firms that adopt majority-voting provision ("adopting firms") and for their matching firms. Similar to the proposal firms, they are also larger than their matching firms. As mentioned in Section 2.5, some firms adopt majority voting after a proposal, and some adopt it without a shareholder proposal. Compared to the matching firms, the adopting firms also have lower Q, ROA, and ROE, which suggests that poor performance compels these companies to actually adopt majority voting. The governance characteristics of the adoption firms are less clear. First, they have more outside directors on the board, suggesting the board is more willing to implement shareholder friendly reforms. However, these firms also have more entrenched management, as evidenced by higher levels of Governance index. Similar to the proposal firms, the adoption firms also have larger boards. Their lower board and CEO holdings are likely to be the result of larger size.

[17] Cai, Garner and Walkling (2006) find that outside directors receive higher votes than their inside counterparts. This may make them more receptive to shareholder proposals.

In Panel C of Table 2, we report a comparison of the characteristics of proposal firms with those of the adoption firms. Other than the larger size displayed in proposal firms, the two sets of companies have similar characteristics.

4.2 Characteristics of firms that receive proposals or adoptions

4.2.1 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 change 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, 2006).[18] If lower shareholder rights increases the need for more direct shareholder representation, we would expect a negative relation between governance and the probability of a majority-voting proposal.

We test these predictions with a logistic regression. The dependent variable is a proposal dummy, which equals one for the proposal firms and zero for the matching firms. Table 3 shows that larger firms and firms with poor performance, as measured by ROA, ROE, Q, free cash flow, and excess stock returns, are more likely to have a majority-voting proposal on their ballot. In addition, firms with larger board and more outsider directors on their board are also more likely to receive majority voting proposals, while other governance measures have little effect. Since board size is correlated with firm size, we use the residual of board size after controlling firm size in the regression,

[18] Statements made by the Honorable Roel C. Campos, Commissioner of the Securities and Exchange Commission on May 9, 2006 (Coglianese and Michael, 2006).

and it remains significant. This result may be because larger boards are inefficient, and shareholders target them to improve governance. Outside directors may be perceived to be more friendly to shareholders and attract the proposals. The evidence suggests that shareholders view majority voting as a way to improve firm performance, consistent with the democracy hypothesis.

4.2.2 Firms that adopt majority provisions

How performance and governance affects the probability of a firm adopting the majority-voting provision depends on whether the firm adopts it voluntarily or under pressure. Firms that adopt the majority voting provision voluntarily are likely to have good governance and normal performance, while firms that are forced to adopt the majority voting provision probably are more likely to have inadequate governance and poor performance. On the other hand, adoption may simple be a fashionable action to take. If directors are unlikely to receive less than 50% of the votes (Cai, Garner and Walkling, 2006), then a firm's adoption of a majority provision (under today's voting patterns) is unlikely to affect the election of directors, but it may serve to improve the firm's appearance.

We test the relation between firm characteristics and adoption with a logistic regression. The dependent variable is the adoption dummy, which equals one for the adoption firms and zero for the matching firms. Table 4 shows that the adoption firms have lower ROA, ROE, and Q and lower shareholder rights (a higher governance index) than their industry and size matching peer, suggesting that these firms adopt the majority voting provision under pressure or as an attempt to improve their image. However, the

significantly positive coefficients of percent of outside director and board holdings also suggest that better boards are more likely to make the reforms. Contrary to the proposal sample results, larger boards are not more likely to adopt the majority voting provision (after controlling firm size). This finding is consistent with the view that larger boards are inefficient and perhaps less willing to adopt shareholder friendly initiatives.

4.3 Voting outcomes and results

4.3.1 Voting outcome of majority-voting proposals and the determinants

In Table 3, we demonstrate that firms with poor performance and poor governance are those that receive proposals. We now turn our attention to the determinants of the level of votes for those proposals. 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.[19]

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 pressure on management. We also construct a success dummy based on whether the percent of "for" votes exceeds 50% or not. However, since many proposals are non-binding, the firm is not obligated to adopt the majority voting provision even if more than 50% of the shareholders support the proposal. The democracy hypothesis predicts higher "for" votes for firms that benefit the most from the majority-voting provision. These firms are likely to have poor governance and need improvement. The disruption hypothesis predicts lower "for" votes for firms that have higher potential costs associated with majority-voting provision.

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

Knowing that management typically votes "against" a majority voting provision, extremely dissatisfied shareholders may cast a greater number of "for" votes.

We test these predictions in Panel B of Table 5. The results indicate limited support for the democracy hypothesis. We find limited evidence that firms with poor performance tend to receive higher votes for majority proposals. However, firms with more outside directors receive higher votes for majority voting proposal. This may be because shareholders believe an outsider-dominated board is more likely to later adopt such a proposal. Finally, we find that the majority voting proposals receive lower votes when board shareholdings are high, which is not surprising given that board usually recommends voting against the proposal.

4.3.2 Does the proposal vote affect the probability of adoption

While the level of votes on proposals indicates that shareholders desire the majority voting provisions, the ultimate decision rests with management. We now examine whether managers adopt majority voting provision when shareholder votes for the proposal are higher. Our main variable of interest is the level of votes cast by shareholders on the proposal. We present our results in Table 6. Interestingly, the level of shareholder votes is inversely related to the adoption of the majority provision. This finding may suggest that shareholder and management desires are not aligned.

4.3.3 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 firm prior to and after the adoption. We present our results in Table 7. The average director vote increases by 1.23% subsequent to the adoption, statistically significant at 1% level. We also

examine the average level of ISS recommendation prior to and after the adoption of a majority provision. Here, we find that ISS recommends firm directors 92.65% of the time prior to the adoption, while their recommendation level increases to 94.20% subsequent to the adoption.

Our next analysis involves a two by two matrix categorized by whether the proposal passed (received greater than the median level of the vote) and by the decision to adopt (yes, no).[20] This procedure results in four groups of firms: 1) Passed Proposal, Adopt; 2) Pass Proposal, Did Not Adopt; 3) Did Not Pass Proposal, Adopt; 4) Did Not Pass Proposal, Did Not Adopt.

For each of these groups, we examine votes and ISS recommendations prior to the proposal and either after the adoption (if the firm subsequently adopted) or after the proposal (if the firm did not adopt). We present our results in Panels B-E of Table 7. For those firms that receive a proposal and subsequently adopt, the director votes and ISS recommendations are higher after the adoption (Panel B). Similar findings result for those firms that did not receive proposal and have not subsequently adopted. For firms whose proposal and adoption patterns are not the same (Panels C and D), the differential in votes is insignificant.

4.4 Market reaction

4.4.1 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 obstructs the performance of management (the disruption hypothesis). Alternatively,

[20] 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.

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 8, we document that the price reaction to proposal announcements is positive, with average and median three-day abnormal returns of 0.41% and 0.28%, both statistically significant at conventional levels. The positive market reaction to proposals is consistent with the democracy hypothesis. Table 8 also shows the average and median voting-day abnormal returns are slightly negative, but insignificant. Positive effects associated with the proposals could have been anticipated and incorporated at the announcement. Intuition suggests that the voting-day price reaction may be related to the voting outcome. That is, while the date of voting may not matter, the level of the vote might. We study this relation in a later section.

The last row of Table 8 presents abnormal returns around the actual adoption of majority voting proposals. The results here are consistent with the apathy hypothesis: both the average and median adoption announcement returns are insignificant. However, we show later that the adoption return is significantly positive for firms with entrenched management, suggesting that the value effect of majority voting provision depends on a firm's governance characteristics.

4.4.2 Market reaction to the proposal voting outcome

Although the majority-voting proposals are often non-binding, a higher percent of "for" votes is likely to add pressure on management and may increase the likelihood of

adopting the majority-voting provision in the future. If the majority-voting provision adds or reduces firm value, the change in likelihood of future adoption will affect the current stock price. We test this hypothesis in Table 9, but find no significant results. This result could be related to our earlier finding that higher shareholder votes for majority voting provisions are related to a lower likelihood of eventual adoption. The insignificant abnormal returns surrounding the election could also be because the outcome was anticipated or because a number of other proposals are also voted on the shareholder meeting date and other information is released on the same day. As a result, the link between the votes on majority voting proposal and stock returns could be buried in noise.

4.4.3 Characteristics that impact the adoption announcement return

Although the average adoption announcement return is insignificant, it may be relatd 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 and adds administrative cost. Therefore, we examine two of the most popular entrenchment mechanisms: staggered boards and poison pills.

Table 10 shows that firms with staggered board experience 1.17% higher announcement returns when a majority voting provision is adopted. The corresponding return is 1.60% or firms with poison pill. The results remain significant after controlling other firm characteristics. This evidence provides support to the democracy hypothesis for firms with entrenched management. In cases where shareholders have reduced

power, the importance of majority voting is magnified and the abnormal returns are correspondingly higher.

5. Conclusion

This paper presents an analysis of what has become the dominant theme in the most recent proxy season, majority voting. We develop and test two main hypotheses regarding the impact of proposals and adoptions of majority voting. The democracy hypothesis maintains that the benefits of majority voting outweigh the costs, therefore allowing greater shareholder power. The disruption hypothesis, on the other hand, maintains that the costs of majority voting are larger than the benefits. . The debate about the benefits and costs of majority vote are prevalent, particularly in regulatory, legal and advisory circles. To our knowledge no study has actually 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.

We examine the impact of financial and other governance characteristics on the probability that a firm receives a majority election proposal and on the probability of adoption. We also examine the abnormal return surrounding proposals and adoptions. Our evidence suggests that poorly performing firms with high outside board representation are more likely to receive and adopt majority proposals. Firms with poor performance and 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

higher in firms more insulated from takeover. Our results suggest that shareholders value majority voting, particularly in situations where the benefits are likely to be high.

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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.

	Number of Proposals	Number of adoptions
Apr-2005	4	2
May-2005	30	1
Jun-2005	6	2
Jul-2005	1	
Aug-2005	1	7
Sep-2005	1	13
Oct-2005	2	10
Nov-2005	1	12
Dec- 2005	1	20
Jan-2006		23
Feb-2006		36
Mar-2006	3	20
Apr-2006	27	8
May-2006	44	10
Jun-2006	5	1
Jul-2006		1
Total	126	166

Table 2
Descriptive statistics

The samples of 126 majority-voting proposals and 166 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. 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. Percent of outside director equals the independent directors as defined by IRRC divided by the total number of directors times 100. Total director stock holdings equals the total number of shares held by all directors divided by the number of outstanding shares. 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. 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). 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. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

Panel A: Majority-voting proposals

	Sample firms		Matching firms		Difference (Sample – Matching)			
	Mean	Median	Mean	Median	Mean	(t-stat)	Median	(χ^2-stat)
Market value of equity ($billion)	34.00	14.99	19.29	12.04	14.71	(2.69)***	2.95	(2.62)
Total Assets ($billion)	62.21	17.04	48.50	11.27	13.70	(0.68)	5.77	(8.92)***
Book-to-market	0.36	0.36	0.37	0.34	-0.01	(-0.17)	0.02	(1.58)
Q	1.72	1.55	2.00	1.71	-0.28	(-2.71)***	-0.16	(3.12)*
ROA	0.14	0.12	0.17	0.15	-0.03	(-2.93)***	-0.03	(6.94)***
ROE (before extraordinary items)	0.16	0.16	0.18	0.18	-0.02	(-0.48)	-0.02	(3.87)**
Assets turnover	0.94	0.63	0.88	0.78	0.05	(0.57)	-0.14	(0.11)
FCF/Assets	0.08	0.07	0.11	0.09	-0.03	(-2.23)**	-0.01	(4.56)**
Market leverage	0.18	0.14	0.16	0.10	0.02	(0.91)	0.04	(7.02)***
Book leverage	0.26	0.24	0.24	0.20	0.03	(1.18)	0.03	(3.93)**
Governance index	9.21	9.00	9.14	9.00	0.07	(0.22)	0.00	(0.09)
Classified board dummy	0.59	1.00	0.53	1.00	0.06	(0.89)	0.00	(0.79)
Board size	11.19	11.00	10.26	10.00	0.94	(2.65)***	1.00	(7.05)***
Percent of outside director (%)	73.62	75.00	68.67	70.00	4.96	(2.70)***	5.00	(7.10)***
Total director stock holdings (%)	5.94	1.02	4.88	1.34	1.06	(0.58)	-0.32	(1.15)
Outside director stock holdings (%)	0.44	0.09	0.68	0.08	-0.24	(-0.67)	0.01	(0.11)
CEO stock holdings (%)	1.03	0.39	1.77	0.70	-0.74	(-1.73)*	-0.31	(8.13)***
Prior year excess return (%)	5.21	-0.08	12.20	7.24	-6.99	(-1.78)*	-7.31	(1.87)
Prior year director votes (%)	0.94	0.96	0.94	0.96	0.00	(-0.07)	-0.01	(1.21)

Panel B: Majority-voting adoptions

	Sample firms		Matching firms		Difference (Sample – Matching)			
	Mean	Median	Mean	Median	Mean	(t-stat)	Median	(χ^2-stat)
Market value of equity ($billion)	28.12	9.71	14.50	8.23	13.61	(3.16)***	1.48	(1.95)
Total Assets ($billion)	57.48	11.09	38.74	6.12	18.73	(1.11)	4.97	(8.57)***
Book-to-market	0.42	0.40	0.38	0.38	0.04	(1.50)	0.02	(2.44)
Q	1.74	1.47	1.92	1.55	-0.18	(-1.86)*	-0.08	(3.01)*
ROA	0.13	0.12	0.16	0.14	-0.04	(-2.72)**	-0.02	(4.11)**
ROE (before extraordinary items)	0.02	0.14	0.15	0.18	-0.13	(-1.31)	-0.04	(4.82)**
Assets turnover	0.88	0.57	0.88	0.64	-0.01	(-0.09)	-0.07	(0.12)
FCF/Assets	0.07	0.09	0.09	0.08	-0.01	(-0.90)	0.01	(0.12)
Market leverage	0.17	0.14	0.15	0.09	0.02	(1.08)	0.05	(5.16)**
Book leverage	0.24	0.19	0.22	0.19	0.02	(0.88)	0.00	(1.93)
Governance index	9.38	9.00	8.93	9.00	0.46	(1.77)*	0.00	(2.83)*
Classified board dummy	0.55	1.00	0.55	1.00	0.00	(0.03)	0.00	(0.00)
Board size	10.95	11.00	10.28	10.00	0.68	(1.97)**	1.00	(8.25)***
Percent of outside director (%)	74.20	77.78	67.62	66.67	6.59	(3.84)***	11.11	(17.92)***
Total director stock holdings (%)	6.23	1.16	4.71	1.92	1.52	(1.07)	-0.76	(5.93)**
Outside director stock holdings (%)	0.73	0.11	0.97	0.17	-0.24	(-0.82)	-0.07	(10.73)***
CEO stock holdings (%)	2.09	0.53	1.85	0.96	0.24	(0.35)	-0.43	(11.11)***
Prior year excess return (%)	6.55	-0.12	7.99	2.55	-1.44	(-0.38)	-2.67	(0.16)
Prior year director votes (%)	94.13	96.50	94.91	96.38	-0.78	(-0.98)	0.12	(0.08)

Panel C: Proposal firms vs. Adoption firms

	Proposal firms		Adoption firms		Difference (Proposal – Adoption)			
	Mean	Median	Mean	Median	Mean	(t-stat)	Median	(χ^2-stat)
Market value of equity ($billion)	34.00	14.99	28.12	9.71	5.88	(0.90)	5.27	(7.86)***
Total Assets ($billion)	62.21	17.04	57.48	11.09	4.73	(0.24)	5.95	(5.02)**
Book-to-market	0.36	0.36	0.42	0.40	-0.06	(-1.10)	-0.04	(0.28)
Q	1.72	1.55	1.74	1.47	-0.02	(-0.27)	0.08	(0.86)
ROA	0.14	0.12	0.13	0.12	0.01	(0.78)	0.01	(0.37)
ROE (before extraordinary items)	0.16	0.16	0.02	0.14	0.15	(1.53)	0.02	(0.96)
Assets turnover	0.94	0.63	0.88	0.57	0.06	(0.63)	0.06	(2.29)
FCF/Assets	0.08	0.07	0.07	0.09	0.01	(0.38)	-0.02	(2.10)
Market leverage	0.18	0.14	0.17	0.14	0.01	(0.54)	0.00	(1.04)
Book leverage	0.26	0.24	0.24	0.19	0.02	(1.00)	0.04	(1.68)
Governance index	9.21	9.00	9.38	9.00	-0.17	(-0.65)	0.00	(0.58)
Classified board dummy	0.59	1.00	0.55	1.00	0.04	(0.63)	0.00	(0.39)
Board size	11.19	11.00	10.95	11.00	0.24	(0.73)	0.00	(0.38)
Percent of outside director (%)	73.62	75.00	74.20	77.78	-0.58	(-0.34)	-2.78	(0.55)
Total director stock holdings (%)	5.94	1.02	6.23	1.16	-0.29	(-0.16)	-0.13	(0.33)
Outside director stock holdings (%)	0.44	0.09	0.73	0.11	-0.29	(-1.19)	-0.02	(0.25)
CEO stock holdings (%)	1.03	0.39	1.07	0.52	-0.04	(-0.13)	-0.13	(1.19)
Prior year excess return (%)	5.21	-0.08	6.55	-0.12	-1.34	(-0.38)	0.04	(0.01)
Prior year director votes (%)	94.10	95.75	94.13	96.50	-0.03	(-0.04)	-0.75	(3.46)*

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. Since board size is highly correlated with firm size, we regress board size on log market value of equity and use the residual in the regression (4). Other variables are defined in Table 2. T-statistics are reported in parentheses. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

Independent variables	*Dependent variable = Proposal dummy*				
and statistics	(1)	(2)	(3)	(4)	(5)
Intercept	-0.75	-2.10	0.25	-0.52	-0.28
	(-1.11)	(-2.94)***	(0.55)	(-1.59)	(-0.72)
Log market value of equity	0.35	0.21	0.27	0.23	0.27
	(2.88)***	(1.75)*	(2.13)**	(2.00)**	(2.02)**
Performance					
ROA	-4.97				
	(-3.14)**				
ROE		-0.44			
		(-0.85)			
Q			-0.50		
			(-2.84)***		
Prior year excess return (%)				-0.01	
				(-1.82)*	
Free Cash Flow / Assets					-4.38
					(-2.31)**
Governance					
Governance index	0.06				
	(1.05)				
Percent of outside directors		0.02			
		(2.45)**			
Total board holdings			0.01		
			(0.77)		
Residual of board size				0.11	
				(2.13)**	
CEO stock holdings					0.01
					(-0.20)
N (dependent variable = 1)	118	122	121	124	98
N (dependent variable = 0)	123	121	114	121	97
R^2	0.0933	0.0558	0.0687	0.0615	0.0678

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. Since board size is highly correlated with firm size, we regress board size on log market value of equity and use the residual in the regression (4). Other variables are defined in Table 2. T-statistics are reported in parentheses. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

Independent variables	*Dependent variable = Adoption dummy*				
and statistics	(1)	(2)	(3)	(4)	(5)
Intercept	-1.55	-2.87	-0.29	-0.64	-0.62
	(-2.79)***	(-4.40)***	(-0.87)	(-2.97)***	(-2.41)**
Log market value of equity	0.33	0.27	0.35	0.27	0.27
	(3.79)***	(3.14)***	(3.92)***	(3.21)***	(2.76)***
Performance					
ROA	-3.55				
	(-3.07)**				
ROE		-0.27			
		(-1.72)*			
Q			-0.33		
			(-2.22)**		
Prior year excess return (%)				-0.004	
				(-1.05)	
Free Cash Flow / Assets					-0.76
					(-0.50)
Governance					
Governance index	0.13				
	(2.48)**				
Percent of outside directors		0.03			
		(3.65)***			
Total board holdings			0.02		
			(1.76)*		
Residual of Board Size				-0.03	
				(-0.77)	
CEO stock holdings					0.02
					(0.84)
N (dependent variable = 1)	140	145	145	147	109
N (dependent variable = 0)	160	160	149	160	120
R^2	0.108	0.116	0.089	0.052	0.048

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. The independent variables are defined in Table 2. 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.

Panel A: Percent For votes of Majority voting proposal

	N	Mean	Q1	Median	Q3
Full Sample	126	44.9	38.0	44.0	53.0
First Proposal	104	44.1	37.0	44.0	52.5
Repeated Proposal	22	48.4	42.0	45.0	55.0
Year 2005	47	42.9	37.0	44.0	49.0
Year 2006	79	46.0	38.0	44.5	55.0

Panel B: OLS Analysis

	Dependent Variable =			
Independent variables	*Percent of "for" vote*		*Success dummy*	
and statistics	(1)	(2)	(3)	(4)
Intercept	0.23	0.50	-1.71	1.07
	(3.02)***	(10.21)	(-1.08)	(0.98)
ROA	-0.07		-2.48	
	(-0.48)		(-0.91)	
Q		-0.02		-0.53
		(-2.64)***		(-1.62)
Governance index (10^{-1})	0.06	0.01	-0.61	-0.94
	(1.17)	(0.10)	(-0.63)	(-0.98)
Percent of outside directors	0.22		2.19	
	(2.67)***		(1.32)	
Total board holdings		-0.23		-2.96
		(-3.14)***		(-1.22)
Dummy of repeated proposal	0.05	0.03	0.41	0.24
	(1.65)*	(1.30)	(0.80)	(0.47)
N (dependent variable = 1)			36	38
N (dependent variable = 0)			81	86
N	117	124		
Adjusted R^2	0.0647	0.132	0.0437	0.0840

Table 6

What affects adoption?

The sample includes 126 shareholder proposals for majority voting during 2005-2006. The dependent variable takes the value one if the firm adopts a majority vote proposal, and zero otherwise. Hivote takes the value 1 if the shareholder vote for the majority proposal is in the upper 25% of the votes (for all firms. 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	Dependent Variable = Adoption Dummy	
and Statistics	(1)	(2)
Intercept	0.52	1.90
	(2.45)**	(0.58)
Hivote	-1.03	-1.44
	(-2.44)**	(-3.11)***
ROA		-0.38
		(-0.13)
Q		-0.19
		(-0.90)
Log Assets		-2.77
		(-0.78)
Percent of outside director (%)		1.88
		(1.20)
Governance Index		0.003
		(0.03)
N (dependent variable = 1)	71	66
N (dependent variable = 0)	55	51
Adjusted R^2	0.0642	0.1265

Table 7

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

The following table presents the average and median votes and the average ISS recommendation for directors for several categories of firms. In Panel A, we present votes and ISS recommendations before and after the adoption of a majority vote provisions. In Panel B, we present votes and ISS recommendations for firms whose shareholders passed a majority proposal and subsequently adopted it. In Panel C, we present votes and ISS recommendations for firms whose shareholders did not pass a majority proposal, yet still subsequently adopted one. Panel D, we present votes and ISS recommendations for firms whose shareholders passed a majority proposal, yet did not adopt one. In Panel D, we present votes and ISS recommendations for firms whose shareholders did not pass a majority proposal, and have not yet adopted one. We define "passing" a proposal if the vote exceeds the median level (since the vote is not binding ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

Panel A: Adoption Sample, N = 121

		Pre-adoption	Post-adoption	Difference	Significance (p values)
Director For/For + W (%)	Mean	94.43	95.65	1.23	0.09*
	Median	96.50	97.20	0.50	<0.01*
ISS Recommendation (%)	Mean	92.65	94.20	1.55	0.44
	Median	100.00	100.00	0.00	0.37

Panel B: Proposal: Passed, Adopted N = 32

		Pre-proposal	Post-adoption	Difference	Significance (p values)
Director For/For + W (%)	Mean	93.93	96.52	2.59	<0.01***
	Median	95.33	97.11	1.26	<0.01***
ISS Recommendation (%)	Mean	93.88	98.53	4.64	0.0642*
	Median	100.00	100.00	0.00	0.0781*

Panel C: Proposal: Not passed, Adopted N = 36

		Pre-proposal	Post-adoption	Difference	Significance (p values)
Director For/For + W (%)	Mean	93.70	92.57	-1.11	0.5367
	Median	96.72	97.00	0.10	0.9234
ISS Recommendation (%)	Mean	90.00	85.10	-3.89	0.5567
	Median	100.00	100.00	0.00	0.5735

Table 7, continued

Panel D: Proposal: Passed, not adopted N = 28

		Pre-proposal	Post-proposal	Difference	Significance (p values)
Director For/For + W (%)	Mean	94.89	95.09	0.20	0.8244
	Median	95.90	96.13	0.69	0.6411
ISS Recommendation (%)	Mean	92.65	95.31	2.66	0.4991
	Median	100.00	100.00	0.00	0.6140

Panel E: Proposal: Not passed, not adopted N = 25

		Pre-proposal	Post-proposal	Difference	Significance (p values)
Director For/For + W (%)	Mean	94.45	96.39	1.94	0.0437*
	Median	95.60	97.00	1.00	0.0638*
ISS Recommendation (%)	Mean	87.85	96.46	8.61	0.0611*
	Median	100.00	100.00	1.00	0.0693*

Note: There are more than 121 adoption firms, but we require votes prior to and after the adoption to do this test (Panel A)

Table 8
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. We obtain the market return from the Fama-French factors on Ken French's website. Statistical significance of mean returns is determined by t-test and of median returns by sign test. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

	N	Mean (%) (t-stat)	Median (%) (% positive)
Proposal announcement return	118	0.41 (2.11)**	0.28 (58.5%)*
Proposal voting day return	124	0.18 (0.78)	0.16 (54.8%)
Adoption announcement return	154	0.21 (0.95)	-0.001 (50.0%)

Table 9
Does voting outcome affect voting-day abnormal returns?

The proposal voting-day abnormal return and proposal announcement return are described in Table 8. 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. T-statistics are reported in parentheses. ***, **, or * denotes statistical significance at 1%, 5%, or 10% level, respectively.

Independent variables and statistics	*Dependent variable = Voting-day abnormal return*	
	(7)	(8)
Intercept	0.85	0.14
	(0.90)	(0.49)
Percent of "for" votes	-0.01	
	(-0.64)	
Success Dummy		0.40
		(0.79)
Proposal Announcement return	0.02	0.02
	(0.17)	(0.19)
N	118	118
Adjusted R^2	-0.014	-0.012

Table 10

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. Staggered board dummy equals one if a company has a staggered board, and zero otherwise. Poison pill dummy equals one if a company has a poison pill, and zero otherwise. Staggered board and poison pill dummy equals one if a company has both a staggered board and a poison pill, and zero otherwise. Pfizer-type dummy equals one if the company board adopts a guideline that requires a director to resign if she receives more than 50% of the "withhold" vote in an election and equals zero if the majority voting provision is adopted by shareholder approval or amendment of corporate charter. 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	-0.60	-0.80	-0.44	2.08
	(-1.88)*	(-2.63)***	(-1.60)	(0.67)
Staggered board dummy	1.17			
	(2.71)***			
Poison pill dummy		1.60		
		(3.81)***		
Staggered board and Poison pill dummy			1.23	1.51
			(2.78)***	(2.45)**
Governance index				-0.11
				(-0.78)
Total Board holdings				0.02
				(0.88)
Percent of outside directors				1.13
				(0.60)
ROA				-2.28
				(-0.83)
Q				-0.12
				(-0.40)
Prior year excess return				0.11
				(0.12)
Prior year director votes				-1.72
				(-0.58)
Pfizer type adoption dummy				-0.60
				(-0.96)
N	142	142	142	121
Adjusted R^2	0.043	0.0874	0.046	0.001