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Does Shareholder Voting Reflect Shareholder

Preferences?

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Abstract
This paper examines the relation between shareholder voting and shareholder preferences from a novel empirical perspective. If voting reflects preferences, then the outcome of close proxy contests should not have a systematic effect on stock prices; shareholders will have mixed opinions about the outcome's effect on value that echo their nearly even vote. The paper shows, however, that close dissident victories are associated with significant positive movements in stock prices, while close management victories are associated with negative stock price effects. This suggests that voting outcomes are tilted in favor of management, with important policy ramifications. Viewed from a regression discontinuity (RD) design perspective, the study provides unique evidence that dissident control of decision making causes increases in stock value.

I. Introduction

When shareholders believe that management is inadequate, they have few options under corporate law. One recourse is to purchase the company and install new management. A second is to defeat incumbent management in director elections. Both paths often involve proxy contests—shareholders must be convinced to choose new management via the proxy process. Thus, proxy contests are a focal point of corporate law.

Proxy contests are expensive for dissidents. Dissident proxy solicitors only receive compensation for contest expenses when they win. Management, by contrast, is reimbursed under all circumstances. The free rider problem therefore implies that potential dissidents owning a small share of a company devote an inefficiently small amount of resources to proxy contests. Management may also enjoy other advantages, such as superior access to shareholders and control over balloting procedures. The combined effect of these advantages may be substantial. Indeed, in previous research I found that management almost never loses a vote on a management sponsored proposal, even when the vote count is very close (Listokin 2007). Management enjoys some but not all of the same advantages in proxy contests, so it is unclear if proxy votes favor management to the same degree as other votes.

The law makes some recognition of managerial advantages in proxy contests. A sale of a company requires a majority vote of all shares outstanding, which effectively constitutes a supermajority requirement for a sale. Contending that current law is inadequately sensitive to shareholder preferences, Lucian Bebchuk (2005, 2007) and

others champion several reforms of the proxy process. They argue that leveling the proxy-contest playing field raises corporate value by enabling shareholders to allocate control of corporate resources to individuals who can use them most efficiently. Others contest this assertion (Macey 2007, Bainbridge 2006), claiming that reforming corporate democracy raises costs without offering corresponding benefits and asserting that the proxy contests playing field is already level.

To date, there is relatively little empirical research on the efficacy of shareholder democracy in proxy contests. The literature that does exist is methodologically flawed by endogeneity or baseline problems or addresses a different topic.

This paper first demonstrates that in proxy contests, unlike other voting contests, management sometimes loses the close ones, although management wins more very close contests than it loses. The paper then examines the magnitude of management's advantage from a novel empirical perspective. If shareholder democracy in proxy contests is not tilted, then close votes in proxy contests should not cause large movements in shareholder value, in spite of the fact that the outcome of a closely contested proxy contest should provide new information to the stock market. A close vote reflects a divergence in shareholder opinion—if half of shareholders support a plan of action and half opposes it, then taking or failing to take the action should have little effect on value, as half of all shareholders will be pleased with any outcome and half will be disappointed. Conversely, if management enjoys advantages in proxy contests such that voting does not reflect shareholder preferences, then close elections will not reflect shareholder preferences. A close vote in a shareholder election might reflect solid informed consensus for the dissident proxy solicitor that is offset by management's

systemic electoral advantages. In this case, a narrow dissident victory causes an increase in market value, as the marginal shareholder is pleased about a change in corporate direction. Narrow management victories, by contrast, decrease value, as the marginal shareholder is displeased about the outcome.

Combining elements of a regression discontinuity design with event study methodology, I find evidence that the proxy playing field is tilted in favor of management and that dissidents tend to increase corporate value. In proxy contests surrounding management proposed merger votes (which have the greatest importance for corporate value) dissident victories (merger rejections) are associated with a statistically significant increase in corporate value of over 7%. When management wins a closely contested merger-related proxy contest, by contrast, corporate value decreases by approximately 1% to 2%.

Proxy contests over director elections tell a similar, if less pronounced, story. Narrow dissident victories are associated with a 1% to 3% increase in value, depending on the sample of stocks described as narrow dissident victories. Narrow management victories are associated with a decrease in value of approximately 1% to 3%. Again, the evidence consistently supports those arguing that proxy contests poorly reflect shareholder preferences.

This paper is organized as follows. Section 2 examines the existing literature on proxy voting. Section 3 describes the theory underlying the empirical test. Section 4 presents the data and empirical methodology, while Section 5 interprets the results. Section VI concludes.

II. Voting and Shareholder Preferences

The pioneering works of Manne (1963) and Easterbrook and Fischel (1981) rely heavily on the efficacy of proxy fights, particularly in the context of tender offers. These studies assume that corporate voting reflects shareholder preferences. This is echoed by regulators such as exchanges, which emphasize the need for a "representative [shareholder] vote". (NYSE Listed Company Manual Section 310). In recent years, this assumption has been challenged. Critics of voting in proxy contests argue that management enjoys systematic advantages over dissidents. These advantages include: discretion over the timing of a vote (which is set by management); relationships and contact information for shareholders (dissidents may have to sue to obtain a list of shareholders, while management has been in contact with shareholders for an extended period); unlimited funds from corporate coffers for soliciting proxies (dissidents are only reimbursed for proxy expenses when they defeat management); and the ability to use financial leverage to influence the vote of institutional shareholder (management may threaten to withhold business from financial institutions that vote against them). (Bebchuk 2007. pp. 688-693)

Few empirical studies of the proxy process evaluate whether these supposed advantages are material. Pound (1988) examines the probability of winning proxy contests as a function of a number of characteristics thought to be related to the size of management's advantage. For example, management's advantages in shareholder knowledge and campaign resources should be greater when there is more dispersed share ownership, which makes a campaign more costly and complex. Pound's data supports

this hypothesis; dissident victory rates decline as ownership dispersion rises. Unfortunately, many of the characteristics examined by Pound are endogenous to the probability of winning, casting doubt on Pound's conclusions. For example, shareholder ownership may be more dispersed in firms that are less likely to benefit from dissident proxy victories. In this case, dissidents will be less likely to win proxy contests with dispersed share ownership, even if management enjoys no vote-getting advantage. Pound's data also does not relate to differences between price setting shareholders and overall shareholder preferences expressed through voting.

Other studies (Dodd and Warner 1983, D'Angelo and D'Angelo 1989, and Ikenberry and Lakonishok 1993) evaluate the stock market responses to proxy contest announcements or other forms of shareholder activism, finding generally positive effects. Proxy contest announcements, however, may affect value in many ways, such as by forcing management to change policies. Therefore, stock market responses to proxy announcements are not informative about the degree to which actual voting outcomes reflects shareholder preferences at the time of the vote. Moreover, these studies cannot disentangle the effect of dissident pressure from the effect of dissident control. Similarly, Kamar's (2006) examination of voting on mergers and acquisitions provides evidence on the degree to which companies avoid holding votes. Kamar's study tells little about the relation between shareholder preferences and voting outcomes because companies may seek to avoid votes even if the proxy contest playing field is tilted in their favor.

Bebchuk (2006, p. 677) emphasizes that there are only 12 proxy contests per year in the United States. He argues that this is too few in relation to the many thousands of publicly traded companies in the U.S. He concludes that measures, such as

reimbursement of dissidents' proxy expenses and greater shareholder access to the corporate ballot, are necessary to facilitate shareholder democracy. Macey (2007) disputes this conclusion, emphasizing that there is no baseline against which to measure the number of proxy contests as too many or too few. As a result, Macey rejects Bebchuk's proposed reforms.

Listokin (2007) finds irregularities in close votes on management sponsored proposals that suggest pro-management biases in shareholder votes. The votes examined by Listokin, however, generally concern CEO compensation and are seldom the subject of a proxy contest. Therefore, there is no reason to conclude that the irregularities found there affect proxy contests, which necessarily involve a dissident side that may be able to offset some managerial advantages in elections.

Romano (2003) and Crejmers and Romano (2007) study the impact of confidential voting and mutual fund vote disclosure regulation, respectively-- two policy interventions that advocates believed would mitigate managerial advantages in voting. Both studies find little impact from the changes. These important findings have two possible interpretations—that management enjoys no voting advantage or that changes in these voting rules do nothing to mitigate management's advantages. There is no way to distinguish between the two hypotheses, which have differential implications for other corporate voting reforms. Moreover, neither study distinguishes between proxy contests and other shareholder votes.

III. A Theoretical Framework of Managerial Advantage in Proxy Contests

As the previous section demonstrated, endogeneity concerns, baseline problems, and data limitations conspire to make general tests of management's advantage in proxy contests difficult. By combining empirical methodologies, this section attempts to derive such a test.[1]

Suppose that $\theta \in [0, 1]$ represents the underlying level of shareholder support for management. That is, if all shareholders evaluated equal amounts of information from both management and dissidents in a proxy contest and then all shareholders cast their votes about an issue according to their preferences, management would receive a proportion θ of these votes. θ is unobservable. Let $\lambda \in [0, 1]$ represent the proportion of votes management actually receives. Management has a voting advantage-- the voting playing field is tilted in favor of management-- if $\lambda > \theta$. The more λ exceeds θ, the greater the size of management's advantage. Thus, an empirical test of managerial advantage in voting should test whether $\lambda > \theta$.

While θ is unobservable, we can make some inferences about θ by observing stock market response to voting outcomes. Assume that the price of a stock is determined by the intersection of supply and demand for that stock and that these curves are a function of corporate decisions, among other things. (These curves may be highly elastic.) If there is no news about corporate decisions on a day, then the price is unlikely to change. If a corporation announces a decision that is universally liked, then the supply

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[1] See Harris and Raviv 1993 and the references therein for models of stock market liquidity based on differences of shareholder opinion that are relevant to the framework developed here.

of stock will shift inward (at a given price, fewer people are willing to sell because they like the corporate decision) while the demand for stock will shift outward (at any given price, more people are willing to buy the stock because they like the decision), leading to an increase in price. If news of a decision is announced and there is disagreement among investors about the impact of the decision on future corporate profits, then the effect of the decision on stock prices is ambiguous. If most marginal investors approve of a decision, then the price of the stock should increase.

This paper assumes that the preferences of the marginal investor are closely related to θ.[2] θ represents the aggregate informed opinion of shareholders, and there is reason to suspect that the marginal trader, who has actively made a decision to incur transaction costs to buy or sell the stock, approximates the ideal of a well informed trader.[3] This will be especially true in close proxy contests, where opinion is closely divided on either side of an issue.

The market response to news of a corporate decision favoring incumbent management taken by vote ($\lambda > .5$) should therefore be a function of θ. If $\theta > .5$, most shareholders would have approved of a decision and news of a decision should raise value, while if $\theta < .5$, then the value of the company should decrease. When θ is near .5, implying that marginal investors have a divided opinion about an action, then there should be little if any change in value. The decision raises some investors' valuations, but

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[2] If this assumption is not valid, then the tests run below constitute tests of the difference in opinion between the marginal shareholder, who sets the price, and the average shareholder. If we believe that the marginal shareholder is more informed, then this information alone is quite informative about the efficacy of corporate voting.

lowers the valuation of others—the net effect should be near zero.[4]

λ is observable and we can make inferences about θ, so it mistakenly seems like this test of $\lambda > \theta$ is complete. The problem is that valid inferences about θ can only be made when the market responds to *news* of a voting outcome. When the expected outcome of a vote is not close, $E[|\lambda|] >> .5$, then the voting outcome is predictable and the release of voting outcomes contains no news. Under these conditions, stock market responses are not informative about θ.

When a vote is expected to be close, $E[|\lambda|] \approx .5$, then the announcement of a voting outcome provides news to the market. Thus, market responses to the announcement of a vote for which $E[|\lambda|] \approx .5$ have two desirable qualities.[5] 1. They provide news to the market, so the market response is informative of θ. 2. Under the null hypothesis that voting outcomes reflect shareholder preferences, $\lambda = \theta$, there should be little movement in price when the voting outcome is announced, even if the vote determines an important corporate policy.

Close votes also offer another advantage as an empirical test—a reduced possibility of selection bias. As a general matter, we cannot simply compare outcomes in companies where management wins a proxy contest with outcomes in companies where management loses—the two sets of companies may be different along many dimensions, any one of which may cause the difference in outcomes. Similarly, the effect of the

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[4] This argument overlooks intensity of preferences. In the corporate voting area, however, intensity of preferences can be accommodated through the purchase or sale of more stock. Therefore, it is unlikely that investors favoring one side of a decision have more intense preferences than that of others.

[5] For the empirical test below, data about expected voting outcomes is not available. I use actual voting outcomes as a proxy for expectations of voting outcomes. If market expectations are rational, then votes that are close in fact should be a reasonable proxy for votes that were expected to be close. In fact, the market appears to have the greatest response to the outcome of close elections.

announcement of a proxy contest on value may be caused by many factors, including signaling about the possibility that the company has room for improvement, improved monitoring and shareholder pressure, management distraction, and the possibility of better management by dissidents.

Comparing a company with a narrow management victory to a company with a narrow dissident victory, by contrast, is less problematic. These two companies have managements with relatively similar abilities to attract votes. It is only the outcome of the proxy contest, and not some other factor, that primarily distinguishes the two companies. This facilitates identification of the causal impacts of management victories or defeats.

In sum, if narrow dissident victories in proxy contests lead to increases in stock price and narrow management victories lead to decreases, then this constitutes evidence of managerial advantage in proxy votes. Stock price decreases for dissident victories and increases for management victories, by contrast, would suggest that dissidents enjoy advantages management.[6] The next section describes the data sample used to examine these hypotheses.

IV. Proxy Voting Data and Summary Statistics

A. Data and Summary Statistics

Georgeson Shareholder's list of proxy contests in its Annual Corporate Governance Report from the years 2000 through 2006 constitutes the starting point for my data collection. For each proxy contest listed by Georgeson that was decided by

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[6] If the stock price is unchanged, then it is more difficult to draw conclusions. An unchanged price may mean that the market anticipated the results (though this is hard to believe in very close elections), or it may mean that the price setting shareholder was indifferent between management and dissident, implying that voting reflects price setting shareholder preferences.

vote,[7] I collect voting data—the date of a vote as well as votes received by both management and dissidents-- from each company's public filings, most commonly a 10-Q or 8-K filing for the appropriate time period. This data was combined with stock market data from CRSP, supplemented by data from Yahoo! Finance for stocks traded on the pink sheets markets. The sample includes all companies in the Georgeson reports with available stock market data and voting data.

There are 96 contested proxy votes in the sample. 2001 witnessed the greatest number of votes (22), while 2005 had the fewest (7). Eight of the proxy votes concerned merger approvals and seventy three concerned director elections. The remaining fifteen contests concerned assorted topics such as confidential voting or the adoption of cumulative voting, with no issue the subject of more than 3 votes. Dissidents won 36 of the 96 proxy votes, for a success rate of 37.5%.

Most proxy contests are competitive.[8] Figure 1 presents a histogram of the percentage of votes received by management in the proxy contests.[9] Management received an average of only 53% of the total vote in proxy contest and over half of the contests were decided by margins of under 20 percentage points. This competitiveness is not surprising; because dissidents must expend their own funds on losing proxy contests, it makes little sense to begin a proxy contest with little chance of winning.

Figure 1 also relates to previous research on management's ability to succeed in close elections. (Listokin 2007). As in that paper, management wins very close elections

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[7] A number of proxy contests climax in a settlement between the dissident and management. Because the outcome of these settlements is hard to characterize both practically and chronologically, these observations are excluded from the analysis.

[8] This starkly contrasts with votes on management sponsored proposals, which are overwhelmingly lopsided. See Listokin (2007).

[9] Figure 1 presents data about management's vote share. In proposals to be acquired by another company, however, management must receive more than 50% of shares outstanding, a more difficult standard.

(those decided by margins of no more than 10%) more often than expected (17 out of 24) times. Indeed, if such close elections are effectively be tossups, then management should win this often less than 4% of the time. This alone provides some evidence of managerial advantage in proxy contests.

The overall trend of the data is quite different from Listokin, however. In that paper, I find that management almost never loses votes on management sponsored proposals. Figure 1 indicates, by contrast, that management often loses contested proxy elections, though with a suspiciously high win rate in extremely close votes. This indicates that management's advantage in proxy contests is to some degree limited to tipping some percentage of extremely close elections, rather than preventing almost all losses. If this is management's only advantage, then there should be little stock market response to close victories; management may be able to turn underlying support of 48% into a victory, but this should not lead to a large stock market response, as overall support is still rather evenly divided (λ is near θ). If management enjoys other advantages, however, then the stock market response should larger, as there will be a larger disparity between underlying shareholder preferences (θ) and voting support (λ).

B. Event Study Methodology

Figure 1 demonstrates that management losses in proxy contests do occur. As a result, the announcement of voting outcomes yields information to the stock market about the future direction of the company. The less the market was able to predict the outcome, the greater the information content of the announcement of a proxy outcome.

In the next section, I examine the market response to various proxy contest outcomes using standard event study methodology. (MacKinlay 1997, Bhagat and

Romano 2003). Using stock market data from thirty days to ninety days (the "estimation window") before a proxy vote, I use a market model to predict returns and calculate abnormal returns and the distribution of abnormal returns.

I also examine the following regression.

$$R_i = \lambda * f(v_i) + \beta * D_i + \varepsilon_i \qquad \text{Equation 1}$$

Where R_i is the abnormal return for stock i on the day the news of the proxy contest outcome is released, $f(v_i)$ is a linear, quadratic or cubic function of the vote share (v_i) received by management in the vote, $D_i = 1(v_i < .5)$ is a dummy variable indicating if management has lost a proxy contest and ε_i is an error term. If voting in proxy contests is balanced and reflects the views of the price setting shareholder, then $\beta = 0$ because $f(v_i)$ should control for other characteristics of a proxy contest, such as differential opinions about whether management or dissidents are preferable, that might affect the stock market response. The regression and Figure 2 constitute a variant of a sharp regression discontinuity design. (Imbens and Lemieux 2007). [10]

Several methodological questions remain. First, the "event" date on which news of a proxy vote outcome is available to the market is ambiguous. The study uses the day of a vote as the event date. This may not be accurate. While most voting outcome announcements found in simple internet searching are announced on the day of the vote, some votes are announced after the day of the vote. As a result, I include a variety of different length event windows (with resulting differences in standard errors) to capture

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[10] Manipulation of the vote count (McCrary 2007) is a potential concern given Figure 1, which shows a disproportionate managerial ability to win extremely close votes. As a result, the results presented below cannot be interpreted as a simple measure of the causal value of dissident positions relative to incumbent positions. This study, however, is interested in the difference between underlying shareholder support for a proposal and voting outcomes, and manipulation of the running variable does not preclude inferences about this subject.

events that are not incorporated into stock prices on the day of the vote. If the event

windows do not capture proxy outcome news, the event study is biased towards not

finding any significant effects.

Second, different proxy issues are also likely to have different stock price

responses. Merger and acquisition contests are different from contested director elections

along several dimensions. First, acquisition approval generally requires a majority and

occasionally a supermajority (2/3) of total shares outstanding, while director elections

require a simple majority of votes cast. Second, mergers and acquisitions are likely to

have the largest consequences for corporate value. In a corporation with a staggered

board, a dissident proxy victory may not lead to significant changes in corporate value if

the victory does not award control of the company to the dissident. As a result, I present

several sets of results below, some combining outcomes for merger and director proxy

contests and others separating the two categories.

V. Stock Price Responses to Proxy Voting Outcomes

Table 1 presents stock market responses to proxy voting outcomes about mergers

and acquisitions. Merger proxy contests are likely to be the most significant for corporate

value.

The results are striking. The dissident victories under study were not

overwhelming victories; management received almost 50% of votes cast in these votes.[11]

Therefore the vote outcomes were likely both informative and controversial. Yet

dissident victories are associated with a cumulative abnormal return of between 7% and

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[11] Management lost the votes because they did not obtain a majority (or in one case a supermajority) of the
votes of shares outstanding.

8% over one to three day windows in both all contests and closely contested ones. These returns are statistically significant at the one percent level in spite of the small sample size (3-4 observations). Indeed, the market responds positively to dissident victories even when management receives a majority of votes cast (but not a majority of shares outstanding). This highly significant positive return suggests that voting outcomes, which are nearly evenly split, differ from the preferences of informed shareholders, who bid the price up significantly when dissidents win. In the terms of our modeling framework, this is evidence that $\lambda > \theta$.

These conclusions are supported by the market response to closely contested management victories. Informed shareholders bid the price of corporation down upon news of a management victory, in spite of the fact that management garnered more than half of votes cast. The magnitude and statistical significance of these results are lower than in the case of dissident victories, perhaps because management victories are more expected and are therefore incorporated into price expectations.

Table 2 presents a similar but less pronounced story with respect to director election proxy contests. Dissident victories and close dissident victories are associated with a statistically significant 2% cumulative abnormal return over a three day window following a vote, but only small positive effects are associated with one and two day windows. Close management victories, by contrast, are associated with an almost three percent decline in value over a three day window (with the results again less pronounced over the one and two day windows). As in the case of mergers, close votes in proxy contests do not seem to reflect divided opinion amongst informed shareholders. Instead, the results are more consistent with some managerial advantage. If $\lambda > \theta$, then the stock

market responses to close elections should have exactly the directions described here.

Figure 2 combines the merger and director election proxy contests into one larger sample. Figure 2 presents locally smoothed linear mean curves (with a break at .5) superimposed upon a scatterplot of three day stock market responses to voting outcomes as a function of the vote share received by management.[12] Figure 2 provides graphic support for the proposition that close elections do not imply evenly mixed shareholder opinion about a particular corporate direction. Instead, there appears to be a discontinuity in stock price returns at a management share of .5—when management narrowly loses, prices go up, when management narrowly wins, prices go down.

Regression results (Table 3) following the specification in Equation 1 also support this proposition. After controlling for contest type and the impact of vote share on stock price response (contests with a convincing victor are expected and reflect considerable shareholder consensus) using a 4th order polynomial, dissident victories are associated with a statistically and economically significant 7% increase in corporate value relative to management victories. Control variables do not appreciably alter this estimate. While making causal inferences regarding dissident's effects on corporate value in this specification is questionable due to potential manipulation of vote outcomes, this measure suggest that dissident victories increase value, over and above any impact of dissident pressure. At the very least, the regression provides further support for the tilted playing field hypothesis. If voting reflects informed shareholder opinion,($\lambda = \theta$,), then learning the victor of a close proxy contest should have little impact on corporate value, but the data prove otherwise.

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[12] For votes requiring a majority of shares outstanding, the vote share variable uses the number of shares outstanding as the denominator, rather than the total number of votes cast.

VI.   Conclusion

The data presented in the previous section strongly suggest that voting outcomes are tilted towards management. If evenly divided shareholder opinion was reflected by voting, then prices should not respond to news of the outcome of close proxy contests. Instead, price goes up when management loses and goes down when management wins, suggesting that (informed) price setting shareholders believe that dissidents are better for corporate value in spite of the division in the vote.

The data also support the conclusion that dissident control and decision-making, rather than simply enhanced corporate scrutiny or identification of undervalued firms, cause increases in corporate value. This clarifies the sources of the value increase identified by a number of studies into the impacts of activist corporate governance (e.g. Brav et al 2006). The discontinuity results presented above suggest that activist shareholders may not merely be good monitors, but also value enhancing controlling shareholders.

Several conclusions follow from these results. First, if shareholder voting does not reflect shareholder preferences, then there is no reason to expect decisions made by shareholders on mergers and acquisition, the corporate governance linchpins of the Manne and Easterbrook and Fischel theories of the corporation, to operate effectively. Other levers of corporate governance, such as executive compensation and regulation, may need more emphasis.

Second, reforms of shareholder voting may be needed, preferably at the state level to allow for experimentation. For example, an expansion of supermajority rules would offset management advantages. If $\lambda > \theta$, the voting rule for approval, λ^*, should be set

to ensure that $\lambda > \lambda^*$ means $\theta > .5$. Under these conditions, corporate decisions will reflect shareholder preferences more closely. At the very least, the data provide support for the somewhat puzzling existence of supermajority rules in the corporate sale context.

Supermajority rules are no panacea. Not all management teams have the same capacity to push voting in a favorable direction, so the size of the supermajority requirement will always be debatable. Other reforms, such as dissident subsidies and access to the shareholder ballot, may be needed. While such reforms will undoubtedly introduce costs as well as benefits, the large positive shareholder response to dissidents in close votes suggests that these costs may be justified.

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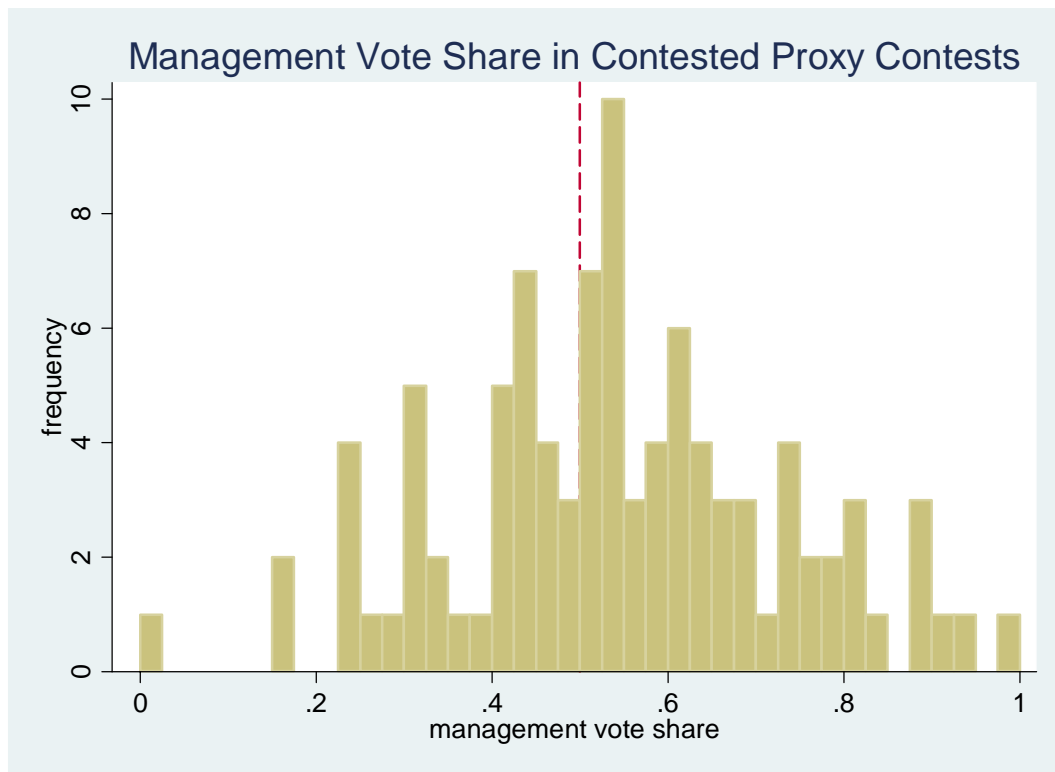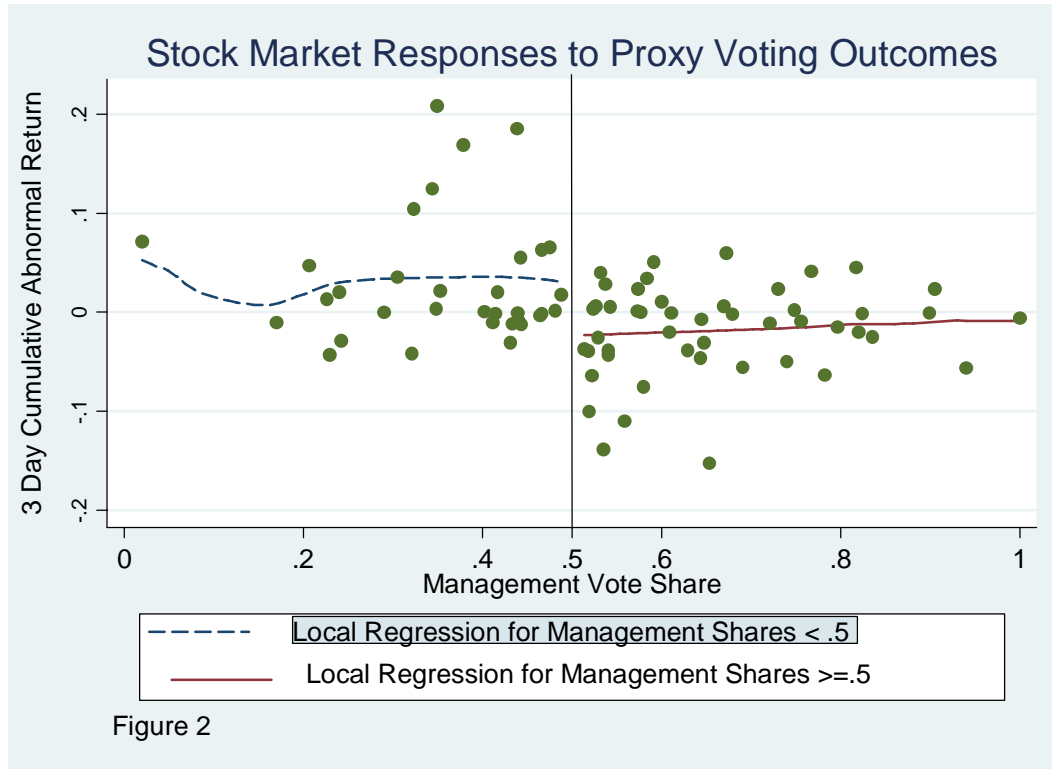
Figure 1

Figure 2:

Stock Market Responses to Proxy Voting Outcomes

Figure 2

Table 1: Stock Price Responses to News of Proxy Contest Outcomes Regarding Mergers

Sample	Dissident Victories in Mergers	Dissident Victories in Close Mergers (dissident vote share<.7)	Close Management Victories (management vote share<.7)
One Day Window Mean Cumulative Abnormal Return (CAR) (Standard Error in Parentheses)	.070 (.013)***	.083 (.014)	-.022 (.011)
Two Day Window Mean CAR (Standard Error in Parentheses)	.064 (.018)***	.075 (.020)	-.011 (.016)
Three Day Window Mean CAR (Standard Error in Parentheses)	.072 (.022)***	.080 (.024)	-.008 (.019)
Management Vote Share of Votes Cast	.48	.54	.60
Management Vote Share of Shares Outstanding	.40	.47	.42
Observations	4	3	3

Notes: The number of votes necessary to win each vote differs. Target votes votes on acquisition generally require supermajorities (e.g. two thirds of votes shares outstanding or majority of shares outstanding). Acquirer votes on acquisitions require a simple majority of votes cast. See, e.g. NYSE Listed Company Manual, Sections 312.03, 312.07

Table 2: Stock Price Responses to News of Proxy Contest Outcomes Regarding Director Elections

Sample	Dissident Victories in Director Elections	Close Dissident Victories (dissident vote share<.6)	Close Management Victories (management vote share<.6)
One Day Window Mean Cumulative Abnormal Return (CAR) (Standard Error in Parentheses)	.007 (.008)	-.001 (.004)	-.005 (.010)
Two Day Window Mean CAR (Standard Error in Parentheses)	.018 (.010)*	.007 (.007)	-.011 (.015)
Three Day Window Mean CAR (Standard Error in Parentheses)	.026 (.013)**	.021 (.008)	-.028 (.018)
Management Vote Share of Votes Cast	.36	.45	.54
Management Vote Share of Shares Outstanding	.29	.35	.43
Observations	33	14	19

Table 3: Regression of Returns on Vote Shares

	3 day cumulative abnormal return	3 day cumulative abnormal return
Management Vote Share	-0.240	-0.649
	(0.424)	(0.268)*
Management Vote Share Squared	0.718	1.955
	(1.540)	(1.147)
Management Vote Share Cubed	-0.672	-2.111
	(2.130)	(1.720)
Management Vote Share^^4	0.208	0.771
	(0.997)	(0.843)
Dissident Victory	0.070	0.060
	(0.016)**	(0.015)**
Market value (ln)		0.005
		(0.003)
Merger Vote		0.033
		(0.014)*
Constant	-0.021	-0.037
	(0.039)	(0.039)
Observations	81	72
R-squared	0.25	0.28

Regression of three day abnormal market return on 4th order polynomial in management vote share, control for type of proxy contest, and effect of dissident victory. Robust standard errors in parentheses
* significant at 5% level; ** significant at 1% level