The Costs and Benefits of Shareholder Democracy

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We study under what conditions the voting process weeds out harmful shareholder proposals. We show that there is cross-sectional variation in the quality of shareholder proposals. Some of the proposals submitted by the most active individual sponsors destroy shareholder value if supported by a majority of the votes cast and subsequently implemented. Bad proposals are less likely to obtain shareholder voting support in firms in which a larger fraction of shareholders collects information. These firms benefit from shareholder proposals, suggesting that the voting process should be reformed, but that shareholders' ability to submit proposals should not necessarily be limited.

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1. Introduction

Firms with strong corporate governance are often likened to democracies. Through their proposals and voting, shareholders can determine the broad direction of a company. Since external mechanisms of governance are crucial to discipline managers and guarantee that they maximize shareholder value, corporate finance theories imply that regulations decreasing the costs of shareholder engagement are optimal (Harris and Raviv, 2010). Legal scholars also advocate for more shareholder power (Bebchuk, 2005).

However, broad shareholder participation also exacerbates the risk that boards may feel compelled to comply with a meaningless cacophony of demands by possibly uninformed shareholders. These risks have intensified after the Enron-type governance scandals and the implementation of the Sarbanes-Oxley Act, because there has been a drastic increase in shareholder proposals at corporate meetings, and for reputational reasons, boards have become more responsive to shareholder demands (Del Guercio, Seery and Woidtke, 2008; Ertimur, Ferri and Stubben, 2010). The financial press has directed attention to individual proposal sponsors, unflatteringly referred to as "gadflies", because they waste managerial effort and time.[1] Due to these concerns, regulators are currently considering measures to modify the proxy process and increase the cost of submitting proposals (SEC, 2018).

To inform the current policy debate, we ask whether value-destroying shareholder proposals that are put for a vote in shareholder meetings can indeed receive majority support and be implemented. We also ask under what conditions the voting process can weed out bad proposals.

[1] See "Grappling with the Cost of Corporate Gadflies", *The New York Times*, August 19, 2014.

Using hand-collected data on the identities of the sponsors and the subsequent implementation of their proposals,[2] we document that a large proportion of individual shareholder proposals are submitted by few very active sponsors. In principle, these active sponsors could spread minimum governance standards, which mitigate agency problems across companies. However, the concern is that they make one-size-fits-all proposals, which destroy shareholder value, but may nevertheless pass due to uncertainty in the voting process.[3]

We show that at least some of the proposals submitted by the most active individual sponsors seem to be ill-conceived. Not only do these proposals receive less support and produce negative abnormal returns if they pass with a majority in the shareholder meeting, but they are also less likely to be implemented by management, and if implemented, produce negative long-term abnormal returns.

The vagaries of the voting process that allow bad proposals to pass limit the benefits of low-cost investor activism. However, we find that the costs associated with low-quality shareholder proposals are less likely to emerge in companies in which a larger fraction of shareholders collects information before voting in the shareholder meeting because a more informed vote weeds out bad proposals.

To reach this conclusion, we explore how mutual funds vote on shareholder proposals. We conjecture that mutual funds that always follow the recommendations of proxy advisory firms are unlikely to collect vote-relevant information (Iliev and Lowry,

[2] Information on sponsors is incomplete in commercial datasets as individuals are frequently recorded as "shareholder" or "unknown".

[3] Due to uncertainty about who owns a firm's shares and whether the shares are voted, the outcome of the voting process can be highly uncertain. For instance, Del Guercio and Woidtke (2019) show that as a consequence, value-destroying proposals by labor union pension funds can pass.

2015). Unfortunately, this behavior does not lead necessarily to good decisions because proxy advisory firms typically give generic recommendations when the same issues arise at different companies, and have incentives to increase the value of their services by generating controversy with management (Spatt, 2019). Other mutual funds always vote in the same way when similar issues arise at different firms, suggesting that they follow their own preferences, instead of acquiring information on the provisions that may improve a firm's performance (Bolton et al., 2018; Bubb and Catan, 2018).

We test whether ill-advised proposals sponsored by individual shareholders are more likely to pass and to be subsequently implemented in firms whose shares are owned by mutual funds that are less prone to collect information. Our results show that if a larger proportion of a company's shares are held by discerning mutual funds, harmful proposals are more likely to be weeded out. Importantly, shareholder proposals yield on average positive abnormal returns in firms with an informed shareholder base. In sum, in a world in which many shareholders are conflicted or uninformed, if the marginal voter is more likely to be an informed mutual fund, harmful proposals are weeded out and low-cost shareholder activism yields benefits.

Overall, our results highlight that while low-cost investor activism can be beneficial, this form of shareholder democracy crucially requires that investors collect information before voting and are able to discern between good and bad proposals.

A casual interpretation of our findings faces the challenges common to all prior work exploring the effects of shareholder proposals. First, shareholder proposals may appear to have no effect on firm valuations because the outcome of the vote is already anticipated by the market and therefore incorporated in prices (Cuñat, Gine and Guadalupe,

2012).[4] To mitigate this problem, we focus on proposals that are reasonably uncertain to pass. Within this set of proposals, we show that there is considerable heterogeneity in proposal returns, with some proposals experiencing significantly negative returns. Our results are also robust if we explicitly correct for heterogeneity in anticipation effects across proposals.

Second, different sponsors may target companies experiencing different shocks. To address this concern, we show that firms targeted by individuals do not differ in meaningful ways from firms targeted by other sponsors, and in particular that they do not experience more dissent on matters unrelated to the specific proposal we consider. We also show that informed shareholders who vote against harmful proposals are more likely to sell if the proposal passes, but not otherwise. This further supports the idea that the proposal passing and possible implementation, rather than some other shock concurrent with the proposal submission and vote, destroy firm value.

Our paper contributes to several strands of the corporate governance literature. First, we contribute to the literature on shareholder activism by showing under what conditions shareholder proposals can perform a useful function in disciplining firms. Empirically, only takeovers and hedge fund activism have been consistently associated with large valuation gains for the targets (Denes, Karpoff, and McWilliams, 2017). However, these forms of intervention are very costly (Gantchev, 2013), not least because they require large investments in the target companies, and as a result, reach primarily small firms that are undervalued but have good growth prospects (Brav, Jiang, Partnoy,

[4] Cuñat, Gine, and Guadalupe (2012) use a regression discontinuity design. However, recent work by Bach and Metzger (2018) suggests that managers actively manipulate proposal pass rates, which limits the application of the approach suggested by Cuñat, Gine, and Guadalupe (2012). For this reason, we consider cross-sectional differences between proposals that are uncertain to pass and that target similar companies.

and Thomas, 2008; Brav, Jiang, and Kim, 2015). Shareholder proposals are the least costly means of intervention and consequently can reach large underperforming firms with poor growth opportunities. Even though they are only advisory in nature, for reputational reasons, boards tend to implement proposals that are supported by a majority of shareholder votes (Ferri, 2012; Ertimur, Ferri, and Stubben, 2010). However, this form of intervention does not seem to yield significant valuation gains (e.g., Smith, 1996; Karpoff, Malatesta, and Walkling, 1996; Del Guercio and Hawkins, 1999; Gillan and Starks, 2000; Cai and Walkling, 2010). We show that this may be due to limitations of the voting process that does not weed out low-quality shareholder proposals.

Recent work in the literature focuses on proposals that do not reach the voting stage. Matsusaka, Ozbas, and Yi (2018) show that unions sponsor more shareholder proposals in contract renewal years and then withdraw these proposals after obtaining high wage increases. Relatedly, Matsusaka, Ozbas, and Yi (2019) observe a positive market reaction when the SEC allows the exclusion of a proposal from a firm's proxy and conclude that proposals can destroy value by distracting management. Soltes, Srinivanasan, and Vijayaraghavan (2017) consider proposals that management contests, but for which the SEC does not allow exclusion. These proposals tend to pass with similar frequency as other proposals, suggesting that management often seeks to exclude legitimate shareholder interests from the proxy statement.

Thus, conclusions from studies based on proposals that never reach the voting stage are mixed. Such an approach is better suited to test whether management acts in the interest of shareholders and whether proposal sponsors are driven by conflicts of interest. Our objective is to study under what conditions shareholder democracy works and to what

extent the voting process weeds out bad proposals. For this reason, we focus on proposals that go to a vote and do not consider proposals for which the SEC allows exclusion or that shareholders withdraw after negotiations with management.

Finally, we contribute to an emerging literature on shareholder voting. Several papers examine the effects of mutual fund attributes on voting behavior (Dimmock et al., 2018; Cvijanović, Dasgupta, and Zachariadis, 2016; Iliev and Lowry, 2015; Matvos and Ostrovsky, 2010; and Davis and Kim, 2007). We are the first to highlight that funds' propensity to acquire information reduces the extent to which harmful proposals receive majority support, and hence, enhances the benefits of low-cost shareholder activism.

2. Institutional Background

Under Rule 14a-8 of the Securities Exchange Act of 1934, any shareholder holding shares worth $2,000 (or 1% of the firm's equity) for at least one year is allowed to submit one proposal with a 500-word supporting statement to be included in the proxy distributed by the company for its annual meeting. Typically, such proposals must be submitted at least 120 days before the proxy is mailed to shareholders. Proposals must be included in the proxy mailed in advance of the annual meeting – together with a statement by the board explaining its position – and must be put to a shareholder vote unless the company obtains permission from the SEC to exclude the proposal.

While the SEC has some discretion in deciding whether to allow management to dismiss a proposal, no-action decisions occur under the following specific reasons: if the proposal addresses ordinary business matters, if it would result in a violation of state or federal laws, if it is related to a personal claim or grievance, if it has already been at least

partially implemented, or if it is materially false or misleading. Unsurprisingly, proposals submitted by individuals, who are less likely to have access to high powered attorneys, are more likely to be excluded.

Ultimately, proposals that are excluded from the proxy are already weeded out by current rules and limit any costs imposed by corporate gadflies. To contribute to the current policy debate, it is crucial to evaluate the quality of the proposals that are actually voted on in the annual meeting, and even more importantly, whether any harmful proposals receive majority support and are implemented.

This is a compelling question because even if they receive majority support, proposals are only advisory in nature. While in this respect they should produce limited costs for the targeted firms, proposals with significant shareholder support tend to be implemented by boards largely for reputational reasons, especially following the governance scandals of the early 2000s. The two largest proxy advisors, Institutional Shareholder Services (ISS) and Glass Lewis (GL), have policies to recommend withholding support from boards that do not implement a proposal which has received strong shareholder support in the past year (Del Guercio, Seery and Woidtke, 2008; Ertimur, Ferri, and Stubben, 2010). In addition, management frequently discusses in company filings what steps have been taken to meet the shareholders' requests in the proposals. Therefore, proposals may generate significant costs if they are submitted predominantly by uninformed or conflicted shareholders and are subsequently implemented. Such concerns are accentuated by the fact that a large proportion of proposals are submitted by unions and small individual investors, who may be conflicted or uninformed about the companies' needs.

The press has widely reported that a small group of individuals, often referred to as corporate gadflies, submits a disproportionate number of proposals. These individual sponsors, such as John Chevedden and William Steiner, do not acquire large stakes and are not particularly wealthy, but submit dozens of shareholder proposals every year, convinced that "it is the right thing to do". For instance, in an interview, William Steiner compares his fights for shareholder rights to his military combat service during World War II: A fight to spread democracy.[5]

It is ultimately an empirical question whether the proposals sponsored by these active individual shareholders are harmful or value-enhancing and whether the voting process is sufficient to weed out bad proposals. On the one hand, active individual shareholders may file proposals to obtain minimum governance standards that should apply to all companies. This behavior also characterizes some institutional investors. For instance, the New York City Comptroller, Scott Stringer, filed scores of proposals to restore proxy access on behalf of the New York City pension funds he oversees.

On the other hand, as the Business Roundtable, representing a group of chief executive officers of major corporations, argues, active sponsors may submit ill-conceived one-size-fits-all proposals or be vitiated by conflicts of interest. For instance, some active individual sponsors may try to attract attention with their activism to sell their services; an example is Evelyn Davis who distributed a business newsletter only to corporate presidents and CEOs, reportedly at $480 per subscription.[6]

The concern that a few active sponsors may destroy shareholder value by submitting harmful proposals has led institutional investors, represented by the Council of

[5] See https://www.corpgov.net/2017/10/william-steiner-shareholder-activist/.
[6] See https://people.com/archive/evelyn-y-davis-vol-45-no-20/.

Institutional Investors, to discuss possible ways to curb activism by shareholder proposals (Wall Street Journal, Nov. 15, 2018). The recent Investor Roundtable on Proxy Access, which aims to solicit views and comments on the shareholder proposal process, must be viewed in this context. Unfortunately, existing academic research does not explore whether the voting process is able to weed out bad proposals, and hence, provides little guidance to this debate.

3. Data

3.1 Sources

We obtain data on shareholder proposals between 2003 and 2014 for all firms in the Standard & Poor's 1500 index from Institutional Shareholder Services (ISS). Our sample period starts in 2003 because the SEC requires all US mutual funds to disclose their proxy voting records via N-PX filings since that year. Therefore, only starting in 2003, we are able to explore how shareholder voting affects which proposals receive majority support and are subsequently implemented.

The ISS data report the company name, date of the annual meeting, general description of the proposal, management and ISS recommendations, vote requirement for passing and vote base for calculating the passing threshold, number of outstanding shares, number of votes cast in favor, against, and abstaining, as well as some information on the sponsor of the proposal, which we complete and refine by hand-collection as described below. We use the vote requirement and the vote base to create an indicator for whether a proposal receives a majority vote, that is, if the votes cast in favor exceed the vote requirement. Because there are three different bases to calculate majority passing (all

outstanding shares, all shares cast in favor and against, or all shares cast in favor, against, and abstaining), we pay particular attention to the vote base (Bach and Metzger, 2017).

Our final sample includes 4878 shareholder-sponsored proposals. For each of the proposals in our sample, we hand-collect the identity of the sponsor. This information is vital for identifying individual sponsors and for measuring to what extent some sponsors are particularly active. Sponsor identities are incompletely recorded in about 28% of our sample of proposals and this problem is particularly severe for proposals submitted by individual sponsors. For example, 13% (658) of the proposals have the sponsor coded as "shareholder" and 3% have an "unknown" or missing sponsor. In addition, we find that the sponsor in the actual proxy filing is different from the one recorded by ISS in 12% (567) of the proposals. Furthermore, ISS does not consistently classify proposals submitted on behalf of another sponsor as well as proposals by related parties. For example, Amalgamated Bank is not classified as part of a union (The Services Employees International Union, or SEIU) even though it is owned by it. Such a misclassification would affect a total of 142 proposals in our sample.

We therefore hand-collect the identity of each sponsor from proxy filings and then classify the sponsors as individuals or institutions, and further subdivide institutions into public pension funds, unions, and investment firms. We group all remaining sponsors into a category called "other", which includes mostly religious organizations, environmental entities, groups without lead proponents, and sponsors that we are not able to conclusively classify.

In addition, besides verifying the meeting date, which is incorrectly recorded for 1% of the meetings in the ISS data, we read the proxy filing announcing the annual meeting

at which the proposal is to be voted on, the next meeting's proxy filing and all 8-K reports between the two meetings. In this way, we ascertain whether the firm implements the shareholder proposal(s). In some cases, when discussing implementation, the firm references the original proposal. However, in the majority of cases, we need to compare the specific terms of the original proposal to the language of management's discussion of the relevant issues. For example, if a proposal requires changes to a firm's executive compensation structure, we verify that any modifications to executive compensation address specifically the request(s) made in the proposal. We consider a firm to have implemented the proposal if the firm's filings describe that management has taken sufficient steps towards implementation.

3.2 Summary Statistics and Descriptive Evidence

Panel A of Table 1 reports descriptive statistics for our sample of proposals. Individuals put forward over 35% of all shareholder proposals that are voted in shareholder meetings and are by far more frequent sponsors than pension funds, unions or investment companies, who are presumably better able to negotiate with management without submitting proposals.

Proposals target a variety of topics. The most frequent proposals concern compensation and issues related to voting, such as amending a company's bylaws for voting requirements, proxy access, and requesting cumulative voting or supermajority voting for director elections. We have a total of 43 proposal types, which we use in the empirical analysis to control for differences in the content of specific proposals.

On average, 20% of the proposals in our sample pass with a majority, driven by high support for board and voting proposals. Thus, the proposals in our sample appear to garner higher shareholder interest than proposals in earlier periods explored in the literature. This is also consistent with the increased effectiveness of shareholder proposals following the corporate scandals of the early 2000s (Ertimur, Ferri, and Muslu, 2011).

Importantly, proposals submitted by individual shareholders are significantly more likely to pass than proposals submitted by institutions. This contrasts with evidence reported by Gillan and Starks (2000) for the 1987-1994 period, showing that at that time individual sponsors were obtaining limited support in comparison to institutions. This indicates that nowadays individual sponsors may indeed affect firm policies, which warrants a study of the effects of this form of shareholder activism.

Panel A also shows our hand-collected data on proposal implementation. On average, about 16% of the proposals are implemented by the targeted firms. The overall low implementation rate indicates that management may choose not to implement proposals even when they are approved by a majority of the voting shareholders. Thus, both shareholder voting and management implementation decisions may shield companies from the effects of potentially harmful proposals, which do not reflect the firms' specific needs. In what follows, we explore under what conditions this is the case.

Notably, proposals submitted by individuals are more likely to be implemented than proposals submitted by institutions. While this is unsurprising given that individual-sponsored proposals are more likely to receive a majority, higher implementation rates also indicate that the proposals of individual sponsors merit closer scrutiny.

3.3 Active Sponsors

Anecdotal evidence suggests that "corporate America is being held hostage" by a small number of individual investors, whose combined proposals "accounted for 70 percent of all proposals sponsored by individuals" in 2014.[7] However, lack of precise data on sponsor identities has hindered a careful examination of this phenomenon and its consequences.

In what follows, we study the extent to which some types of sponsors are more or less active. We then explore for the first time how their activities are received by other shareholders and how these activities affect companies. In principle, active sponsors may attempt to spread minimum governance standards that all companies should meet. It is also possible, however, that their attempts do not reflect the operations and strategy of the companies they target and instead spread the latest corporate governance fads, while distracting management and diverting resources.

Panel B of Table 1 shows that a large number of proposals is submitted by the same few sponsors, and that this is the case especially for individual investors, who are less likely to have substantial organizational capabilities. On average in a given year an individual sponsor submits more proposals than an investment company (3.53 vs. 2.24). Also, while most sponsors submit a handful of proposals per year, a minority of sponsors submits a very large number of proposals. The top individual sponsor in the sample puts forward 52 proposals per year, compared to the most active union and pension fund which submit 44 and 38 proposals, respectively. Notably, investment companies do not submit on average more than two proposals per year.

[7] See "Grappling with the Cost of Corporate Gadflies", *The New York Times*, August 19, 2014.

The rest of the table lists the top sponsors for each sponsor type. Several patterns emerge. First, the concentration of submitted proposals is much higher among individuals than among institutions – the top three individuals account for about 50% of all individual proposals, whereas the top three institutions account for about 30% of all institutional proposals. In addition, investment companies are not among the most active institutional sponsors, possibly because they are able to engage management behind the scenes. Overall, while a wide-range of shareholders are able to put forward proposals, the submission of proposals appears to be very concentrated, especially in the case of individual sponsors.

4. The Targets of Hedge Fund Activism and of Shareholder Proposals

This section describes the targets of proposals sponsored by different types of shareholders and compares the targets of shareholder proposals to those of hedge fund activism, an external governance mechanism that has attracted considerable attention in the literature. If the same types of firms were to be disciplined by other forms of shareholder activism, shareholder proposals could be viewed as redundant. Thus, concerns about their costs could rightly drive changes in regulation.

In Table 2, we estimate linear probability models to explore which firm characteristics predict the probability that a firm becomes a target of hedge fund activism or of proposals submitted by different types of sponsors. Consistent with the findings of the existing literature (Brav, Jiang, Partnoy, and Thomas, 2008; Brav, Jiang, and Kim, 2015), column 1 of Table 2 shows that hedge funds tend to target firms that are small and have experienced negative returns over the previous year, and hence, are somewhat undervalued.

This evidence is consistent with the idea that hedge fund activists target firms at which improvements can produce returns that are high enough to recover the initial investment. Because buying a block in a company is costly, activists have incentives to do so only if they can guarantee their investors a sufficiently large Sharpe ratio.

Shareholder proposals, on the other hand, are a significantly cheaper means to affect firm policies. As shown in column 2, shareholder proposals reach firms with characteristics that are very different from those of the targets of hedge fund activism. Compared to hedge fund targets, the targets of proposals are larger and have low profitability. Therefore, shareholder proposals can represent an important complementary mechanism of external corporate governance.

The rest of Table 2 compares the characteristics of firms targeted by different types of sponsors. The targets of institutional and individual sponsors appear to have remarkably similar characteristics; in addition, active (i.e., top 10) individual and institutional sponsors target very similar firms. Thus, any differences between the valuation effects of the proposals submitted by active individual sponsors and other sponsors are more likely to capture differences in the merits of the proposals – as we argue – rather than differences in firm characteristics.

5. The Effects of Shareholder Proposals Sponsored by Individuals

5.1 Proposals by Active Sponsors

We conjecture that there is cross-sectional variation in the quality of proposals. Active individual shareholders may help to spread minimum standards of corporate governance that fit all firms. On the other hand, the low cost of submitting proposals may

enable "gadflies" to demand corporate changes without tailoring a proposal to a firm's circumstances. Proposals submitted by overly active sponsors may not yield any benefits and may even be harmful if they are submitted without a careful evaluation of the target firm's specific situation.

To evaluate the effects of corporate gadflies, we compare the proposals submitted by individual sponsors who are among the top 10 most active sponsors during a year with the proposals submitted by other individuals and by the remaining sponsors. We study whether individual proposals, and in particular proposals by active individual sponsors, are effective, considering the percentage of votes cast in favor, the probability that the proposal passes, and the probability that it is subsequently implemented. We then explore the effects on short- and long-term returns.

Column 1 in Panel A of Table 3 shows that proposals sponsored by individuals typically receive more support in terms of the percentage of votes "For" than proposals submitted by other sponsors, unless they are submitted by active individual sponsors, as seen by the negative coefficient on the interaction between *Individual* and *Top 10 sponsor*. At the same time, the coefficient on *Top 10 sponsor* is positive and statistically significant, indicating that active institutional sponsors tend to receive a higher proportion of votes in support of their proposals. Thus, shareholder voting behavior suggests that individual proposals are generally valuable, even though the proposals of active individual sponsors are perceived by shareholders as less valuable, possibly because these sponsors target marginal cases.

In column 2, the coefficients on *Individual*, *Top 10 sponsor* and their interaction remain quantitatively and qualitatively unchanged when we control for the 43 proposal

topics and for a variety of firm characteristics. Thus, omitted factors, correlated with firm characteristics, are unlikely to drive our findings. This conclusion is consistent with the evidence in Table 2 suggesting that different sponsors appear to target similar firms.

In columns 3 and 4, instead of the percentage of votes cast in favor, we consider the probability that a proposal is supported by a majority of votes. Again, proposals submitted by individuals and by active institutional sponsors are more likely to pass than other proposals. However, consistent with our earlier results, this is less likely to be the case for proposals submitted by active individual sponsors, as seen by the coefficient on the interaction term between *Individual* and *Top 10 sponsor*, which is negative and statistically significant.

Finally, the results in column 5 reveal that proposals submitted by individuals as well as by active institutional sponsors are not only more likely to pass but also to be implemented. In particular, in column 6, where we control for the percentage of votes cast in favor, proposals sponsored by individuals are more likely to be implemented than those submitted by other sponsors, unless the individual proponents are too active.

Since individual proposals appear to be at least as relevant as the more widely studied institutional proposals, it is important to ask how they affect firm valuations. To focus on proposals whose valuation effects are less likely to have already been incorporated in prices, we consider shareholder proposals that fall within 20 percent (above and below) of the company's passing threshold. Our decision to exclude proposals that pass (or fail to pass) by extremely large margins is similar to the approach adopted in Cuñat, Gine, and Guadalupe (2012).

However, we consider larger margins to have enough statistical power to explore the heterogeneity of proposals by sponsor type and category of proposal, and study how a firm's shareholder base affects the probability that proposals with certain characteristics pass and get implemented by the firm. As explained above, anticipation effects are unlikely to bias our results because we find that abnormal returns are significantly different from zero. We will also present evidence that our results are robust when we consider narrower pass margins or control explicitly for anticipation effects.

Columns 1-6 of Panel B present regression models of a firm's cumulative abnormal returns (CARs), calculated in excess of the CRSP value-weighted index, during a three-day window around the shareholder meeting.

We explore cross-sectional differences in CARs between proposals within a 20% margin of passing. The identifying assumption, supported by the evidence in Table 2, is that proposals target similar companies and that the voting outcome is not anticipated. We also use proposals that do not pass, but are still within a margin of 20%, to run a placebo test, which provides complementary evidence that our results are driven by the passing of certain proposals, rather than by firm characteristics associated with the vote on these proposals. As we discuss below, the robustness of the results to the inclusion of a wide range of controls further mitigates any remaining concerns.

Columns 1 and 2 in Panel B of Table 3 provide clear evidence that proposals submitted by active individual sponsors generate negative short-term abnormal returns. Consistent with the interpretation that individual proposals by top 10 sponsors may be costly to the firm, we find that such proposals generate about 2% lower short-term returns than proposals by other individual sponsors, even after controlling for firm characteristics,

and year and proposal type fixed effects. The F-tests presented in the last row confirm that the sum of the coefficients on *Individual*, *Top 10 sponsor* and their interaction is statistically different from zero at conventional levels.

As discussed before, our results are unlikely to be generated by the possibility that individual sponsors, and top 10 individual sponsors in particular, target different firms. Not only is this concern assuaged by the evidence in Table 2, but our results are qualitatively invariant when we control for a wide range of firm characteristics, including past firm performance and the percent and concentration of institutional ownership. We also include proposal issue dummies throughout the analysis.

However, active individual sponsors may submit proposals to companies that are temporarily attracting more attention; for instance, these companies may be experiencing more shareholder dissent. If this is the case, more information may be released around these firms' shareholder meetings, which may affect our results and bias our inferences. For this reason, column 2 also controls for the fact that proposals are voted on in shareholder meetings at which other issues are likely to be discussed. Specifically, we include controls for other shareholder proposals voted on at the same meeting and the types of these proposals.

Besides controlling for whether other proposals have been considered, we include a variable – *Meeting dissent* – measuring the number of votes cast against (or withheld from) management in all other proposals voted on at the same meeting. This variable captures whether the meeting is contentious. Including this control leaves our results unaffected, suggesting that the negative effects of proposals submitted by active individual sponsors are not driven by concurrent events.

To provide further evidence that information released at the meeting does not drive our results, columns 3 and 4 report the same tests for proposals that fail to pass. We do not find any effect of proposals submitted by top 10 individual sponsors, supporting our interpretation that the passing of the proposals, and not some other information revealed at the shareholder meeting, produces the negative abnormal returns.

In columns 5 and 6, we further consider whether differences in anticipation effects between proposals affect our findings. To do so, we adjust the CARs by dividing them by one minus the predicted probability that the proposal receives majority support, estimated based on the model in column 4 of Panel A.[8] Estimates are qualitatively and quantitatively similar to the ones presented in columns 1 and 2, indicating that our rich set of controls largely captures differences in anticipation effects. Such concerns are further mitigated by the estimates in Table A.1 in the Appendix in which we control for different polynomials of the percentage of votes in favor of a proposal and consider progressively narrower passing margins. It is comforting that cross-sectional differences in announcement returns associated with different proposals become even more pronounced when we restrict the passing margin to +/-5%.

Finally, we explore the effects of proposal implementation. A majority of votes in support of a proposal increases the probability that the proposal is actually implemented. However, information about implementation is revealed over time in the months following the annual meeting. Thus, studying the effects of proposal implementation requires us to consider firms' long-term returns. Following Brav, Jiang, Partnoy, and Thomas (2008), we

[8]Shivdasani and Yermack (1999) and Matsusaka, Ozbas, and Yi (2019) use a similar methodology.

compute long-term returns with respect to the CRSP value-weighted index from one month before to 12 months after the annual meeting.

In columns 7 and 8, we consider the long-term abnormal returns of firms that end up implementing the shareholder proposals. This test helps sharpen the interpretation of the evidence that announcement returns are driven by the passage of the proposals. It also helps to rule out alternative explanations that low short-term returns may be due to selling pressure caused by shareholders disgruntled by the voting outcome.

We find that if implemented, proposals sponsored by individuals and active institutional shareholders produce higher abnormal returns. However, the effects are reduced for proposals sponsored by active individual sponsors. This raises the question whether these sponsors submit value-decreasing proposals and why the voting process is not able to weed out bad proposals.

5.2 Good and Bad Proposals

This subsection explores why proposals by active individual sponsors have lower abnormal returns. To do so, we classify proposals to capture specific reasons for why this may be the case. Our first definition classifies a proposal as *Generic* if the sponsor targets multiple companies within the same year with precisely the same proposal (e.g., limiting executive compensation). Specifically, proposals by sponsors whose number of targeted companies divided by the proposal types they submit is in the top quartile of all sponsors (i.e., more than three companies targeted with the same proposal in a given year) are considered generic proposals.

On the one hand, these sponsors may be specialists on a particular issue, such as board declassification, and may be attempting to enforce minimum governance standards at all companies. On the other hand, they may be less likely to have researched the individual circumstances of each company and tailored the proposal to the company's needs, especially because individual investors are less likely to have organizational capabilities to identify companies with similar circumstances. Panel A of Table 4 shows that about 31% of the proposals in our sample are classified as generic. More than 55% of the proposals submitted by individual investors fall in this category.

We also consider proposals submitted by unfocused sponsors who put forward many different types of proposals in the same year (e.g., voting proposals, climate change proposals, compensation proposals, etc.). An unfocused sponsor is a sponsor who is in the top quartile for the number of proposal types submitted in a given year (i.e., more than three proposal types). A proposal is defined as *Unfocused* if it is submitted by an unfocused sponsor.

On the one hand, sponsors who do not focus on a certain type of issue are less likely to be specialists in that issue. On the other hand, some sponsors such as institutional investors may have the organizational capabilities to propose specific changes tailored to the necessities of different firms. About 49% of the proposals in our sample are classified as unfocused. Notably, we classify about 59% of the proposals submitted by individuals as unfocused.

Finally, we define a *Fad* proposal as one that is submitted in a year when both the number of this type of proposals and the number of sponsors submitting such proposals are in the top tercile of all years. Fad proposals are likely to follow popular trends and be less

company-specific. As such, they may impose one-size-fits-all prescriptions, which may be value-destroying for some companies. Fad proposals tend to be submitted by both individuals and institutions, even though pension funds appear to put forward relatively more such proposals.

Panel B of Table 4 shows that a lower percentage of votes are cast in favor of generic, unfocused, and fad (collectively, "bad") proposals by individual sponsors. This suggests that active individual sponsors with low organizational capabilities submit low-quality proposals and that shareholders who are aware of this behavior vote against these proposals. Consistent with this interpretation, generic, unfocused and fad proposals submitted by individual sponsors are less likely to pass with a majority and to be implemented. Importantly, other proposals submitted by individual sponsors are more likely to pass and to be implemented, suggesting that individual investor activism may be beneficial in general.

Overall, shareholder voting appears to provide some discipline in screening out bad proposals. Thus, even if some bad proposals end up being implemented, it is unclear whether active individual sponsors indeed destroy shareholder value and whether this phenomenon should be regulated.

Panel C of Table 4 shows the short-term and long-term abnormal returns of generic, unfocused, and fad proposals, comparing proposal returns between individuals and other sponsors. In columns 1 and 3, generic and fad proposals sponsored by individuals generate negative short-term abnormal returns if they receive majority support. In column 2, while unfocused proposals are associated with marginally positive excess returns, the benefits are substantially reduced for unfocused proposals submitted by individuals. Bad proposals

sponsored by individuals are also associated with negative long-term abnormal returns if they are implemented (columns 4 to 6). The remaining proposals sponsored by individuals generate higher or similar abnormal returns to the proposals of other sponsors.

We obtain these results controlling for a variety of firm characteristics, year and proposal type fixed effects, as well as for the topics of concurrent issues addressed at the shareholder meeting and how contentious the meeting is. Overall, it appears that low-cost investor activism generates significant costs because some individuals submit proposals that do not consider the specific circumstances of the firms being targeted or simply follow popular governance fads. Proposals sponsored by individuals are otherwise no worse than other proposals.

6. Shareholder Voting and the Quality of Proposals

6.1 Data on Mutual Fund Voting and Ownership

The submission of bad proposals can destroy shareholder value only if these proposals are supported by a majority of votes and implemented. Informed shareholders could in principle weed out low-quality proposals and minimize the costs associated with this type of activism. However, institutional investors have incentives to underspend on stewardship and to rely on the often ill-informed advice of proxy advisory firms (Spatt, 2019). This increases uncertainty in voting outcomes, which is also exacerbated by the fact that shares that have been lent to short sellers are typically not voted (Evans et al., 2019).

To evaluate the role of an informed shareholder base, we use general voting behavior and identify shareholders that are more or less likely to collect information regarding the merits of different proposals. However, this information is available only for

mutual funds, for which the SEC requires Form N-PX that reports the way in which they vote all shares for which they have fiduciary responsibility. ISS compiles these votes in its Voting Analytics database and provides a link to the actual regulatory filing detailing the votes (ISS NPX filing ID). Thus, we rely only on variation in mutual fund voting behavior. We expect that a larger fraction of informed mutual funds increases the probability that bad proposals will not pass.

We conjecture that a fund is less likely to gather information about the issues being voted on at a firm if it always follows the recommendations provided by ISS, a proxy advisory firm (as argued by Iliev and Lowry, 2015, and Malenko and Shen, 2016). ISS tends to be less supportive of management than governance-focused asset managers, arguably because controversy increases the value of its services (Spatt, 2019). For 96.3% of the proposals in our sample, ISS recommends voting in favor; thus, ISS' recommendations do not appear to take into consideration the firms' unique circumstances, as the recommendations do not vary when the same issue comes up at different firms. Just following the ISS recommendations may be pernicious in the case of shareholder proposals that do not consider the firms' specific needs.

Mutual fund voting may also be driven by ideology or general preferences and be neglectful of the firms' actual needs (Bolton et al., 2018; Bubb and Catan, 2018). Consistent with the conjecture that funds are less likely to acquire vote-relevant information if they always vote as advised by ISS or exhibit little variation in voting over time, Brav, Jiang, Li, and Pinnington (2018) show that such funds rarely support activists in proxy contests.

We find that in 89% of the proposals in our sample all funds within a family vote the same way. As a result, we focus on fund families rather than individual funds, but modify our procedure below for fund families that split their vote across funds. To capture the proclivity of a fund family to collect vote-relevant information, we regress an indicator that takes the value of one if the fund family votes in favor of a proposal (and zero otherwise) on an indicator for an ISS recommendation to vote for the proposal, and the 43 proposal category dummies. For the 11% of the fund families, which split their vote across funds, we set the dependent variable equal to the fraction of funds that votes in favor of the proposal. A high R-squared from this regression indicates that the fund family does not differentiate votes between firms when the same issue arises, because of its own preferences or because it most often follows the ISS recommendations. Such a fund is unlikely to collect any firm-specific information. Therefore, we capture whether a fund family is inclined to gather information using the inverse of the R-squared.

The first row in Panel A of Table 5 reports statistics on the R-squared estimated from the above regression. Our proxy points to large differences in funds' propensity to collect information. The average (median) R-squared by fund family is 0.72 (0.70), with a minimum of 0.07 and a maximum of 1. These statistics suggest that fund families often follow the ISS recommendations, or do not differentiate their votes when the same issue arises at different firms. However, there is substantial cross-sectional variation captured by the large standard deviation of R-squared (0.19).

To evaluate how much the vote of each fund family affects voting outcomes in a specific firm, we estimate the proclivity of the firm's shareholder base to collect information. Specifically, we use the holdings of each fund family as weights to calculate

the weighted-average information gathering propensity of the firm's shareholder base. As ISS does not report how much each fund owns, we use the ISS NPX filing ID to download the actual filing of the fund family and scrub the CIK code of the fund. Then, we use the CIK codes to get the fund's holdings in the firm from the CRSP Mutual Fund database. Using this matching procedure, we are able to obtain holdings information for 87% of the fund families voting on our sample of proposals.

Panel A of Table 5 also shows that there is substantial cross-sectional variation in the *Informed ratio*, which captures the average of the inverse R-squared, computed using as weights the proportion of shares owned by mutual funds for which we have available information. The minimum *Informed ratio* is close to one (i.e., mutual funds always follow the ISS recommendations) but the maximum is well above one.

6.2 Mitigating Effects of Informed Voting

Ill-conceived proposals are implemented only insofar as they are supported by other shareholders. Thus, lack of informed voting may limit the benefits of low-cost investor activism. To capture this idea, we use the *Informed ratio* to measure the proportion of mutual fund families in a firm's shareholder base that do not closely follow ISS recommendations or their own preferences, but vary their votes when the same issue is raised at different firms. We control throughout the analysis for the level and concentration of institutional ownership.

In Panel B of Table 5, we define an indicator variable – *Informed base* – equal to one if the firm's *Informed ratio* is above the median, and zero otherwise. We are interested in the interaction between *Individual*, *Informed base* and the three specific definitions of harmful proposals – generic, unfocused, and fad. As shown in columns 1-3, generic,

unfocused, and fad proposals sponsored by individual investors receive 21-25% lower percentage of votes in favor if firms have more informed shareholders. In columns 4-6, we also find that bad proposals sponsored by individual investors are between 40% to 70% less likely to pass with majority support. Columns 7-9 show that harmful proposals are also substantially less likely to be implemented, especially in the case of generic and unfocused proposals. Thus, having an informed shareholder base decreases the costs associated with harmful shareholder proposals.

The voting behavior of mutual funds has important consequences for the effects of low-cost shareholder activism on firm performance. In firms with more informed shareholders only value-enhancing shareholder proposals will presumably obtain support from informed mutual funds; value-destroying proposals are more likely to be rejected. Hence, a larger proportion of the proposals that pass is likely to be value-enhancing. Consistent with this interpretation, Table 6 shows that shareholder proposals that receive a majority of votes are associated with 1.4-1.5% higher short-term returns around the meeting date if the firm has a shareholder base with an above-median *Informed ratio* (columns 1 and 2).

Conditional on being implemented after passing with a majority (columns 3 and 4), proposals are associated with 22-23% higher long-term returns when a firm has an informed shareholder base. These results support the conclusions of Malenko and Malenko (2018) that there may be over-reliance on proxy advisor recommendations and excessive conformity in voting. This behavior may allow value-destroying proposals to pass and ultimately destroy shareholder value.

6.3 Additional Evidence on Mutual Fund Trading

How likely is it that informed mutual funds select different companies, which react differently to shareholder proposals because of their characteristics, rather than because of the quality of the proposals supported by a majority of shareholders?

To provide more direct evidence for our interpretation of the empirical results so far, we consider how mutual funds trade if they vote against a bad proposal that nevertheless passes. We expect that mutual funds with negative private information about the firm's future prospects will be more likely to sell. Based on our previous results, we conjecture this to be particularly likely if harmful shareholder proposals pass and become likely to be implemented. In this case, expecting negative abnormal returns in the long run, informed mutual funds should sell.

To test this conjecture, we use data from the CRSP Mutual Fund database and consider how the percentage ownership of a fund family in a firm changes between the quarter before and the one after the shareholder meeting if the fund family votes against the proposal. We define informed mutual funds as the ones with an inverse R-squared above the median and test whether they sell in anticipation of poor performance when bad proposals pass despite the fund's opposing vote. We explore how the trading behavior of informed mutual funds differs from that of other mutual funds following a vote against a proposal. Since generic, unfocused and fad proposals sponsored by individual investors have been identified as potentially value-destroying, we expect informed mutual funds to sell more than other mutual funds following the passing of these bad proposals.

Since many mutual funds trade in a given firm at a given point in time, we can control for interactions of firm and time effects as well as proposal topic fixed effects.

Thus, firm characteristics, including the type of proposals voted on in a given quarter, are completely absorbed and cannot drive our findings.

Columns 1-3 of Table 7 consider the subsample of proposals that pass and show that informed mutual funds that vote against bad individual proposals that pass reduce their shareholdings by 12-16% in the quarter after the vote. Importantly, informed mutual funds sell to a larger extent stocks of firms with bad proposals that pass, but not stocks of firms with other proposals that pass but the funds did not support. Thus, the trading of informed mutual funds is not merely driven by shareholder disagreement, which Li, Maug, and Schwartz-Ziv (2019) argue leads to higher trading volume in the days immediately following the shareholder meeting.

One may wonder whether the mutual funds voting against bad shareholder proposals always sell, even if the proposals are not supported by a majority of shareholders. This could be the case because voting against bad proposals may simply capture discontent with firm policies. Such an interpretation is unlikely because we consider shareholder, not management, proposals.

Columns 4 to 6 of Table 7 consider the subsample of proposals that do not pass and confirm that it is indeed the passing and the likely implementation of bad proposals that prompts informed mutual funds to sell. These funds are not more likely to sell than other mutual funds if bad proposals do not receive majority support. This also indicates that our results are unlikely to be driven by the possibility that the targets of bad proposals are different in terms of firm characteristics or are subject to other concurrent shocks.

7. Conclusion

Corporations are often compared to democracies (Gompers, Ishii, and Metrick, 2003), in which the ultimate authority rests with voters. An advantage of well-working democracies is that virtually anyone can make proposals to change policies. The responsibility to weed out bad ideas and select proposals that are likely to be beneficial resides ultimately with voters. Thus, democracies work only to the extent to which voters are well-informed and select the right representatives and policies.

We provide evidence that this is also the case for corporations. Low-cost shareholder activism appears necessary to discipline the managers of large companies with low profitability and growth opportunities, which cannot be profitably targeted by hedge fund activists. By virtue of being low-cost, however, this type of activism may become excessive and generate too many uninformed proposals. Whether these proposals pass and are ultimately implemented depends on the other shareholders of a firm. If these other shareholders collect information, bad and potentially harmful proposals are weeded out and low-cost shareholder activism manifest its full benefits.

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Table 1. Descriptive Statistics

Panel A of this table reports the number of proposals, the percent of proposals passing with a majority, and the percent of proposals implemented by each sponsor type. Panel B reports summary statistics on the number of proposals submitted by a unique sponsor per year, distinguishing by sponsor type. Panel C reports the top 10 individual, institutional, and other sponsors. The sample includes shareholder-sponsored proposals over the period 2003-2014.

Panel A. Summary statistics	Individual	Institution	Pension	Union	Inv firm	Other	Total
Proposal count	1798	2,203	583	1265	355	877	4878
Majority passing	25.53%	21.52%	27.79%	22.45%	7.89%	4.56%	19.95%
Implementation	18.58%	16.34%	19.55%	17.79%	5.92%	7.64%	15.60%

Panel B. Proposals by sponsor and year	**Mean**	**Median**	**St Dev**	**Min**	**Max**
Individual	3.53	1	7.75	1	52
Institution	5.15	3	6.55	1	44
Pension	7.02	3	9.52	1	38
Union	6.73	4	6.63	1	44
Inv firm	2.24	1	1.89	1	11
Other	2.75	1	4.98	1	37

Panel C. Active sponsors	**# Proposals**	**% Total**
Top 10 individual sponsors		
John Chevedden	354	19.14
Kenneth Steiner	275	14.86
Evelyn Y. Davis	270	14.59
Gerald Armstrong	191	10.32
Nick Rossi	150	8.11
James McRitchie	52	2.81
Robert D. Morse	21	1.14
Richard A. Dee	20	1.08
Harold J. Mathis, Jr.	14	0.76
Jing Zhao	10	0.54
Top 10 Institutional sponsors		
Comptroller of the City of New York	325	14.42
United Brotherhood of Carpenters	224	9.94
AFL-CIO Reserve Fund	158	7.01
Am. Fed. of State, County and Municipal Empl.	143	6.34
Service Employees International Union (SEIU)	142	6.30
International Brotherhood of Teamsters	97	4.30
Sheet Metal Workers	87	3.86
International Brotherhood of Electrical Workers	82	3.64
Comptroller of the State of New York	71	3.15
Harrington Investments	71	3.15
Top 10 other sponsors		
People for the Ethical Treatment of Animals (PETA)	68	11.41
Nathan Cummings Foundation	54	9.06
As You Sow Foundation	24	4.03
Unitarian Universalist Assoc. of Congregations	23	3.86
Province of St. Joseph of the Capuchin Order	22	3.69
United Methodist Church	21	3.52
National Legal and Policy Center	20	3.36
Sisters of Charity of Saint Elizabeth	17	2.85
Humane Society of the United States	17	2.85
Catholic Healthcare West	16	2.68

Table 2. Targeting by Hedge Fund Activism and Shareholder Proposals

This table reports OLS regressions of the probability of a firm being targeted by hedge fund activism or shareholder proposals. The sample includes shareholder-sponsored proposals over the 2003-2014 period. Sponsors are classified as *Active* if they are in the top 10 of all sponsors based on the total number of proposals submitted in a given year. Hedge fund activism data come from SEC Schedule 13D and FactSet's SharkRepellent.net. All control variables are lagged by one year. All regressions include industry and year fixed effects, and cluster standard errors by firm. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Firm targeted by:					
	Hedge fund activism	Shareholder proposal	Individual proposal	Institutional proposal	Active individual sponsor	Active institutional sponsor
Log market cap	-0.0052***	0.1372***	0.0995***	0.1024***	0.0384***	0.0354***
	(-6.67)	(20.36)	(12.53)	(15.01)	(11.78)	(13.34)
Tobin's Q	-0.0034***	-0.0232***	-0.0197***	-0.0156***	-0.0077***	-0.0048***
	(-7.14)	(-10.12)	(-8.92)	(-7.84)	(-7.22)	(-4.13)
Sales growth	-0.0051***	-0.0326***	-0.0211***	-0.0206***	-0.0086***	-0.0080***
	(-2.67)	(-7.92)	(-5.13)	(-5.00)	(-5.10)	(-4.90)
ROA	-0.0037	-0.0832***	-0.0621***	-0.0643***	-0.0324***	-0.0259***
	(-0.47)	(-4.11)	(-3.01)	(-3.47)	(-3.49)	(-2.73)
Cash flow	-0.0000	-0.0012***	-0.0004*	-0.0012***	-0.0001	-0.0005***
	(-0.32)	(-3.70)	(-1.70)	(-4.12)	(-0.87)	(-3.06)
Annual return	-0.0039**	0.0079***	0.0067***	0.0060**	0.0031***	0.0048***
	(-2.54)	(2.71)	(2.61)	(2.04)	(2.62)	(2.63)
Book lev	0.0117**	0.0026	0.0056	-0.0123	0.0098	-0.0025
	(2.25)	(0.14)	(0.26)	(-0.69)	(1.13)	(-0.30)
Div yld	0.0022	0.0141	0.0533	-0.0061	0.0200	-0.0317*
	(0.25)	(0.35)	(1.36)	(-0.18)	(0.89)	(-1.89)
R&D	0.0244*	0.0056	0.0166	0.0247	-0.0100	-0.0033
	(1.86)	(0.16)	(0.53)	(0.76)	(-0.67)	(-0.20)
Inst own percent	0.0264***	-0.0973***	-0.0852***	-0.0714***	-0.0256***	-0.0122*
	(6.49)	(-5.20)	(-4.26)	(-4.34)	(-3.15)	(-1.75)
Inst herfindahl	-0.0259***	0.1654***	0.1066***	0.1254***	0.0472***	0.0549***
	(-5.46)	(9.19)	(7.16)	(8.79)	(6.77)	(8.81)
Neg Amihud	-0.0257	-1.1663***	-0.9617***	-0.9171***	-0.3444***	-0.2553***
	(-1.08)	(-12.85)	(-10.53)	(-10.61)	(-7.87)	(-6.56)
Constant	0.0404***	-0.8139***	-0.6062***	-0.6210***	-0.2314***	-0.2093***
	(4.89)	(-17.55)	(-12.05)	(-14.00)	(-9.92)	(-10.98)
Industry & year FE	YES	YES	YES	YES	YES	YES
Observations	38,928	38,928	38,928	38,928	38,928	38,928
Adjusted R2	0.0217	0.364	0.284	0.271	0.0978	0.0823

Table 3. Proposals by Active Sponsors

Panel A of this table reports the proportion of votes for, the probability of majority passing and of implementation of shareholder-sponsored proposals over the 2003-2014 period. Panel B reports OLS regressions of short-term CARs, estimated with respect to the VW CRSP index, for majority passed proposals (columns 1-2), proposals that fail to pass (columns 3-4), and proposals that pass (columns 5-6) whose anticipation-adjusted returns have been scaled by 1-p̂, where p̂ is estimated as in column (4) of Panel A. Long-term CARs for implemented proposals are reported in columns 7-8. We consider only proposals within a +/-20 percent interval of the passing threshold. *Meeting dissent* is a continuous measure of against and abstain votes cast across all proposals at the meeting (excluding the studied proposals). The last row of each panel reports p-values of F-tests testing whether the sum of the coefficients on *Individual*, *Top10 sponsor,* and their interaction is statistically different from zero. Regressions in even-numbered columns include year and proposal type fixed effects; all models cluster standard errors by firm and proposal type. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Majority passing and implementation

	(1)	(2)	(3)	(4)	(5)	(6)
	Percent Votes For		Majority Passing		Implementation	
Individual (1)	0.1144***	0.0560	0.2911***	0.2051*	0.2376***	0.1467**
	(8.81)	(1.45)	(12.65)	(2.37)	(13.64)	(3.30)
Top10 sponsor (2)	0.0914***	0.0482*	0.1309***	0.0816*	0.0451***	-0.0233
	(8.27)	(2.19)	(6.67)	(2.32)	(3.04)	(-1.45)
Individual x Top10 sponsor (3)	-0.1579***	-0.1608***	-0.3815***	-0.3737**	-0.3265***	-0.1860**
	(-9.97)	(-3.86)	(-13.59)	(-3.22)	(-15.37)	(-2.93)
Size		-0.0000**		-0.0000*		-0.0000
		(-2.65)		(-2.19)		(-0.93)
Tobin's Q		-0.0046		-0.0093		0.0099
		(-1.21)		(-1.12)		(1.63)
Sales growth		-0.0031		0.0057		-0.0054
		(-0.35)		(0.75)		(-0.55)
ROA		0.1721**		0.3072***		-0.1544*
		(3.28)		(4.00)		(-2.00)
Cash flow		0.0001		0.0001		0.0004
		(0.35)		(0.17)		(1.93)
Lag ann return		-0.0100		0.0046		0.0027
		(-1.09)		(0.22)		(0.32)
Book lev		-0.0510*		-0.0768		-0.0242
		(-2.02)		(-1.36)		(-1.21)
Div yld		-0.0023		-0.0055		0.0020
		(-0.44)		(-0.85)		(0.76)
R&D		0.1625***		0.2962**		-0.2897**
		(4.89)		(2.66)		(-2.47)
Inst own percent		0.0735**		0.1561***		0.0181
		(2.51)		(4.34)		(0.64)
Inst herfindahl		-0.2912		-0.3632		-0.0865
		(-1.26)		(-1.03)		(-0.64)
Neg Amihud		-0.3397**		-0.6642**		-0.0126
		(-2.60)		(-2.81)		(-0.13)
Percent votes for						0.8057***
						(7.73)
Constant	0.2733***	0.3511***	0.1207***	0.2232***	0.0750***	-0.1502***
	(29.09)	(17.67)	(7.25)	(9.49)	(5.95)	(-4.52)
Proposal & year FE	NO	YES	NO	YES	NO	YES
Observations	4,001	3,372	4,001	3,372	4,001	3,372
Adjusted R2	0.0245	0.363	0.0491	0.239	0.0820	0.405
F-Test (1)+(2)+(3)=0	**0.0000**	**0.0085**	**0.0508**	**0.0142**	**0.0052**	**0.0247**

Panel B. Returns

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	CAR (-1, +1d) – Maj Pass		CAR (-1, +1d) – Failed to pass		CAR (-1, +1d) - Maj Pass (Anticipation adjusted)		LTCAR (-1, +12m) – Implemented	
Individual (1)	0.0012	-0.0031	-0.0059	-0.0076	-0.0004	-0.0033	0.2897***	0.3845**
	(0.22)	(-0.33)	(-1.61)	(-1.21)	(-0.06)	(-0.45)	(4.47)	(3.41)
Top10 sponsor (2)	0.0077	0.0078	-0.0037	-0.0065***	0.0159***	0.0125***	0.4023***	0.3877**
	(1.51)	(1.12)	(-1.51)	(-4.02)	(2.64)	(3.76)	(6.24)	(3.58)
Individual x Top10 sponsor (3)	-0.0242***	-0.0213**	0.0058	0.0120	-0.0268***	-0.0237***	-0.4537***	-0.2823**
	(-3.92)	(-2.51)	(1.41)	(1.81)	(-3.55)	(-4.06)	(-5.52)	(-2.88)
Size		0.0000**		0.0000		0.0000		0.0000
		(2.60)		(1.62)		(1.08)		(1.11)
Tobin's Q		-0.0023**		-0.0019		-0.0002		-0.0988**
		(-2.73)		(-1.16)		(-0.18)		(-4.15)
Sales growth		-0.0174***		-0.0027		-0.0033		0.2813**
		(-5.27)		(-0.49)		(-1.28)		(2.94)
ROA		0.0208		0.0129*		-0.0004		-0.6531**
		(1.77)		(2.01)		(-0.01)		(-4.55)
Cash flow		-0.0007		-0.0002		-0.0003		0.0156
		(-0.70)		(-0.72)		(-0.44)		(1.79)
Lag ann return		0.0102		0.0111**		0.0117**		0.7638***
		(1.86)		(3.69)		(2.55)		(6.15)
Book lev		0.0070		-0.0018		0.0232**		0.0391
		(0.99)		(-0.25)		(2.68)		(0.51)
Div yld		0.0031		0.0005*		-0.0002		0.2078***
		(1.18)		(2.13)		(-0.53)		(10.88)
R&D		0.0244		0.0373**		0.0093		-0.1272
		(0.93)		(2.88)		(0.40)		(-1.33)
Inst own percent		0.0124		-0.0011		0.0111		-0.0220
		(0.81)		(-0.10)		(0.49)		(-0.10)
Inst herfindahl		0.0719		0.0113		0.0382		0.4131
		(1.41)		(0.27)		(0.65)		(1.15)
Neg Amihud		-0.0339		0.0240		-0.0888		-0.4948
		(-0.71)		(1.64)		(-1.44)		(-0.79)
Meeting dissent		0.0215		0.0069		0.0056		-0.1249
		(0.99)		(0.61)		(0.34)		(-1.08)
Constant	-0.0039	-0.0059	0.0040*	0.0026	-0.0109*	-0.0061	-0.3688***	-0.3139**
	(-0.82)	(-0.98)	(1.84)	(1.00)	(-1.96)	(-1.39)	(-6.27)	(-4.39)
Controls for other proposals & their type	NO	YES	NO	YES	NO	YES	NO	YES
Proposal & year FE	NO	YES	NO	YES	NO	YES	NO	YES
Observations	545	441	1,180	1,011	545	441	239	191
Adjusted R2	0.0906	0.106	0.000338	0.0309	0.0564	0.0571	0.145	0.379
F-Test (1)+(2)+(3)=0	**0.0043**	**0.0393**	**0.1532**	**0.3138**	**0.0895**	**0.0136**	**0.0013**	**0.0160**

Table 4. Frequency and Performance of Bad Proposals

This table reports the frequency and performance of bad proposals, defined according to one of three definitions. *Generic* proposals are submitted by sponsors who target multiple companies within the same year with the same proposal type. *Unfocused* proposals are submitted by sponsors who engage with many different types of proposals within the same year. *Fad* proposals are proposals submitted in a year when both the type of proposal and the number of sponsors submitting such proposals are in the top tercile of all years. Panel A reports the percent of bad proposals by category (rows) and sponsor (columns) as a fraction of the total count of proposals reported in the last row. The sample includes shareholder-sponsored proposals over the 2003-2014 period. Panel B reports estimates from OLS regressions of a proposal's proportion of votes "For" (columns 1-2), probability of passing with a majority (columns 3-4), and of being implemented (columns 5-6). Panel C reports OLS regressions of short- and long-term CARs for majority passed proposals (columns 1-3), and implemented proposals (columns 4-6). CARs are estimated with respect to the VW CRSP index. We consider only proposals within a +/-20 percent interval of the passing threshold. *Meeting dissent* is a continuous measure of against and abstain votes cast across all proposals at the meeting (excluding the studied proposals). All regressions include proposal type and year fixed effects and cluster standard errors by proposal type and firm. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

Panel A. Frequency of bad proposals

Bad Proposal Type	Individual	Institution	Pension	Union	Inv firm	other	Total
Generic	55.17%	20.97%	19.04%	27.75%	0.00%	5.25%	30.75%
Unfocused	59.18%	45.80%	53.00%	54.07%	4.51%	38.31%	49.38%
Fad	46.72%	53.25%	67.07%	46.09%	56.06%	46.75%	49.67%
Total count	*1,385*	*1,732*	*494*	*1,031*	*207*	*594*	*3,711*

Panel B. Majority passing and implementation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Percent Votes For			Majority Passing			Implementation		
Individual	0.0221	0.0656	0.0277	0.1597*	0.2696***	0.2031	0.1543***	0.1916**	0.1434**
	(0.74)	(1.61)	(0.60)	(2.44)	(6.65)	(1.90)	(4.45)	(3.05)	(2.66)
Generic prop	-0.0013			-0.0361			-0.0333**		
	(-0.20)			(-1.71)			(-3.15)		
Individual x Generic prop	-0.0759**			-0.1929**			-0.1101**		
	(-3.41)			(-2.66)			(-2.66)		
Unfocused prop		-0.0122			-0.0734			-0.0530**	
		(-0.30)			(-1.33)			(-3.56)	
Individual x Unfocused prop		-0.1131*			-0.2900***			-0.1416*	
		(-2.28)			(-6.14)			(-2.10)	
Fad prop			0.0686			0.1613			0.0333
			(1.14)			(1.31)			(1.22)
Individual x Fad prop			-0.1100**			-0.3282**			-0.1322*
			(-2.55)			(-2.71)			(-2.05)
Size	-0.0000*	-0.0000**	-0.0000**	-0.0000*	-0.0000*	-0.0000*	-0.0000	0.0000	0.0000
	(-2.44)	(-2.79)	(-2.86)	(-2.33)	(-2.30)	(-2.28)	(-0.19)	(0.04)	(0.03)
Tobin's Q	-0.0043	-0.0046	-0.0052	-0.0082	-0.0092	-0.0101	0.0111	0.0103	0.0103
	(-1.04)	(-1.12)	(-1.24)	(-0.84)	(-0.98)	(-1.05)	(1.54)	(1.52)	(1.35)
Sales growth	-0.0046	-0.0045	-0.0056	0.0023	0.0029	-0.0000	-0.0072	-0.0068	-0.0078
	(-0.50)	(-0.47)	(-0.65)	(0.27)	(0.31)	(-0.00)	(-0.68)	(-0.63)	(-0.70)
ROA	0.1855**	0.1875**	0.1882***	0.3410***	0.3434***	0.3416***	-0.1454	-0.1443	-0.1465
	(3.64)	(3.58)	(3.86)	(4.86)	(4.53)	(4.95)	(-1.69)	(-1.77)	(-1.72)
Cash flow	-0.0000	-0.0000	-0.0000	-0.0001	-0.0001	-0.0002	0.0003	0.0004	0.0003
	(-0.01)	(-0.01)	(-0.19)	(-0.40)	(-0.21)	(-0.50)	(1.36)	(1.70)	(1.25)
Lag ann return	-0.0113	-0.0120	-0.0099	-0.0020	-0.0032	-0.0016	-0.0049	-0.0044	-0.0051
	(-1.33)	(-1.28)	(-1.12)	(-0.10)	(-0.16)	(-0.07)	(-0.65)	(-0.51)	(-0.60)
Book lev	-0.0490	-0.0441	-0.0419	-0.0744	-0.0587	-0.0574	-0.0213	-0.0113	-0.0139
	(-1.76)	(-1.58)	(-1.57)	(-1.17)	(-0.98)	(-0.94)	(-1.74)	(-0.82)	(-0.94)
Div yld	-0.0021	-0.0020	-0.0016	-0.0048	-0.0045	-0.0046	0.0021	0.0022	0.0013
	(-0.41)	(-0.40)	(-0.46)	(-0.85)	(-0.83)	(-1.88)	(0.87)	(0.91)	(0.42)
R&D	0.1835***	0.1832***	0.1825***	0.3458**	0.3311**	0.3362**	-0.2765*	-0.2863*	-0.2739*
	(6.11)	(6.39)	(7.31)	(3.41)	(3.16)	(3.52)	(-2.27)	(-2.33)	(-2.21)
Inst own percent	0.0889**	0.0881*	0.0947**	0.1919**	0.1925**	0.2035**	0.0303	0.0318	0.0314
	(2.50)	(2.42)	(2.68)	(3.12)	(3.16)	(3.53)	(0.82)	(0.98)	(0.97)
Inst herfindahl	-0.3185	-0.3178	-0.3177	-0.4672	-0.4418	-0.4449	-0.1720	-0.1438	-0.1334
	(-1.32)	(-1.36)	(-1.28)	(-1.20)	(-1.18)	(-1.11)	(-1.13)	(-1.09)	(-1.03)
Neg Amihud	-0.3881**	-0.3860**	-0.3921**	-0.7979**	-0.7793**	-0.8048**	-0.0987	-0.0836	-0.0951
	(-2.51)	(-2.63)	(-2.49)	(-2.55)	(-2.71)	(-2.60)	(-0.87)	(-0.74)	(-0.81)
Percent votes for							0.8564***	0.8551***	0.8559***
							(6.43)	(6.70)	(6.62)
Constant	0.3854***	0.3925***	0.3450***	0.2954***	0.3271***	0.1861**	-0.1730***	-0.1526**	-0.2067***
	(41.42)	(13.46)	(10.28)	(11.84)	(6.33)	(2.95)	(-4.06)	(-3.45)	(-3.84)
Proposal & year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3,372	3,372	3,372	3,372	3,372	3,372	3,372	3,372	3,372
Adjusted R2	0.339	0.340	0.347	0.198	0.202	0.212	0.372	0.372	0.368

Panel C. Returns

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1d) - Maj Pass			LTCAR (-1, +12m) - Implemented		
Individual	0.0001	0.0088	0.0020	0.0734**	0.1881	0.0449
	(0.04)	(1.28)	(0.29)	(3.07)	(1.61)	(0.58)
Generic prop	0.0036			0.0198		
	(0.57)			(0.30)		
Individual x Generic prop	-0.0234**			-0.2175**		
	(-3.23)			(-3.71)		
Unfocused prop		0.0071*			0.1426	
		(2.16)			(1.95)	
Individual x Unfocused prop		-0.0316***			-0.3530*	
		(-5.35)			(-2.39)	
Fad prop			0.0032			0.0892
			(0.90)			(0.98)
Individual x Fad prop			-0.0274***			-0.1667**
			(-3.90)			(-2.79)
Size	0.0000	0.0000*	0.0000**	0.0000	0.0000	0.0000
	(1.29)	(2.18)	(2.58)	(1.36)	(1.38)	(1.24)
Tobin's Q	-0.0018*	-0.0017*	-0.0020**	-0.0504**	-0.0420**	-0.0547**
	(-2.26)	(-2.00)	(-2.71)	(-4.25)	(-3.47)	(-3.29)
Sales growth	-0.0169***	-0.0180***	-0.0192***	0.1483	0.1028	0.0812
	(-4.53)	(-4.68)	(-4.54)	(2.07)	(1.85)	(0.79)
ROA	0.0155	0.0195	0.0132	-0.0159	0.0770	0.1018
	(1.20)	(1.69)	(1.03)	(-0.10)	(0.62)	(0.66)
Cash flow	-0.0008	-0.0008	-0.0007	-0.0071	-0.0059	-0.0050
	(-0.74)	(-0.76)	(-0.78)	(-0.64)	(-0.51)	(-0.57)
Lag ann return	0.0103*	0.0103*	0.0087*	0.2706***	0.2518***	0.2584***
	(2.28)	(2.06)	(2.22)	(5.65)	(10.47)	(6.08)
Book lev	0.0036	0.0017	0.0025	-0.0240	-0.0889	0.0110
	(0.47)	(0.25)	(0.40)	(-0.32)	(-0.85)	(0.17)
Div yld	0.0055**	0.0058*	0.0051	0.0759*	0.0723*	0.0510
	(2.66)	(2.18)	(1.85)	(2.51)	(2.38)	(1.65)
R&D	0.0234	0.0150	0.0256	-0.3758	-0.5753*	-0.3255
	(0.97)	(0.57)	(0.76)	(-1.85)	(-2.68)	(-1.38)
Inst own percent	0.0148	0.0160	0.0131	-0.1155	-0.1476	-0.0849
	(1.48)	(1.17)	(1.01)	(-0.49)	(-0.55)	(-0.36)
Inst herfindahl	0.0506	0.0615	0.0754	-0.2247	-0.2882	-0.0169
	(1.05)	(1.31)	(1.48)	(-0.31)	(-0.52)	(-0.02)
Neg Amihud	-0.0374	-0.0466	-0.0346	-0.2002	-0.1953	-0.1428
	(-0.82)	(-0.96)	(-0.75)	(-0.41)	(-0.38)	(-0.38)
Meeting dissent	0.0190	0.0240	0.0233	-0.1082	0.0464	0.0727
	(0.87)	(1.11)	(1.04)	(-0.81)	(0.43)	(0.94)
Constant	-0.0003	-0.0033	-0.0003	-0.0224	-0.1173*	-0.1041
	(-0.07)	(-1.12)	(-0.06)	(-0.56)	(-2.21)	(-1.76)
Controls for other proposals & their type	YES	YES	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES	YES	YES
Observations	441	441	441	191	191	191
Adjusted R2	0.115	0.118	0.141	0.177	0.192	0.136

Table 5. Shareholder Voting Behavior and Bad Individual Proposals

This table reports statistics on informed investors in Panel A and estimates from OLS regressions of a proposal's proportion of votes "For" (columns 1-3), probability of passing with a majority (columns 4-6) and of being implemented (columns 7-9) in Panel B. Generic, unfocused, and fad proposals are defined in Table 4. We estimate a mutual fund's propensity to acquire information on a shareholder proposal by 1/R^2. R^2 is a measure of lack of information acquisition obtained from a regression of the mutual fund's vote "For" (on any proposal the fund voted on) on an ISS recommendation "For" and proposal category dummies. Then, a firm's *informed ownership* is the average of the 1/R^2 of its mutual fund owners weighted using ownership weights (out of shares outstanding). Mutual fund holdings as of the quarter before the vote are obtained from the CRSP Mutual Fund database linked by fund CIKs to ISS NPX file numbers. Funds with available NPX file numbers, as reported by ISS over 2006-2014, and CIK numbers from NPX filings are included in the sample. *Informed ratio* is the ratio of informed mutual fund ownership divided by total mutual fund ownership. *Informed base* is a dummy equal to one if a firm's informed ratio is greater than the median, and zero otherwise. All regressions include proposal type and year fixed effects and cluster standard errors by proposal type and firm. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

Panel A. Informed investors	Mean	Median	St Dev	Min	Max
R^2 (by fund family)	0.7152	0.7032	0.1907	0.0705	1.0000
Informed ownership (by firm)	0.2376	0.2342	0.1330	0.0000	0.7540
Total fund ownership (by firm)	0.1463	0.1454	0.0824	0.0000	0.4802
Informed ratio (by firm)	1.6258	1.6196	0.1336	1.1539	3.7685

Panel B. Majority passing and implementation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Percent Votes For			Majority Passing			Implementation		
Informed base	0.0075	-0.0007	-0.0156	-0.0339	-0.0167	-0.0082	0.0561**	0.1081*	0.0461**
	(0.67)	(-0.04)	(-1.23)	(-0.97)	(-0.55)	(-0.54)	(2.47)	(2.41)	(2.66)
Individual	-0.0180	-0.0232	0.0135	0.1314	0.2391*	0.6396***	0.0203	0.2669	0.3971***
	(-0.42)	(-0.61)	(0.25)	(1.47)	(1.99)	(9.43)	(0.39)	(1.91)	(8.70)
Informed base x Individual	0.0116	0.0644	0.0365	0.0401	0.0007	-0.2782***	-0.0729	-0.0949	-0.5347***
	(0.21)	(0.55)	(1.03)	(0.49)	(0.00)	(-3.73)	(-0.75)	(-0.42)	(-7.89)
Generic prop	-0.0198			-0.0659*			-0.0252		
	(-1.23)			(-1.98)			(-1.85)		
Generic prop x Informed base	0.0282			0.0426			0.0305		
	(1.28)			(0.72)			(1.10)		
Generic prop x Individual	0.0903*			0.2478**			0.2856*		
	(2.37)			(2.68)			(2.41)		
Generic prop x Informed base x Individual	-0.2147***			-0.7310***			-0.6637***		
	(-4.20)			(-8.04)			(-7.59)		
Unfocused prop		-0.0233			-0.0987			-0.0322	
		(-0.59)			(-1.85)			(-1.07)	
Unfocused prop x Informed base		0.0158			-0.0022			-0.0583	
		(1.25)			(-0.08)			(-1.35)	
Unfocused prop x Individual		0.0868*			0.051			0.2445	
		(2.05)			(1.17)			(1.35)	
Unfocused prop x Informed base x Individual		-0.2446*			-0.6178**			-0.5598**	
		(-2.27)			(-2.53)			(-2.56)	
Fad prop			0.0892			0.1971			0.0521
			(1.55)			(1.60)			(0.78)
Fad prop x Informed base			-0.0073			-0.0079			0.0448
			(-0.33)			(-0.32)			(1.04)
Fad prop x Individual			0.0234			-0.0344			0.1000
			(0.50)			(-0.22)			(1.08)
Fad prop x Informed base x Individual			-0.2535***			-0.3953***			-0.1593**
			(-6.04)			(-4.28)			(-3.68)
Percent votes for							0.4276***	0.4382***	0.4278***
							(5.48)	(6.14)	(6.58)
Constant	0.4176***	0.4248***	0.3561***	0.2922***	0.3303***	0.1487**	0.0113	0.0163	-0.0310
	(39.86)	(14.19)	(10.87)	(6.82)	(5.11)	(2.75)	(0.28)	(0.44)	(-0.76)
Firm controls	YES	YES	YES	YES	YES	YES	YES	YES	YES
Proposal & year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,595	2,595	2,595	2,595	2,595	2,595	2,595	2,595	2,595
Adjusted R2	0.384	0.382	0.412	0.481	0.461	0.481	0.438	0.417	0.414

Table 6. Shareholder Propensity to Acquire Information and the Performance of Proposals

This table reports OLS regressions of CARs for majority passed (columns 1-2) and implemented proposals (columns 3-4). CARs are estimated with respect to the VW CRSP index. We consider only proposals within a +/-20 percent interval of the passing threshold. *Informed base* is an indicator capturing the propensity of a firm's mutual fund owners to acquire information before voting, and equals one for firms with an informed ratio (as defined in Table 5) greater than the median, and zero otherwise. Regressions in even-numbered columns include year and proposal type fixed effects; all models cluster standard errors by firm and proposal type. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	CAR (-1, +1d)		LTCAR (-1, +12m) - Implemented	
Informed base	0.0043**	0.0049	0.0426**	0.0441
	(2.17)	(1.67)	(2.30)	(1.91)
Majority pass	-0.0034	-0.0030		
	(-1.60)	(-1.11)		
Majority pass x Informed base	0.0148***	0.0135**		
	(4.55)	(3.63)		
Implementation			0.0606***	0.0433
			(2.68)	(1.26)
Implementation x Informed base			0.2164***	0.2276***
			(5.61)	(5.72)
Size		0.0000		-0.0000
		(1.05)		(-1.60)
Tobin's Q		-0.0018		-0.0252**
		(-1.79)		(-3.67)
Sales growth		-0.0060		-0.0691
		(-1.49)		(-0.97)
ROA		-0.0047		-0.0731
		(-0.39)		(-0.94)
Cash flow		-0.0003		-0.0054*
		(-1.63)		(-2.24)
Lag ann return		0.0118**		0.4079***
		(3.32)		(13.58)
Book lev		0.0018		0.0426
		(0.31)		(0.78)
Div yld		0.0004		0.0147***
		(1.76)		(7.15)
R&D		0.0151		-0.0659
		(0.92)		(-0.94)
Inst own percent		0.0048		-0.1803*
		(0.56)		(-1.98)
Inst herfindahl		0.0695		0.0179
		(1.34)		(0.03)
Neg Amihud		0.0282		0.5831*
		(1.24)		(2.09)
Meeting dissent		0.0201		0.0080
		(1.03)		(0.04)
Constant	-0.0014	-0.0025	-0.0775***	-0.1078***
	(-0.93)	(-1.09)	(-5.59)	(-7.23)
Controls for other proposals & their type	NO	YES	NO	YES
Proposal & year FE	NO	YES	NO	YES
Observations	1,629	1,388	1,600	1,364
Adjusted R2	0.0338	0.0592	0.0581	0.220

Table 7. Shareholder Propensity to Acquire Information and Trading after Voting against Proposals

This table reports OLS regressions of the change in mutual fund ownership in firms at which the fund voted against a bad individual shareholder proposal. Generic, unfocused, and fad proposals are defined in Table 4. Columns (1)-(3) include only proposals that pass with a majority; Columns (4)-(6) focus on proposals that fail to pass. The change in mutual fund holdings is calculated as the mutual fund's % ownership in the quarter ending after the meeting minus the mutual fund's % ownership in the quarter ending before the meeting, divided by the mutual fund's % ownership in the quarter before the meeting. *Informed MF* is an indicator capturing a mutual fund's propensity to acquire information and equals one for mutual funds with above median 1/R^2. R^2 is estimated from a regression of the mutual fund's vote "For" a proposal on a dummy for an ISS recommendation "For" and proposal type dummies. All regressions include firm-by-year and proposal type fixed effects and cluster standard errors by fund. *, **, and *** refer to statistical significance at 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Change in fund ownership					
	Proposals passing with majority			Proposals failing to pass		
Informed MF	-0.0613	-0.0639	-0.0693	-0.0309	-0.0293	-0.0296
	(-1.35)	(-1.39)	(-1.56)	(-0.82)	(-0.78)	(-0.81)
Oppose	-0.0349	-0.0416	-0.0777**	-0.0190	-0.0193	-0.0187
	(-0.81)	(-0.89)	(-2.11)	(-0.64)	(-0.64)	(-0.64)
Oppose generic prop	-0.0529			-0.0026		
	(-1.15)			(-0.31)		
Oppose generic prop x Informed MF	-0.1484***			-0.0111		
	(-2.70)			(-0.55)		
Oppose unfocused prop		-0.0411			-0.0008	
		(-0.84)			(-0.10)	
Oppose unfocused prop x Informed MF		-0.1192**			-0.0150	
		(-2.32)			(-0.76)	
Oppose fad prop			0.0307			-0.0027
			(0.61)			(-0.32)
Oppose fad prop x Informed MF			-0.1596**			-0.0169
			(-2.54)			(-0.68)
Constant	0.2746***	0.2752***	0.2713***	0.2509***	0.2505***	0.2506***
	(8.82)	(8.80)	(8.99)	(8.89)	(8.89)	(8.96)
Firm-year and proposal FE	YES	YES	YES	YES	YES	YES
Observations	64,329	64,329	68,633	307,226	307,226	307,226
Adjusted R2	0.0219	0.0218	0.0214	0.0183	0.0183	0.0183

Appendix. Additional tables

Table A1. **Short-term Abnormal Returns Associated with Proposals**

This table reports regressions of cumulative abnormal returns (CARs) from *t*-1 to *t*+1 days around the meeting date. Returns are estimated with respect to the VW CRSP index. Columns 1-2 include all shareholder-sponsored proposals over the 2003-2014 period. Columns 3-5 limit the sample by restricting the absolute pass margin to be between 20%, 10%, and 5% of the passing threshold, respectively. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
	CAR (-1, +1d) - Maj Pass				
	All Proposals	All Proposals	+/20% Margin	+/10% Margin	+/05% Margin
Individual	0.0008	-0.0000	-0.0127	-0.0185	-0.0358**
	(0.23)	(-0.01)	(-1.12)	(-1.64)	(-2.51)
Top10 sponsor	0.0012	0.0012	-0.0024	-0.0037	-0.0111
	(1.23)	(1.25)	(-0.97)	(-0.49)	(-1.55)
Individual x Top10 sponsor	0.0008	0.0015	0.0136	0.0219	0.0415**
	(0.23)	(0.38)	(1.23)	(1.63)	(2.86)
Maj pass	-0.1882	-0.0079*	-0.0106	-0.0118	-0.0162**
	(-0.79)	(-2.19)	(-1.46)	(-1.14)	(-3.22)
Individual x Maj pass	0.0066*	0.0072*	0.0146	0.0231*	0.0416*
	(1.99)	(2.44)	(1.44)	(2.14)	(2.00)
Top10 sponsor x Maj pass	0.0121**	0.0123**	0.0155	0.0140	0.0257***
	(2.80)	(2.80)	(1.77)	(1.01)	(7.47)
Individual x Top10 sponsor x Maj pass	-0.0149**	-0.0155**	-0.0220*	-0.0304**	-0.0338**
	(-2.96)	(-3.68)	(-2.03)	(-2.87)	(-2.92)
% votes for	0.1160*				
	(2.11)				
Maj pass x Percent votes for	0.7255				
	(0.67)				
Square (% votes for)	-0.4363				
	(-1.91)				
Maj pass x Square (% votes for)	-0.7980				
	(-0.50)				
Cube (% votes for)	0.4697				
	(1.74)				
Maj pass x Cube (% votes for)	0.1217				
	(0.15)				
Constant	-0.0083**	-0.0009	0.0032	0.0039	0.0090
	(-2.51)	(-0.95)	(1.31)	(0.93)	(1.20)
Observations	4,000	4,000	1,725	861	410
Adjusted R2	0.00191	0.00142	0.00487	0.00233	0.0108