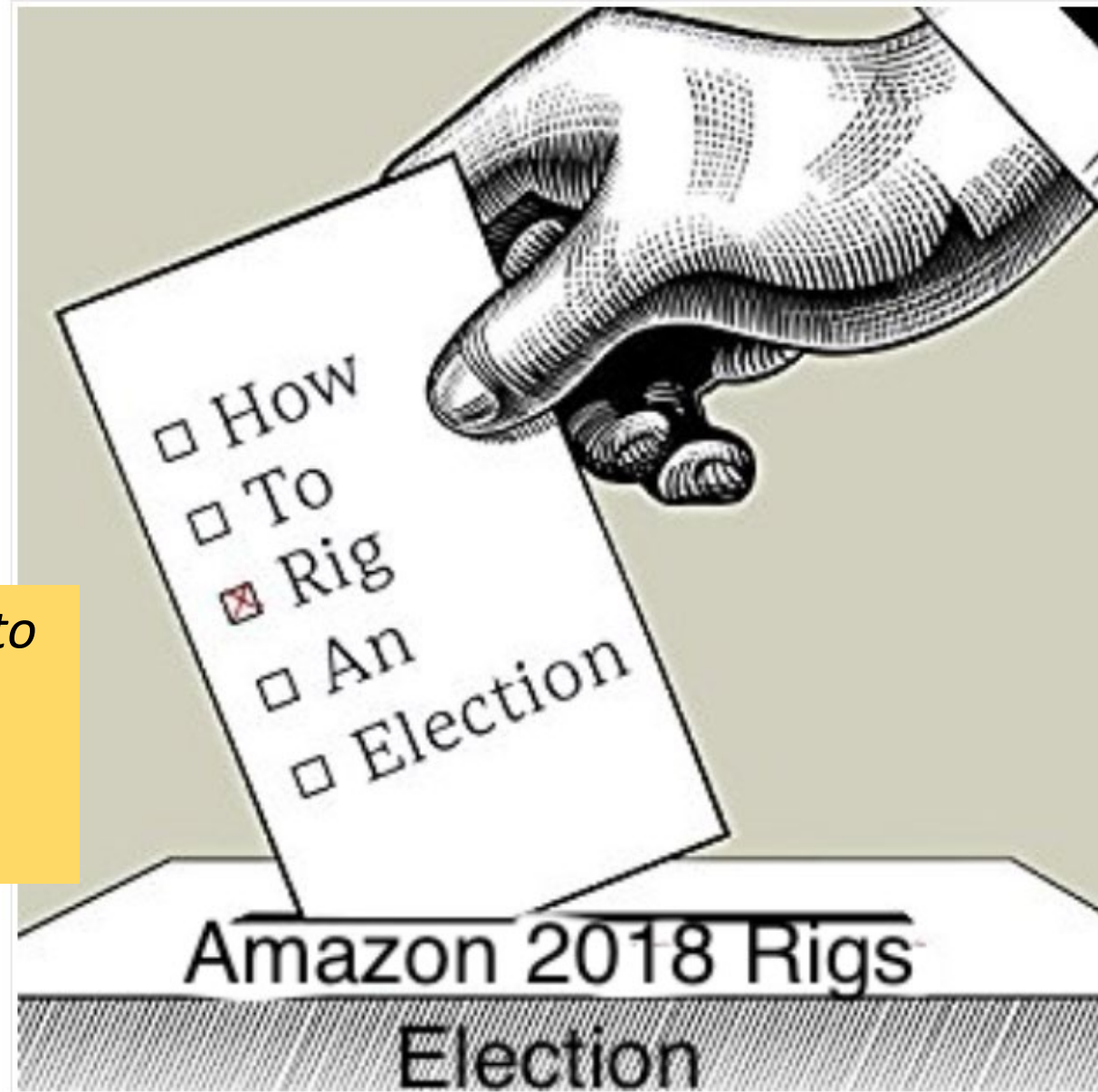


Discussion of Management (of) Proposals

Yupana Wiwattanakantang
NUS Business School

Amazon's voting policies are described in the proxy in an opaque and difficult to understand way. Amazon deploys "Formula Swapping" to count its board election differently (and more leniently) than shareholder items.

When shareholders abstain and formally decline to vote either FOR or AGAINST a proposal, Amazon systematically takes those abstentions and counts them as if they were AGAINST votes.



Amazon 2018 Proxy: Rigging the Vote Count

James McRitchie, May 28, 2018,

<https://www.corpgov.net/2018/05/amazon-2018-proxy-rigging-vote-count/>

This paper

- This paper studies shareholder voting at AGM. Voting is a significant component of the CG structure which imposes effective constraints on managers.
- The literature shows that managers hold a decisive advantage over other parties in affecting the outcome. Most papers study shareholder proposals.
- This paper focuses on Management proposals that are “potentially contested proposals”.
 - “Routine Proposals” are excluded in the sample:
 - Elections of directors and committee members
 - Appointments and ratification of auditors
 - Acceptance of financial statements and statutory reports
 - Say-on-Pay
 - Proposals to adjourn meeting.

Management proposals at the firm level (2003 - 2015)

Sample firms: US firms with a single class of shares

	<i>Obs.</i>	<i>Mean</i>	<i>Std.Dev.</i>	<i>p25</i>	<i>p50</i>	<i>p75</i>
Number of management proposals	31,163	0.680	0.934	0	0	1
Number of compensation proposals	31,163	0.451	0.688	0	0	1
Number of governance proposals	31,163	0.076	0.383	0	0	0
Number of share issuance proposals	31,163	0.068	0.296	0	0	0
Number of strategic decisions proposals	31,163	0.043	0.213	0	0	0
Won management proposals	31,163	0.604	0.882	0	0	1
Withdrawn management proposals	31,163	0.031	0.202	0	0	0

- On average, firms launch 0.68 management proposals during a calendar year.
 - Around 65% are compensation proposals.
 - 14% are share issuance proposals.
 - 11% are governance related proposals.
- Managers are likely to put up their proposals in the agenda following good firm performance.

Management always wins at AGM

The average pass rate is 97%.

Voting outcomes are highly predictable.

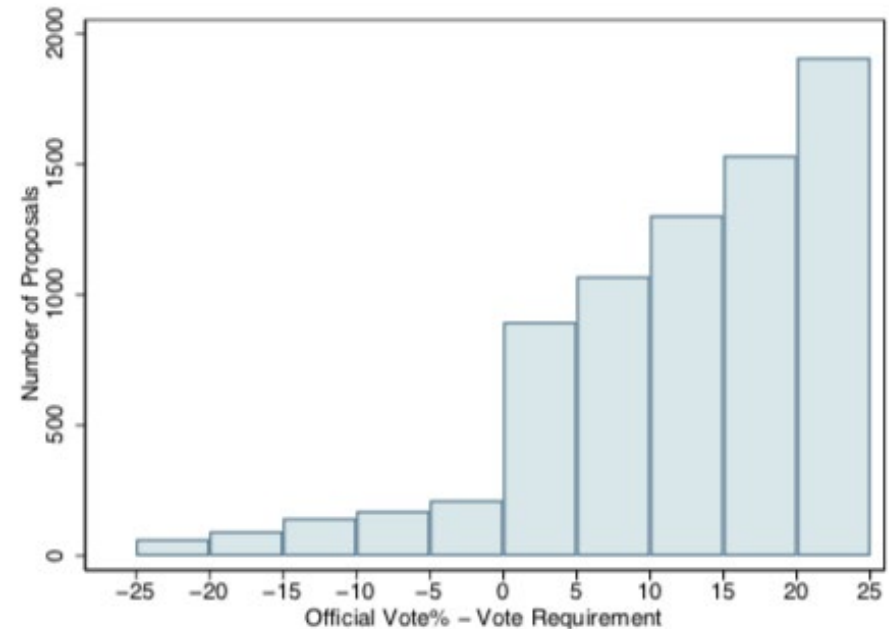
<i>Panel A (Continued)</i>	<i>Obs.</i>	<i>Mean</i>	<i>Std.Dev.</i>
Passage rate (<i>Pass%</i>)	26,981	97.0	17.1
Base: Shares outstanding	6,573	91.7	27.5
Base: “F+A” or “F+A+AB”	20,408	98.7	11.4
Vote requirement: Majority	25,304	98.0	14.1
Vote requirement: Supermajority	1,677	82.2	38.2
Meeting type: Annual	23,934	96.9	17.5
Meeting type: Special	3,047	98.0	14.0
Agenda: Compensation	17,464	98.7	11.2
Agenda: Share issuance	3,805	95.9	19.8
Agenda: Governance	3,170	89.3	30.9
Agenda: Strategic decisions	1,428	99.0	9.9
Agenda: Other	1,114	92.5	26.4

Close call proposals (10% of the proposals)

- The density of proposals is not continuous around the passage threshold required to pass a proposal.

The proposals are more likely to pass than fail.

→ perhaps management behaves strategically in trying to pass certain types of proposals.



Panel A: Histogram of All Proposals

- **Winning Proposals:** Smaller firms & proposals that receive a negative ISS recommendation.
- **Losing Proposals:** Firms with good CG (more analyst coverage, more independent boards, higher institutional ownership) & got shareholder proposals in the previous year.

The results are similar to prior research that studies management proposals (Listokin (2008)) & shareholder proposals (Bach and Metzger (2018)).

Management manipulates the voting agenda & outcomes.

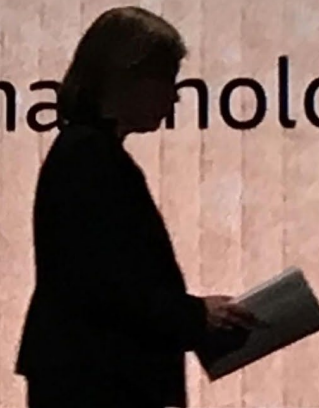
Shareholder meetings are for show -- An event for rubber-stamping decisions.

Why does Management Influence the Votes?

The Amazon logo is displayed in a large, bold, black font. It consists of the word "amazon" in a lowercase, sans-serif typeface, with a curved arrow underneath that starts under the letter 'a' and points to the letter 'z', symbolizing the company's mission to provide a wide selection of products.

Annual Meeting of Shareholders

May 30, 2018



The agency problem (The Entrenchment Hypothesis)

Personal interests
(Passing their agendas:
Pay, M&As, SEOs, serving some block-holders)



The reputation effect: It is embarrassing if a proposal failed because it generates negative publicity and hence a loss in reputational capital

The shareholder-interest hypothesis (Active voters)

Firm Value

Shareholders have incentives to protect their investment and oppose managers on value reducing proposals.



The shareholder-interest hypothesis (Active voters)

To make more informed voting decisions, shareholders would

❖ Appoint strong board

- To enhance monitoring of management

❖ Acquire information about the proposal from various sources:

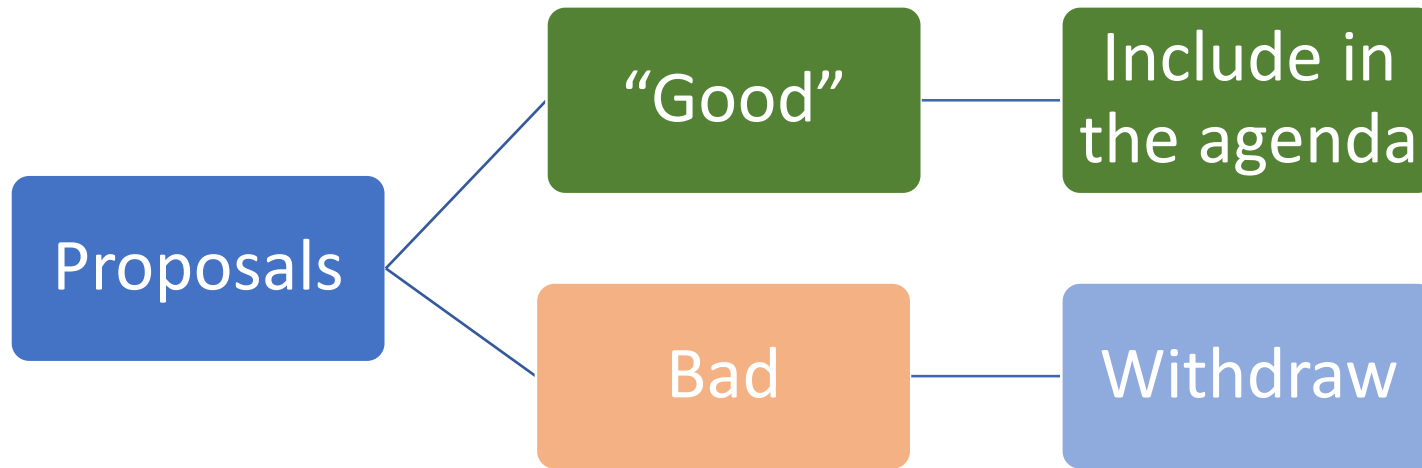
- Doing their own independent research
- Managerial performance (for example, stock prices) is publicly available information
-> increases the level of informed voting.
- Getting information from proxy advisors for voting recommendations on corporate issues.

❖ Participating in voting

- Shareholders oppose managers on value reducing proposals (e.g., Iliev and Lowry (2015)).
- Vote-no campaigns: shareholders organize efforts (e.g., via internet, social media) to convince other shareholders to withhold their vote from the election of board of directors (Grundfest 1993; Del Guercio, Seery, and Woidtke 2008).

The Smart Management Strategy

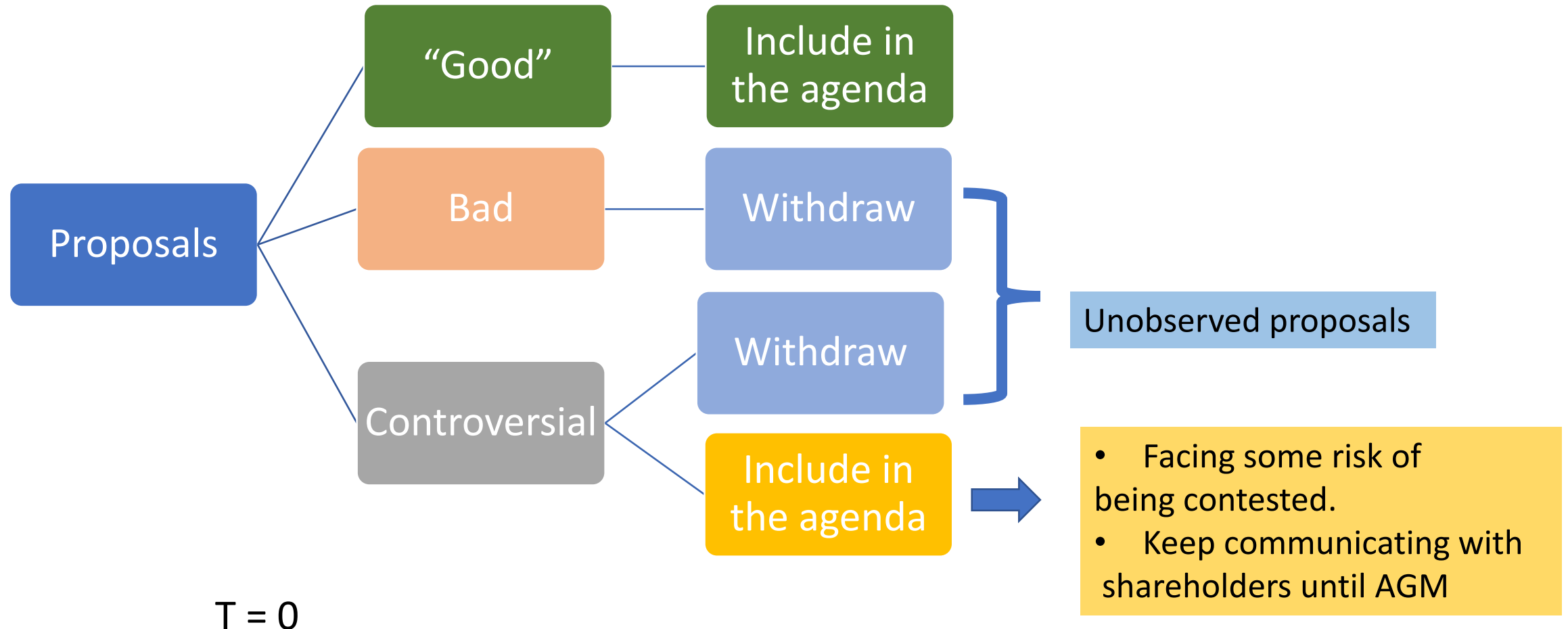
- ❖ Managers control the meeting agenda and the timing of their proposals.
- ❖ Smart managers would communicate with large shareholders and board prior to include any proposals in the proxy to see how much support it gets.
- ❖ The tougher large shareholders and board are, the more likely that management would negotiate.



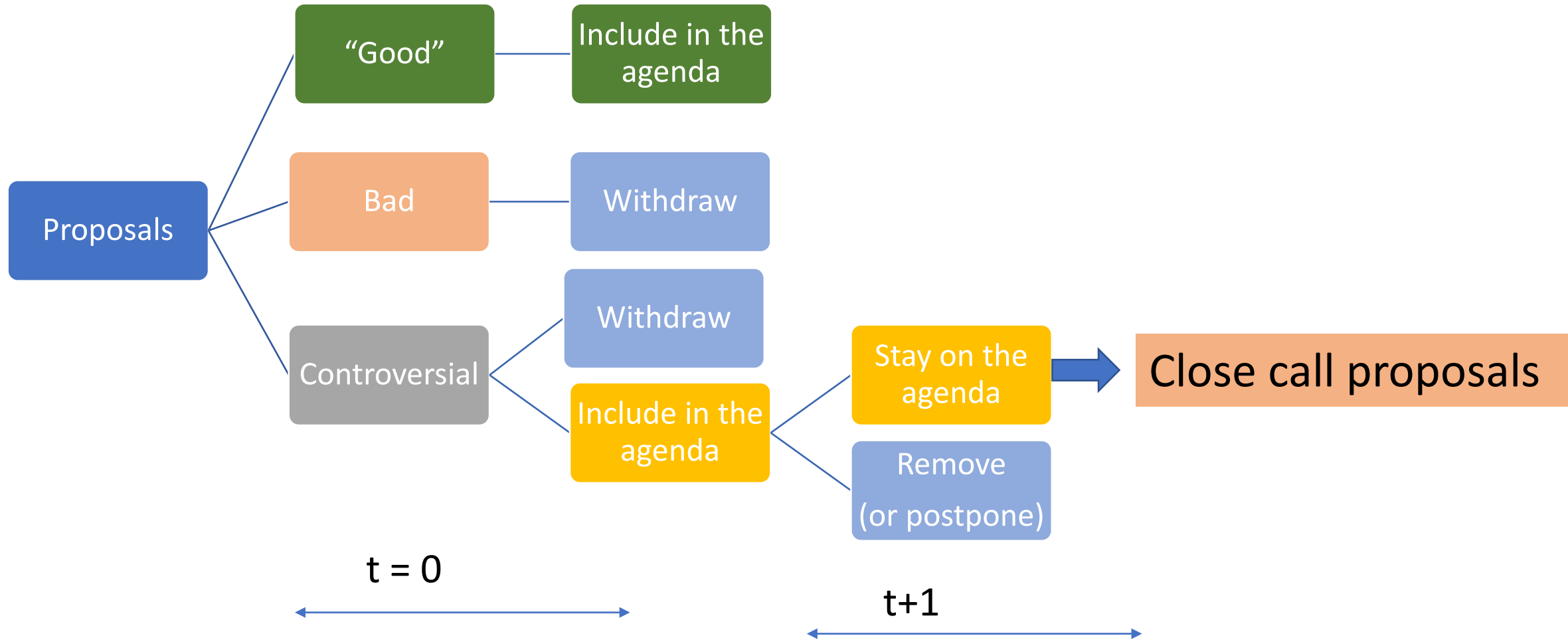
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The Smart Management Strategy

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The Smart Management Strategy



Alternative hypothesis I: The Selection Problem

- Management-sponsored proposals are passed not because management controls the process, but because managers have effective incentives to refrain from advancing proposals that are likely to fail (see also Brickley, Lease, and Smith, et al. (1994)).
 - ❖ The average management proposal is either “good,” or has got prior approval by large shareholders and hence are mostly passed.
 - ❖ Contested proposals: Not a normal distribution because
 - Management has already screened out the proposals that are most likely to be rejected (e.g., unobserved proposals, withheld proposals, adjourned cases).

A2: The information asymmetry hypothesis

- For complicated issues, shareholders do not know how to vote their interests.
- Management would therefore put an effort to communicate with shareholders to make sure that shareholders understand the proposals and eventually will pass them.
- Management have privileged access to real-time information on voting results. So, they use various communication tools to convince the shareholders
 - **Using solicitation firms:** Convince shareholders who otherwise would have voted against the proposal to overturn their decision and vote for it.
 - **Increasing turnout rate:** Convince shareholders who otherwise would not have participated to send back their proxy card in favor of management views.
 - **Meeting adjournment** to a later date
 - **Agenda control:** Remove proposals from the proxy if management cannot convince shareholders.

Are they manipulation tactics or management tools that to solve information asymmetries?

Disentangle of managerial incentives to influence the voting outcomes

Manipulative
management
(The agency problem)

Good (smart)
management
(Selection/ information
asymmetry problem)

H1: Managers completely control the voting process and thus can pass any proposal of their choosing.

H2: Managers have effective incentives to refrain from advancing proposals that are likely to fail.

Does it matter that management influences the voting outcomes?

Does the vote manipulation destroy firm value?

Table 9. Market Reaction to Narrow Passage/Failure of Proposals

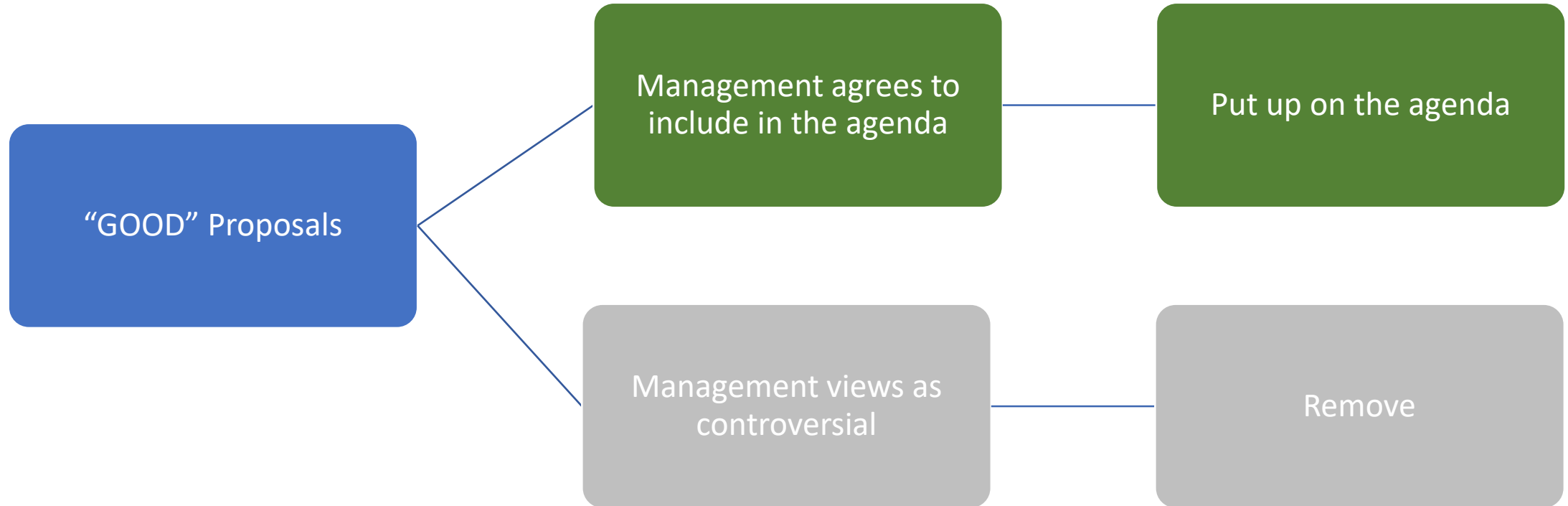
The table shows the average stock market reaction to a narrow passage or failure of a management proposal during the five-day period around the shareholder meeting date; the corresponding t-statistics are provided below the estimates.

		Mean CAR [-1, +3] (%)	
		Market adjusted model	Market model
1%	Win	-0.33 (-0.40)	-0.37 (-0.45)
	Loss	3.83 (1.35)	3.78 (1.31)
	Difference	4.16** (1.93)	4.15** (1.91)
2%	Win	-0.44 (-0.90)	-0.69 (-1.37)
	Loss	2.45 (1.56)	2.27 (1.43)
	Difference	2.90*** (2.30)	2.96*** (2.31)

Are the events exogeneous?

- No, because management controls the voting process and agenda.
- Unlike shareholder proposals that cannot be removed once they are included in the proxy.

Shareholder proposals



Are there any false acceptance or rejection cases?

- Are there any proposals that are passed really beneficial to shareholders?
- Are there any good proposals that are rejected or not introduced?

	Good proposals	Bad proposals
Pass	♥□♥□♥□♥□	🧊□🧊□🧊□🧊□
Reject (withheld, not put up	🧊□🧊□🧊□🧊□	♥□♥□♥□♥□

Suggestion: Analyse the close call proposals in details.

Management proposals: “Good” or “Bad” to the firm?

- The literature suggests to make a reference from proxy advisors (ISS and Glass Lewis) recommendations.
 - If ISS recommended a negative vote on the proposal, there might be provisions that are detrimental to shareholders.
- ❖ **But ISS** sometimes recommends a negative vote simply because it is lack of inadequate information about the proposed plan (Morgan and Poulsen)
 - “Blanket recommendations.” ISS nearly always recommends voting against management on many CG and compensation proposals (Iliev and Lowry, RFS (2015)).
 - Biased voting recommendations: ISS sells investors a report on a management proposal, as well as consulting services to the management; ISS serves both shareholders and corporate issuers. Due to potential conflicts of interests, ISS might make biased voting recommendations.

Can one always identify “Good” from “Bad” management proposals?

Proxy adviser ISS recommends votes against two Tesla directors

1 MIN READ



BOSTON, May 18 (Reuters) - Proxy adviser Institutional Shareholder Services recommended on Friday that investors cast proxy votes against Tesla Inc directors [Antonio Gracias and James Murdoch](#).

ISS also recommended investors vote for Tesla director Kimbal Musk, and also backed two shareholder resolutions to be voted on at the car maker's annual meeting on June 5, according to a copy of its voting recommendations seen by Reuters. (Reporting by Ross Kerber; Editing by Muralikumar Anantharaman)



Shareholder activists say 21st Century Fox Chief Executive James Murdoch is way too busy with his day job to do meaningful work on the Tesla board.

“Good” or “Bad” management proposals?

Proxy adviser ISS: Samsung C&T investors should reject Cheil M&A offer



SEOUL, July 3 (Reuters) - Proxy investment adviser Institutional Shareholder Services Inc (ISS) said on Friday it recommends shareholders of South Korean construction firm Samsung C&T Corp should vote against the \$8 billion takeover offer by Cheil Industries Inc.

The recommendation comes ahead of what investors and analysts expect will be a tightly contested July 17 vote for Samsung C&T shareholders. U.S. hedge fund Elliott Associates, which owns 7.1 percent of the builder, has challenged the merger and is urging shareholders to vote against it. (Reporting by Se Young Lee and Joyce Lee; Editing by Muralikumar Anantharaman)

<https://www.reuters.com/article/samsung-ct-ma-cheil-industries-idUSL3N0ZJ04R20150703>

ISS & Glass Lewis sometimes give conflicting recommendations.
Whom should shareholders follow?

GOVERNANCE

ISS, Glass Lewis on opposite sides of Toyota dual-class vote

BY **BARRY B. BURR** · JUNE 15, 2015 1:32 PM · UPDATED 4:11 PM

Proxy-voting advisory firms Institutional Shareholder Services and Glass Lewis & Co. have come out on different sides of a Toyota Motor Corp. proposal to create a dual-class share structure.

ISS recommends clients vote against the proposal.



AKIO KON/BLOOMBERG

- ❖ **ISS recommendation:** Vote in favor of all 12 nominees for director & for all four statutory auditors and the one alternate statutory auditor.
- **Glass Lewis recommendation:** vote against the re-election as directors of Takeshi Uchiyamada, Toyota chairman; Ikuo Uno and Mark T. Hogan as well as opposing the election of three statutory auditors.

- Very well written paper
- Details analysis on voting on management proposals at AGM