Doing the right thing?
Voting Power Effect in Institutional Shareholders' Voting

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Abstract

Employing an experimental and a survey approach we examine the effect of voting power on voting behavior at shareholder meetings. The participants' power to affect the outcome was manipulated exogenously. Our findings suggest that voting power nudges participants to oppose management and to choose the "right" alternative, that is, to vote against a proposal which does not serve the company's best interest. This effect emerged even when participants' vote was in opposition to all their peers and to their own self-interest. Furthermore, institutional investors' strategic voting depends on their voting power: in a position when they can affect the outcome, they tend to vote in a sincere way, and take less strategic considerations into account, compared to a position where their ability to affect the outcome is limited. When facing a bad proposal, institutional investors tend to negotiate this transaction with management, and vote against in case the negotiation fails. Our results shed an additional light on the 'behind the scenes' of voting process.

Keywords: Voting Power, Shareholder Voting, Institutional Investors Survey, Experimental Accounting.

JEL Classification: G02, G30, G38.

"With great power comes great responsibility."

Voltaire, Winston Churchill, Theodore Roosevelt, John A. Fitch, and others

Introduction

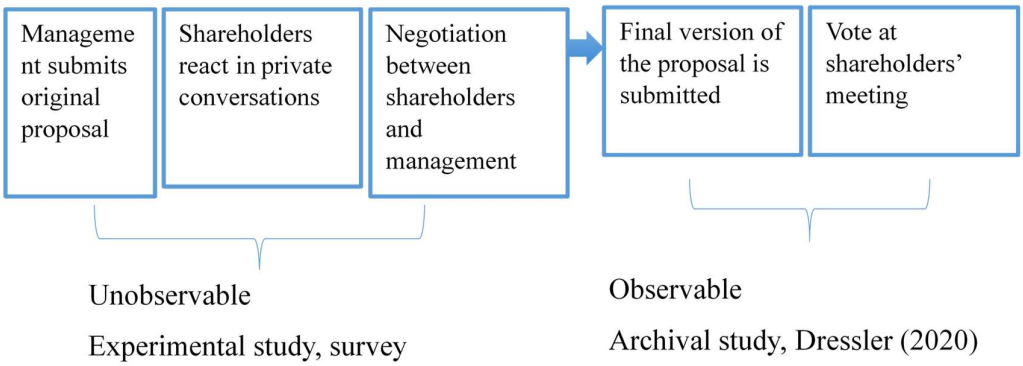
Voting in shareholder meetings has become a popular mechanism of corporate governance throughout the world, and one of the shareholders' main paths to communicate with the company's management. In the behavioral economics literature, a variety of factors have been shown to affect voters' behavior, including outcome preferences, other voters' positions (peer effects), non-consequentialist elements such as social norms or inequality aversion, and self-interest. It is argued here that voters' behavior may also be affected by their probability to determine the outcome (henceforth, "voting power"). How is one's decision making affected by one's power to impact the outcome? Are powerful shareholders more likely to vote against management than are their less influential counterparts? Is "doing the right thing" contingent on the probability of affecting the result? This study experimentally explores these questions.

Institutional shareholders represent the minority shareholders and often hold large enough stakes to influence the vote's outcome. Therefore, they are (usually) expected to act as gatekeepers and prevent bad, value-destroying deals proposed by the management. When asked to vote on such a proposal, shareholders – and especially institutional shareholders – face a dilemma: how should I vote? Should I go along and cast a management-friendly vote?[1] Should I follow my peers and vote with the majority? Should I vote strategically, taking into consideration factors beyond the specific proposal? Or should I vote in the company's best interests and its shareholders – even if that means opposing the management – because this is the right thing to do? We hypothesize that the answer to these questions depends on a shareholder's power to influence the vote's outcome.

In numerous corporate governance "delicate situations," regulators put their trust in institutional investors. Our inquiry follows a regulatory change (amendment 16) in the

[1] Management-friendly votes on the part of institutional shareholders were documented by Hamdani and Yafeh (2013) and by Matvos and Ostrovsky (2010)

Israeli corporate governance rules that has increased the majority required in shareholder meetings regarding these situations.[2] Dressler (2020) shows that this amendment has redistributed shareholders' power to influence the vote's outcome and demonstrates that, on management-sponsored proposals, powerful institutional investors tend to vote with the management. This behavior could stem from two different reasons: either the agency problem scenario, according to which the influential shareholder is negotiating for their own benefit, or the optimal contracting scenario, in which the negotiation resulted in a better deal for all minority shareholders. While the second scenario is consistent with institutional investors' role as gatekeepers implicitly assigned to them by the regulator and the market at large, the first scenario is bad news for shareholders. It is challenging to distinguish between these two explanations empirically, since the voting data is essentially endogenous: it reflects a selection of proposals expected to win shareholders' support. The following scheme illustrates the possible process of a proposal:



Our research investigates the link between voting power and voting patterns, using an experimental and a survey methodology. The experiment is controlled and does not involve sample selection and other difficulties associated with the empirical analysis of actual voting data. It allows for a glimpse of the process a management-sponsored proposal goes through between the initial proposal until a rejection or approval at shareholder meeting. Whereas an archival study "sees" only the final picture, a survey and an experiment have the potential to look behind the scenes of this process, asking about several considerations of institutional investors while making voting decisions. The survey also explores an option that influential investors have, beyond voting either

[2] For in-depth details please see Dressler (2020).

in favor or against a management-sponsored proposal - negotiating the proposal terms with management before the actual vote occurs. This project is closing a gap in the literature evolving from the lack of data. The experiment is conducted in two phases. The first phase's respondents are M-Turk users across the US and Canada, representative of the general population. The second phase's respondents are institutional investors' employees in Israel, using a survey.

The theoretical literature on shareholder votes suggests that shareholders tend to vote strategically, rather than based on the information (either positive or negative) that they have regarding the proposal (Maug and Rydqvist, 2009). They opt for strategic voting because going against management is costly. Accordingly, if vote in opposition to management is likely insufficient to reject the proposal, it would be pointless to do so in the first place (Levit and Malenko, 2011). Following this literature, we explore whether voting power affects shareholders' decisions to vote against management and under which circumstances institutional investors tend to consider strategic voting. We hypothesize that when shareholders can influence the outcome of a vote (e.g., they have more voting power), their vote is more likely to be sincere rather than strategic. They would tend to vote against management on bad proposals.

Our study is instructive from a psychological point of view as well. Psychological literature accounts for the effects of power on people's behavior using several cognitive schemes. Thus, Kipnis (1972, 1976) suggests that power has a corrupting influence; other researchers are less judgmental, contending that power leads to action (Gailnsky et al., 2003) and affects such aspects as preferences (Choshen-Hillel and Yaniv, 2011), and social behavior and social cognition (reviewed in Keltner et al., 2003). Exploring how people tend to vote when they have the power to influence the outcome adds to this literature.

Using a realistic hypothetical questionnaire, we asked participants to vote, as shareholders, on a controversial proposal initiated by their firm's management. The proposal's nature made it quite clear that the right choice would be to vote against it. To evoke considerations taken into account by institutional investors in a real setting, we informed participants that their vote would be publicized and that, therefore, their reputation might be at stake. We tested for their voting power and controlled for two

more conditions that, according to previous literature, could have affected the participants' decision: their peers' vote; and their personal interest in the proposed deal.

The results demonstrate that voting power prompted participants "to do the right thing": In the experimental condition in which they were able to affect the outcome of the vote, a significantly higher percentage of participants voted against the (seemingly bad) proposal. The same pattern emerged in a different condition where participants were told that all other peers had voted in favor of the proposal and when an element of self-interest was introduced (the participants could benefit from voting for the proposed deal). These additional conditions attest to the robustness of the voting-power effect even in the face of peer effects.

In the second phase, using a very similar manipulation in the voting power, we exploit access to the experts who make these decisions regularly to further ask about their considerations regarding a voting decision. We find that institutional investors tend to vote against bad proposals, even in the presence of self-related interest. Second, they negotiate with management the terms of seemingly bad proposals. Third, when empowered, they tend to vote in a sincere way, rather than a strategic one.

Our results allow for some optimism in the corporate context. The regulatory change implemented recently in Israel has given some institutional investors the power to affect a vote's outcome. Our results suggest that this power is being well used. The results of the M-Turk experiment cannot, in their entirety, be extrapolated to the behavior of an institutional investor in a real shareholder meeting. Therefore, our second stage examines this effect on a specific, expert crowd: institutional investors employees. The results hold and allow for some further insight on the voting decision process. We can now say that we have stronger grounds to expect the mentioned regulatory change to do some good by furthering the regulator's goal in arming the gatekeepers.

Related Literature

Our research builds on three related bodies of literature. The first is the empirical and experimental literature in behavioral economics that examines the factors affecting an

individual's voting behavior.[3] The most pragmatic approach this stand of literature elaborates on is "instrumental voting," which assumes that a voter's behavior is rational and aimed at value maximization and that therefore a voter's choice is determined by the desired outcome.[4] The literature that develops the concept of "expressive voting" posits that the motivation for voting might be related not only to one's concern about the ultimate outcome but also to the meaning and significance of the act of the voting (reviewed in Hamlin and Jennings, 2011). Thus, through voting, one may express one's social identity (Shayo 2009), social norms, inequality aversion, moral stance, or self-image (Shayo and Harel, 2012). Central to expressive-voting models is the premise that one might vote differently if one believed one's vote mattered (Kamenica and Egan Brad 2014). These models give rise to a prediction that the more power a voter has to determine the outcome, the more their vote will be motivated by "selfish" reasons. Yet, Kamenica and Egan Brad (2014) found the opposite, specifically, that the probability of one's vote being pivotal does not affect one's tendency to vote in one's material self-interest. Shayo and Harel (2012), on the other hand, did confirm the predicted pattern whereby self-interested voting is enhanced by power. However, they demonstrate that among observers who decide for others, a vote's higher probability of being pivotal results in a higher percentage of voters opting for the moral, rather than the self-serving, alternative.

Literature on voting behavior suggests two factors as salient in the financial context of shareholder votes. Matvos and Ostrovsky (2010), followed by Mugerman et al. (2014), and by Dressler (2020), demonstrate that peer effects are at work: a higher probability that others would vote against a proposal raises the likelihood that a shareholder would vote likewise, and vice versa. Furthermore, Hamdani and Yafeh (2013), Cvijanovic et al. (2016), among others, show that institutional investors vote in shareholder meetings according to their self-interest.

Our study adds to this literature by emphasizing the role of power as a factor in the voting decision that aligns with the instrumental approach. Specifically, we show that when a shareholder's vote is pivotal, the instrumental approach yields more accurate

[3] The empirical literature on voting refers either to political votes or to the financial context of shareholders' votes in a public company's shareholder meeting.

[4] In the political science literature, that gives rise to a paradox, inasmuch as the probability that a vote will decide the outcome of an election is low, suggesting that voting is irrational; see Ferejohn and Fiorina (1974).

predictions, inasmuch as the vote is motivated by value maximization – which, in this case, is coextensive with moral considerations. Our study differs from the experimental research outlined above in our motivation, and therefore, in the experimental design. We initiated the experiment to shed light on observed patterns in a field data study that are hard to interpret statistically and developed a design that would allow us to draw conclusions with regards to the voting-power effect. In addition to the choice explored in the literature between a selfish and a moral alternative, we examined the choice between supporting the management and an option that is the right choice for the company. In our case, it is also a choice that entails confrontation rather than conformity. The self-interest element is controlled for and presented overtly only to some participants, rather than being inherent in all the alternatives offered. This design allows us to draw a conclusion as to the effect of power while controlling for self-interest.

The second body of literature related to this study is the recently growing literature on "behind the scenes" actions taken by institutional investors. McCahery, Sautner, and Starks (2016) survey institutional investors' corporate governance preferences and choices of engaging management when the investor is unhappy with a portfolio firm or is considering exiting the investment by selling that firms' shares. Our survey among institutional investors in Israel is closely related to this paper. However, our survey is concentrated mainly on the decision to negotiate with management before the vote at the shareholder meeting and with investors' voting decisions. Specifically, we investigate whether investors conduct strategic voting, considering their ability to affect the vote outcome, the majority requirement, and other positions and connections they might have. Lauterbach and Mugerman (2020) show that negotiations between institutional investors and management are effective in increasing accepted offers' premium for the shareholders in "freeze-out" offers. Their findings suggest that behind the scenes, institutional investors make their voice heard. We contribute to this literature by providing a glimpse to the "behind the scenes" process since a management-sponsored proposal is first presented until it is voted upon at the shareholders' meeting.

The third body of literature this study relies on is the experimental psychology literature, which by and large questions the effect of power on individual preferences and decision making. As mentioned above, Kipnis (1972,1976) suggests that power has

a corruptive influence. Keltner, Gruenfeld, and Anderson (2003) review the research on the consequences of power on social behavior and argue that power activates a greater action orientation. Galinsky, Gruenfeld, and Magee (2003) demonstrate the relation between power and action and conclude that "those who are primed with high power display greater action" (p. 453). Lammers, Stapel and Galinsky (2010) argue that power increases hypocrisy: it makes people stricter in moral judgments of others but less scrupulous in their own behavior. Finally, Choshen-Hillel and Yaniv (2011) demonstrate that an individual's preferences may differ as a function of his or her role in determining the outcome. These researchers assign importance in this regard to an individual's position, namely, that of high versus low agency. The psychological literature addressing the effect of power on voting behavior does not offer definitive predictions as concerns shareholders. Following the rationale developed by Galinsky et al. (2003), a greater power will drive a shareholder to actively oppose the management through voting. Conversely, according to Kipnis (1972, 1976), powerful shareholders will tend to support the management in an endeavor to obtain perks. This study examines the interaction of conformity and self-interest, on the one hand, and power, on the other, and offers predictions regarding voting behavior based on the schemata employed.

First Phase: M-Turk Experiment Design (3 studies)

In the study's first phase, a questionnaire (appears in Appendix A) was distributed through Amazon's Mechanical Turk (M-Turk) platform. Participants were all English speakers, residing in the US and Canada, and ranking very high on approval rate[5] (above 95%). There are various advantages of M-Turk over laboratory: it provides access to wider and more diverse populations and is much faster, cheaper, and easier to operate. By replicating qualitative and quantitative experiments with well-known results, Paolacci et al. (2010) and Horton et al. (2011) show that online experiments can be just as valid as laboratory or field experiments and that M-Turk subjects tend to behave similarly to those in actual laboratory settings. Chandler and Kapelner (2013) attest to the M-Turk's suitability for natural field experiments in economics, Farrell et al. (2017) focus on the accounting research designs that use more demanding tasks and

[5] Approval rate is a grade referring to Amazon employees' quality of work, given by previous work providers.

find that M-Turk workers are just as effective as student research participants. All in all, recent years have been marked by a significant rise in academic journal publications of studies using this online labor market.[6]

All participants were presented with the following scenario:

"Imagine you are a shareholder in a big corporation (you own some of its stocks). The company is about to elect a new CEO (a senior manager). The Chairman of the Board suggests the appointment of a candidate whom you do not know, apart from some outstanding CV details that were mentioned. The salary suggested for the new CEO is four times larger than the salary of the former CEO. You are troubled by this increase in salary and suspect that the Chairman (who has initiated the proposal) has some other connections with this candidate but you are unsure.
In order to make the appointment, the corporation must get the approval of its 9 shareholders."

The participants were then asked to vote either in favor of or against the proposed nomination and were also given the option of commenting, in response to an open question, on the reason(s) for their vote. For each participant, information was collected about their sex, age, and education (number of years). To verify that the participants had understood the content of the survey, we asked two comprehension questions. We ensured that no participant could answer the survey more than once, as the target was a single decision, and the subjects must not have more information than that given to the specific group to which they were assigned.

The above scenario was designed to mimic a typical setting of an institutional shareholder vote. Moreover, as described in the scenario, the proposal involved two dubious elements: the nominee's salary would be much higher (four times, to be precise) than that of the former CEO, and an allusion is made to the possibility of "other connections" between the chairman and the nominee. The much higher salary for the same job clearly contravenes social norms and is meant to elicit inequality aversion;

[6] See for example Shen, Lee, and Cheung (2014), Daly and Nataraajan (2015), Schmidt and Jettinghof (2016).

the "other connections" with the chairman indicate that the nomination would not necessarily maximize the company's value.[7] The phrasing of the proposal made it clear that it might not be in the company's (and shareholders') best interests, and that therefore the right choice for participants would be to oppose it. However, the remark on the new manager's outstanding credentials (as per CV) served as a counterbalance and justified voting in favor of the nominee. The reason for this addition is that, in real life, proposals are usually presented as beneficial for the company, even if they result in taking value away from shareholders. A non-balanced proposal would have elicited a very high proportion of "against" votes, thus creating the ceiling effect and obliterating the impact of power or any other variable.

We informed participants that their vote would be publicized, for the same reason the Israeli regulator did so for institutional shareholders: to ensure that morality and social norms are taken into consideration.[8] By including this information in the questionnaire, we were able to control for this effect for all participants.

In real shareholder voting, it is common for institutional investors to purchase a proxy advisor's recommendation. Since institutions hold a diverse portfolio, they are obliged to cast a vote on a very large number of proposals, for every company in their portfolio. Therefore, institutional investors usually buy the recommendation of a proxy advisor, who analyses every proposal. Malenko and Shen (2016) show that proxy advisors have a very large impact on the outcome of a vote. In order to keep the questionnaire as simple as possible, and because the proxy advisor's recommendation is expected to have the same influence as peers' vote, we excluded such recommendations from the study. *Ceteris paribus*, a recommendation to vote in favor of a proposal will cause a higher percentage of participants to cast such a vote, and a recommendation to vote against one will raise the percentage of "against" votes. We test the same hypothesis regarding the peer effects in all the studies described in the following section.

As in real shareholder meetings on certain issues, Israeli corporate law demands that all participants cast a vote, and abstention is not allowed. The regulator's aim is to compel all institutional investors to form an attitude regarding a given proposal. In the online

[7] Lest some participants think that a much higher salary might indicate a super-talented CEO, who will ultimately create value, even at such a high cost.
[8] Institutional shareholders care for their reputation, and therefore publicizing their vote assures that they will consider some social norms in their voting decisions.

questionnaire, this stipulation serves an additional goal: Participants do not have the opportunity to receive their payment without venturing an opinion on the issue.

Participants were assigned randomly to one of six groups utilizing the Qualtrics software (see Table 1), whereupon they received further information: the way all their peers (other shareholders present at the meeting) have voted, and their respective voting power, that is, their probability of affecting the outcome of the vote.

Table 1 describes the additional information participants received according to the group to which they were assigned.

Insert Table 1 here

We tested three different conditions and, accordingly, ran three studies, as described in the following section. The table describes all three studies in general.

Study 1

We began by testing the peer effect, which is well known and extensively described in the literature. We utilized the robustness of this effect in previous studies in order to verify that the participants had understood the survey as intended and that the value-creating decision is unambiguously clear. Initially, we ran a basic survey in which the participants were assigned to one of three groups: 1, 3, or 5. The first group did not receive any information other than the scenario presented above and were asked to vote based only on the strength of its content.

Group 3 were told in addition the following:

You see that the eight other shareholders have voted in favor of the appointment. Thus, the appointment is going to be approved regardless of your vote.

Group 5 were told the following:

You see that the other eight shareholders have voted against the appointment. Thus, the appointment is going to be rejected regardless of your vote.

The questionnaire was sent to 150 participants.[9] We expected a high percentage of "against" votes in groups 1 and 5, but in line with the peer effects, a lower percentage of "against" votes in group 3.

Results and discussion

Insert Table 2 here

Table 2 reports the results of the first study. Group 1 served as a control group in which we expected to observe the net opinion on the proposal, unaffected by any influences to be tested later on. The results of the vote in this group support our first assumption regarding the "right" and moral alternative in the given situation, which is voting against the proposal and against the company's board of management: 84.9% of participants voted against the proposal. This confirms that the participants understood what the right thing to do was. In group 3, in the experimental condition where all other shareholders had voted in favor of the proposal, only 64% voted against it. The difference between the responses of the two groups is significant at 5%, illustrating the already well-known peer effects. However, this pattern did not emerge in the other direction, when all other shareholders had voted against, because of a ceiling effect: since the percentage of "against" votes in the control group was so high, the even higher proportion in group 5 was not statistically significant at 5%.

Next, we tested the second and main factor: the voting-power effect.

Study 2

Study 2 is designed to test for the voting-power effect while controlling for the peer effect: repeating the three groups of Study 1, and adding three more groups - 2, 4, and 6. Groups 4 and 6 received the opposite information regarding the other shareholders' vote, but all three groups were told that they had the ability to affect the outcome. In addition to the above, all the participants in groups 2, 4, and 6 received the following information:

[9] Our initial requirement was a minimum of 50 completed forms for each group. The final number varied to some extent, as can be seen in Table 5.

Since you own more stocks in the company than the other shareholders, your vote is pivotal and will determine the outcome. Thus, if you vote against the proposal, it will be rejected, and if you vote for it, it will be approved.

The possibility for each participant in the five groups (all but the control group)[10] to affect the outcome was clearly binary: s/he either does or does not affect it. This design precluded a discrepancy between perceived and actual voting power. The voting-power effect is expected to be expressed through the differences in the proportion of "against" votes between groups 1 vs. 2, 3 vs. 4, and 5 vs. 6. The groups in each of these pairs share the same information about the way the other shareholders have voted (no information, all voted for, or all voted against) but differ in the way the participants' votes affect the outcome. This study involved 591 participants, approximately 100 per group (see Table 3). We expected the voting-power effect to influence the direction of the shareholders' votes, given that they knew that opposing management was the right thing to do. In other words, we expected a higher proportion of votes against the proposal in the groups that could affect the outcome.

Results and discussion

Insert Table 3 here

Table 3 reports the results of Study 2. The ceiling effect was observed in the groups that had not received any information about the vote of other shareholders: Against the proposal voted 92.9% of participants in Group 1, with unknown power to affect the outcome of the vote, and 92.1% in Group 2, with the full power thereto. The proportion is very similar, and very high, in both groups, such that the voting-power effect is not observed. It does, however, emerge very clearly in the comparison between the proportions of "against" votes in the groups where all the other shareholders "had voted" in favor of the proposal: Against the proposal voted only 62.5% of participants in Group 3, without the power to affect the outcome, and 79% in Group 4, with the full

[10] The participants in Group 1 did have a small probability to affect the outcome, since they did not know anything about their peers' vote, and no further information regarding their probability to affect the vote was mentioned. However, this probability was low, as each participant was one of nine shareholders, as mentioned in the questionnaire.

power to affect it. The difference between these proportions is statistically significant at 1%. Thus, our results suggest that the voting-power effect is strong and significant: 16.5% percentage points higher proportion of participants voted according to what they perceived to be the right choice, even when they had to go against all the other shareholders. The voting-power effect was also observed when it operated in the same direction as the peer effect: When all the other shareholders had voted against the proposal, 84.2% of the participants that could not affect the outcome (Group 5) voted against it, and 92.1% of the participants whose vote was pivotal (Group 6) voted against it as well. The 7.9% higher proportion in Group 6 as compared to Group 5 is significant at 5%. The results of Study 2 support our prediction regarding the role of voting power: the ability to affect the results comes with responsibility and propels individuals to vote according to what they see as the better choice for the company, and therefore also for all shareholders.

Study 3

In Study 1, the participants had to choose between supporting the management, on the one hand, and voting in the best interests of the company and its shareholders in opposition to management, on the other. In some of the groups in Study 2, the second alternative also required opposing the stand taken by all the other shareholders. In both Study 1 and Study 2, one's choice affected one's own wealth only through one's ownership of the company's stocks, and therefore what was good for the company also served one's self-interest. Study 3 tests if the voting-power effect, as demonstrated by the results of the second study, holds also when the decision involves a conflict between the company's and its shareholders' interests, so that a participant's direct interests would be served better by voting in favor of the bad proposal and against the company's benefit. This kind of conflict may arise in reality when a shareholder's interests are anchored in considerations other than the company's wellbeing alone.

Study 3 employed the six groups (the same from Study 2), comprising 585 participants who received the following additional information:

You know that the proposed CEO intends to hire your good friend, whom you care deeply about, as a personal assistant.

A comparison of this study's results to those of Study 2 reveals the effect of self-interest on voting behavior. Assuming that this effect would emerge, we expected the proportion of votes against the proposal to decrease in all the six groups as compared to Study 2. Of special interest under the conditions involving a conflict of interest is the effect of voting power. A stronger prediction of the voting-power effect will expect it to be observed even under a conflict of interest, as the responsibility that accompanies the voting power should compel individuals to choose what they feel is right for the company and all its shareholders.

Results and discussion

Insert Table 4 here

Table 4 reports the results of Study 3. In Groups 1 and 2, participants had no information regarding the vote of their peers. In the group where the probability of participants' vote proving pivotal was low (Group 1), 61.1% voted against the proposal. In the group where participants had the full power to affect the outcome (Group 2), 72.4% voted against the proposal. The difference is significant at 5%. The above gap attests to the voting-power effect in Study 3 under the same circumstances where it was not observed in Study 2. The voting-power effect also emerged in the groups where the other shareholders had voted in favor of the proposal: In group 3, devoid of any power to affect the outcome, 37% voted against the proposal, while in Group 4, with the full power to affect the outcome, 57.3% voted against it. The 20.3% difference (statistically significant at 1%) is even larger than the difference observed in Study 2 (16.5%), where no self-interest was involved. The third comparison, between the groups where all the other shareholders had voted against the proposal, does not show the voting-power effect. Here, too, in default of any power to affect the outcome, the initial proportion of votes against the proposal is high enough (83.7%) for the ceiling effect to obliterate the voting-power effect.

The results support the stronger prediction of the voting-power effect: even in a situation where participants' self-interest went against the wellbeing of the company and its shareholders, the voting-power effect could still be observed. *Ceteris paribus*, investing individuals with the power to affect the outcome of a vote seems to propel

their choice in the "right" direction, in this case, to vote out of the best interests of the company and its shareholders, rather than out of self-serving considerations. The section on the limitations of the study will emphasize the potency of self-interest and the vulnerability of the results of this factor.

The following sections summarize the overall results of all the three studies and discuss in more detail the effect of voting power on voting behavior, as well as the limitations of this experimental study.

Summary of Phase 1 Results and General Discussion

Table 5 shows the summary statistics on the participants for all studies and groups. We compared the group averages for all objective personal characteristics to verify random assignment. The responses of participants who provided the wrong answers to both comprehension questions were excluded from the analysis. It is likely that those participants filled out the questionnaire only to receive the payment and therefore may not have read the text carefully. Accordingly, their answers most probably did not reflect their true opinion on the subject.

Insert Table 5 here

Figure 1 summarizes the results of Studies 2 and 3, which tested for the voting-power effect. Study 2 tested the hypothesis that giving a shareholder the power to affect the outcome of a vote will induce the choice that promotes the best interests of the company and its shareholders, even when this entails voting contrary to all the peers. Study 3 tested a stronger hypothesis, to the effect that the power to affect the outcome of a vote will induce a shareholder to vote "right" even when that choice conflicts with self-interest.

Insert Figure 1 here

Figures 1A, 1B and 1C present the proportion of participants who voted against the proposal, with the 95% (normal approximation) confidence intervals. In Figure 1A, the participants know nothing about their peers' vote, and it can be safely assumed that they judge the proposal on its merits, relatively unswayed by extraneous considerations. The main results regarding the voting-power effect are displayed in Figure 1B, where the "right" choice goes against all peers, and also against one's self-interest (left side of the figure). Figure 1C shows the proportion of "against" votes when all the peers have voted "against" as well (i.e., peer effect and voting-power effect are aligned). Altogether, the voting power effect emerged as significant in four tests out of six and was not observed only when the initial proportion of votes against the proposal was very high (the ceiling effect).

Insert Table 6 here

Table 6 reports the results of logistic regression estimates of voting power on the probability of voting against management (we call the "against" vote "doing the right thing," since the proposal was presented and understood by participants as a bad deal for the company and its shareholders). The first four columns represent estimates that include all observations, including questionnaires both 'with' and 'devoid of' self-interest (all studies). Columns 5 and 6 are estimates based only on the data from questionnaires with self-interest (Study 3). The effect of voting power is consistent and significant across all the estimates: the power to determine the outcome of a vote has a positive effect on the probability of the vote being against the proposal, or in other words, of choosing the better alternative. The same pattern is displayed in Figures 1A through 1C. The voting-power effect remains significant in the face of the peer effects (columns 2–6) and even of self-interest (columns 3 and 4, and also 5 and 6). Participants' responses regarding the reason for their vote evoke responsibility that comes with being the biggest shareholder and having the power to affect the outcome of the vote; it is this factor that appears to have induced them "to do the right thing" by voting in the company's best interests.

This result also demonstrates that shareholders with more voting power are more likely to vote against management. On the face of it, such an outcome contradicts Dressler's (2020) archival analysis of institutional shareholders' votes on issues that require special majority which shows that the more powerful shareholders vote in favor of management. This putative contradiction may be attributable to several factors. First, an experimental setting does not allow to replicate some of the determinants of voting behavior of actual shareholders, for example, the long-term relationship between institutional shareholders and company's management. Crucially, in the experiment presented here, the powerful shareholders did not have the option to negotiate with the company management prior to casting their vote and therefore had to vote on the original version of the proposal, a scenario that is likely to differ from reality (as shown in Dressler, 2020). But here also lies the advantage of an experimental study: by controlling all the other factors, it allows a glimpse of some stages in the voting process that cannot be identified based on the real voting data. Hypothetically, we would expect the process whereby a proposal issued by management is finally either approved or rejected by shareholders to comprise five stages (see Figure in the introduction). First,

the management submits its original proposal; second, the shareholders react to it, usually in private conversations; third, negotiations take place between management and shareholders, culminating in a final version of the proposal and a shareholder vote – the fourth and fifth stages, respectively. In reality, the first three stages are unobservable, so an archival analysis is necessarily limited to the final version of the proposal and the final vote (the fourth and fifth stages, respectively). On the other hand, an experimental study allows analyzing shareholders' initial reaction to a potentially bad proposal. It may thus contribute to our understanding of private negotiations before the vote.

Voters' personal characteristics have little effect on the decision, except for age: the probability for older people to take the right decision that involves opposing the management is higher than for younger ones. Interactions between the power effect and age (not reported here) show no differences in the voting-power effect among the different ages.

Our study also attests to the presence of the peer effects. One's propensity to vote like other persons present at the vote is known in the psychology literature as 'social influence' or 'conformity' (for example, Baron et al., 1996), and in the economic and financial literature as 'peer effects' (Matvos and Ostrovsky 2010, Mugerman et al., 2014). The present study has likewise found evidence for this effect: The effect of peers' vote, whether in favor of, or against the proposal, is significant in all the estimations, as shown in Table 6 and also in Figures 1B and 1C. This phenomenon has also been demonstrated with institutional shareholders in real meetings: the voting data of Israeli firms show that the probability that a shareholder will vote in favor of a proposal is higher when another shareholder who is likely to support it is present at the vote, and vice versa. An experimental study has an advantage over archival research using real data in that it allows to isolate this effect and distinguish it from other factors affecting one's vote.

The results presented here align with some of those obtained by Shayo and Harel (2012), who found that the tendency to vote for the moral alternative rises with the probability of the vote being pivotal, but only for those voters who are not driven by self-interest. We demonstrate that effect to hold for all participants.

Second Phase: Institutional Investors' Employees Survey

A limitation of this experiment is its applicability to institutional voting in real-life situations. Although the experiment is designed to simulate the position of a voter in a shareholder meeting, its external validity, that is, whether the results can be extrapolated to institutional shareholders' voting behavior in a real setting, is not clear. First, an institutional shareholder's vote does not always reflect individual choice but can be the result of a discussion of the investment committee. As such, it may be subject to group dynamics, rather than stem from cognitive schemes in an individual's decision-making process. Second, in the real world, one's economic self-interest as an institutional shareholder does not necessarily fully overlap with one's interests as the company's representative. Thus, in making a voting decision in a shareholder meeting, a person who represents a given institution might feel a greater obligation to her employer than to the public. In such a scenario, factors other than the voting-power effect may sway one's voting behavior (for example, fear of forced resignation), which are not accounted for in the first phase experiment.

In order to validate those results, we conduct a survey, in which we ask real employees of institutional investors in Israel the same question, with some minor adaptations to the scenario, to adjust for the expertise of the respondents: we deleted the number of shareholders (originally 9) and changed the salary proposed to the new CEO to 50% higher than the former CEO. We suspected that the four times higher salary mentioned in the questionnaire for the general population would make this scenario completely unreal in the eyes of experts, as this salary change is far beyond normal. Due to the limited number of expected respondents, we dropped the peer condition and left the voting power condition, with and without the self-interest. That left us with four groups instead of six.

Survey Design

The questionnaire (appears in Appendix B) is composed of four different sections: A, B, C, and D. The first collects data regarding the specific institution that the respondent

works for: the kind of institution,[11] the amount of assets under management, the investment strategy (whether active or passively managed), and typical holding period. The second part repeats the experiment in the M-Turk study, with small adjustments to the specific respondent group characteristics as mentioned above. In addition to the voting question, we added a negotiation question, as we realized that the negotiation issue is the key solution to the contradicting results of the experiment versus the archival data, regarding the correlation between voting power and voting against management.

The third part includes questions regarding the issues that might affect the institution's investment and voting policies, for example – firms' characteristics and proxy advisor's recommendation. Those questions are meant to explore the possible correlation between investment policy and voting patterns, as well as to use some well-known patterns to assure the honesty of the answers.

The fourth and last part of the survey includes statements about voting decisions and voting patterns, that the respondents were asked to indicate how often are those statements true in describing their decision-making regarding voting in shareholder's meeting. Some statementns arose from theoretic papers on strategic voting (Levit and Malenko, 2011; Maug and Redqvist, 2009), and some from the empirical findings in Dressler (2020), for example – the "counting on my vote not counting" strategy, and the voting consistency. To avoid biased answers, we set the questions to appear in a random order. We also indicated percentage range for every answer to avoid perceived differences in verbal descriptions. For ethical reasons, we did not require an answer for most of the questions, except for the question in part B (the experiment scenario question).

In order to mitigate a few natural concerns about getting some satisfying dishonest answers, we kept the questionnaire anonymous. We left the option to leave an e-mail address if someone wanted to receive a summary report and kept the e-mail addresses separate from the answers to the survey.

We used an online version of the survey only, since the Covid-19 pandemic has turned every conference into a Zoom meeting. We had to limit our respondent population to a

[11] The categories of institutions in Israel are detailed in Table 7. We followed Hamdani et al. (2017) on the categorization.

very specific and well defined group: institutional investors' employees, of the following job-titles: directors (members of the board of directors), senior management (including CEO, CIO, CFO), investment managers, members of the investment committee, and analysts. We limited the list to focus on the persons who deal with decision making regarding the companies in the portfolio and possibly are part of the voting decision process.

We distributed the survey using "Google Forms" through e-mail addresses of institutional investors' employees found via list of fund managers on the regulator's website. A second distribution was via the LinkedIn network, using direct messages to people according to their job title, if they included the Hebrew words for "investment house", "pension fund"," insurance company", "mutual fund", or "VC". Third, we used a private distribution list of a contact person who worked in the capital market industry, as well as the authors' private list of contacts. Forth, we prepared a lecture on the general topic of institutional shareholders' votes and recorded it. The lecture was built in two separate video files; the online survey itself connected between the two parts: the first video had a link to the survey, while the survey had a link to the second part of the lecture, but the link could only be seen after the submission of the survey. The second part of the lecture included the details and the results of the M-Turk study that is discussed in the previous sections. We made sure that the results part could not be reached before the survey was filed, in order not to bias the responses. We sent the link to the first part of the lecture to a person who organizes an annual conference for the institutional investors' employees. The conference could not take place on a physical basis in 2020 because of the Covid-19 pandemic, so the lectures were distributed online for the usual participants – mainly the employees of the (relatively) small employer's owned funds. Last, we contacted the CEO of an organization called "Investment Houses Union", which unionizes the activity of 10 investment houses in Israel. We received his cooperation on distributing the survey among those investment houses. Altogether we sent an e-mail with the link to the survey directly to 255 institutional investors' employees, and an unknown number of employees that received the lecture or the link to the survey through a third party. We received 36 responses; not all of them included answers to all the questions.

Insert Table 7 here

Survey results and discussion

Doing the right thing: the voting power effect

Since the survey respondents split into four groups of the study, we unfortunately did not have enough respondents within each group to draw conclusions about the effect of voting power on the voting behavior in this experiment. However, we can see several other patterns we want to shed light on: the average vote on the suggested scenario is 3.3, and significantly different from (lower than) 4, on the scale of 1-7, when 1 indicates "I would surely vote against the appointment", 7 indicates "I would surely vote in favor of the appointment", and 4 indicates "not sure / do not know." Thus, the institutional investors vote against a proposal which seems bad for the company, even in the presence of self-interest. This pattern is consistent with the institutional investors' role as gatekeepers, and what we call "doing the right thing."

Though investors do not admit that personal connections with management will affect their voting decision, 26% of respondents agreed (answers 5-7) that this consideration is taken into account. The non-trivial percentage of respondent agreeing that this effect exist requires some further examinations. Comparing the answers of two groups to this questions shows that the group of respondents that had the power to affect the outcome of the vote in part B of the survey, tended not to agree to this effect (mean score=2.8, statistically lower than 4), while the mean answer in the group without voting power was 3.9, not significantly different than the neutral answer of 4. Furthermore, the same effect appears in the question of consistent vote in favor of management-sponsored proposals, and in the time saving strategy of voting with or against management in most issues. The respondents that had high voting power, had significantly lower mean score on these questions compared with the group of respondents that had no power (see Table 8). This is another effect of the voting power that is consistent with our main hypothesis: voting power makes investors do the right thing. In this case it includes investing the required resources in analyzing every proposal. In a less judgmental conclusion, the voting power makes the investors' vote more sincere and less strategic.

Insert Table 8 here

On a direct question regarding the effect of voting power on the voting decision of the institutional investors, 45% of respondents were not sure if their vote will change when they have the power to affect the vote result. Average answer is exactly 4 (= not sure), 29% said that the voting power will affect their vote (answers 5-7), whereas 26% thought that voting power will not affect their vote (answers 1-3). Thus, since the experiment did show a significant effect of the voting power, this might be an effect that the institutional investors are not aware of. It is also possible that the difference in the framing of the two questions caused the effect to disappear in the direct question: whereas in the experiment the participants were told that their vote "will determine the outcome", in the survey question (#C8) it was phrased "my ability to affect the results of the vote".

Several other factors are taken into consideration while voting: surprisingly, the share of the company's stock in the investors' portfolio (mean answer = 4.06), and the position of the investor in bonds (mean answer = 4.03) were not significant in affecting voting decisions. Local proxy advisor has a higher effect on institutional investors voting decision than the foreign proxy advisor (78% of answers 5-7 in the question regarding the effect of the local advisor, compared to only 57% to the foreign proxy advisor). Firm's quality of risk management, corporate governance and accounting measures are considered while voting according to the institutional investors' employees, but firms' size is not a significant factor.

Altogether, the results are consistent with the M-Turk study, showing the effect of voting power on voting decisions made by institutional investors.

Behind the scenes negotiations

As the archival and the experiment results contradicted each other, we hypothesize that the reason for the contradiction is the phase in the institutional investor's response to the management-sponsored proposal. While the archival dataset reflects the end of the process response, the experiment reflects only the first response – after which the shareholder can take action and engage the management, as suggested by McCahery, Sautner and Starks (2016), and negotiate the terms of the transaction proposed. If the shareholder is strong enough to affect the result of a vote, the management might be more willing to listen and negotiate, trying to avoid vote rejection (Fos and Tsoutsoura, 2014). In the survey, we asked about negotiating proposals. The results (presented on

Table 9) suggest that (1) most institutional investors will try to negotiate the terms of a proposal after a bad transaction was proposed: 67% voted either "good probability", "most probably", or "very high probability" to the possibility that they would negotiate the proposal in the scenario presented in Part B. Average vote is 4.88 on a scale of 1-7, significantly higher than the neutral vote 4 (indicating "I might negotiate"). (2) Their vote will be affected by their participation in the negotiation or absence from it (see Table 9, columns 7 and 8). Moreover, 59% of the respondents indicated that they contact the management regarding their expected vote before the meeting, regardless of whether they find the proposal as good or bad.

Insert Table 9 here

These combined results explain the contradicting directions of the correlations between the experimental study and the archival study that used the real votes: if management propose a value destroying transaction, a shareholder's first reaction is to go against it, even if she is self-interested in this transaction. This reaction is reflected in the survey, as well as in the experiment, but is usually unobservable and only happens behind the scenes. The next step of a shareholder depends on his or her voting power: a strong shareholder will try to negotiate and then, after reaching an agreed term, will vote in favor of the proposal, whereas a small, powerless shareholder, that was not part of the negotiation, will vote against - possibly to express their protest for not being part of the negotiations. This behavior is reflected in the negative correlation between voting power and voting against management in the archival study.

Strategic voting

The theoretical literature on shareholder voting strategy suggests that not all shareholders always vote sincerely;[12] Maug and Rydqvist (2009) argue that shareholders tend to vote strategically, largely based on whether their votes are pivotal. Levit and Malenko (2011) contend that shareholders do not vote against management unless their vote is likely to affect the outcome. Another example of strategic voting is expressed by Ginzburg, Guerra, and Lekfuangfu (2019), who maintain that shareholders vote in favor of a proposal if they can derive utility from the act of voting itself, even if they prefer the proposal to be rejected. We ask several questions that try

[12] A "sincere vote" is based solely on the private information the individual has regarding the merits of a proposal.

to investigate whether the institutional investors vote strategically or vote in a sincere manner. Table 8 shows the results of those questions. We find that institutional investors claim not to take strategic considerations into account. They claim not to change their vote for a different majority requirement (panel A, columns 5 and 6), not to vote against a proposal for utility reasons, if they want the proposal to be approved (panel A, columns 3 and 4), and not to take into account the probability of approval regardless of their vote (panel A, columns 1 and 2). Panel B of Table 8 also shows that any other strategic or not directly related considerations are not taken into account – for example, consistent voting for or against some issues, to save time. However, when we split the answers into two groups, according to the voting power of the respondents, it becomes clearer: the strategic vote is significantly less common when the shareholder has the power to affect the vote outcome. Overall, it seems that institutional investors tend to consider every proposal in detail, especially if they have the power to affect the vote results.

Insert Table 10 here

Table 10 shows the results of regressing institution characteristics on their answers to the statements on voting decisions appeared in Part D. We used ordered logistic regressions, as well as OLS regressions. The dependent variable distributes between 1-7, when 1 stands for "almost never true" and 7 stands for "almost always true". We also added the dummy variable "power" to the independent variables, to examine its correlation with strategic voting. As mentioned above, the power to affect the results is negatively correlated with institutions voting consistently for or against a proposal, and also with following the board of directors on their decision. We conclude that the power to affect the results does come with the responsibility to examine every vote for itself. Another significant characteristic of institutions appears to be the rate of assets that is actively managed (as opposed to passively following the index policy). The higher the rate of actively managed assets, the less those institutions' employees tend to agree with the statements about strategic considerations in their vote, or consistent vote in favor of management for any reason. Interestingly enough, this is not true in the case of consistently vote against management, meaning that those institutions are aware of their monitoring role.

Limitations

Self-interest. Public Choice Theory (PCT) and Behavioral Ethics (BE) alike predict that both public officials and small interest groups will display self-interested behavior (Zamir and Sulitziano-Kenan, 2016). According to PCT, such behavior will be more pronounced with the increase of self-interest, based on the assumption that one acts rationally to maximize one's own utility. BE suggests that the prevalence of self-interested behavior is subject to automatic and mostly unconscious psychological processes, but when a conflict of interest is clear and unmistakable, officials are more likely to recognize and control the automatic tendency to advance their own interests. In light of the above two approaches, it is possible that a more clear-cut, monetary interest than the version used in the questionnaire employed in our study would have either mitigated or accentuated the voting-power effect. If the participants' behavior aligned with PCT, this effect would become weaker; on the other hand, if BE prevailed, the effect would be enhanced, in the sense that even fewer votes would be cast in favor of the proposal. Our experiment did not test for a threshold beyond which the voting-power effect prevails over self-interest. We tested two different versions of self-interest, but neither involved real monetary incentives, and the results must therefore be regarded as tentative. That said, self-interest was clearly projected in the scenario presented to the participants, with the result that the probability of voting against the proposal decreased significantly in light of this factor (see the left side of Figures 1A, 1B, and 1C as compared with the right side). A more detailed investigation of this issue must be left for future research.

Online survey. The fact that the survey was only distributed online might affect the results, if people choose not to pay attention to all the details or to answer in a non-obliged way, compared to a paper survey. In addition, survey participants did not get paid for participating, unlike the participants of the M-Turk questionnaire. However, we believe that their motivation to give correct and honest answers is not affected by the fact they are not paid, since they were asked professional questions, regarding their expertise.

Conclusion

This study has demonstrated that voting power may induce institutional investors and other voters to vote against management in favor of all shareholders. This voting-power effect endured in the face of the peer effects (when everyone else had voted the opposite way), and also in the face self-interest. We also contend that strategic voting is, in fact, influenced by voting power and is less likely to occur when a shareholder can influence the outcome of a vote. Second, voting is influenced by ethical considerations, not only when one is unlikely to affect the outcome (what is nowadays referred to as "non-consequentialist voting," or as a strategy of "counting on my vote not counting"), but especially when one has the power to do so.

All in all, in light of the results presented here, there are good reasons to believe that if the vote of an institutional investor in a shareholder meeting is motivated by self-interest, the voting-power effect might work (*ceteris paribus*) as a moderating factor against the institution's interests. Our results allow for some optimism in the corporate context. In regard of the effect of power alone on one's vote, we have now stronger grounds to believe that it may prove positive and help in furthering the regulator's purpose of preventing value expropriation when public companies are concerned.

Table 1: Experimental design

Participants in the survey were assigned to one of six groups, differing in the power to affect the outcome and the information they received about the way the other shareholders in the meeting had voted. The voting-power effect is measured by comparing the voting results of groups 1 vs. 2; 3 vs. 4; and 5 vs. 6.

		Information about the vote of the peers	
	Group 1: Unknown power, no information about peers	Group 3: No power, All peers vote in favor	Group 5: No power, All peers vote against
Power to affect the outcome	Group 2: Full power, no information about peers	Group 4: Full power, All peers vote in favor	Group 6: Full power, All peers vote against

Table 2: Study 1 results

The percentage of votes against the proposal in every group. In parenthesis, number of participants who completed the questionnaire in every group.

	Group 1 Unknown power to affect the outcome no information about peers	Group 3 No power to affect the outcome All peers vote in favor	Group 5 No power to affect the outcome All peers vote against
% of votes "against" out of N	84.9% (53)	64.0% (50)	90.9% (44)

Table 3: Study 2 results

The percentage of votes against the proposal in every group. In parenthesis, number of participants who have completed the questionnaire in every group. The power to affect the outcome in Group 1 is unknown since nothing is mentioned in the questionnaire regarding the vote of other shareholders or the pivotality of any shareholder..

	Group 1 Unknown power to affect the outcome no information about peers	Group 3 No power to affect the outcome All peers vote in favor	Group 5 No power to affect the outcome All peers vote against
% of votes "against"	92.9% (98)	62.5% (96)	84.2% (95)

	Group 2 Full power to affect the results, no information about peers	Group 4 Full power to affect the results, All peers vote in favor	Group 6 Full power to affect the results, All peers vote against
% of votes "against"	92.1% (101)	79.0% (100)	92.1% (101)

Table 4: Study 3 results, Self-interested participants

The percentage of votes against the proposal in every group. In parenthesis, number of participants who have completed the questionnaire in every group. The power to affect the outcome in Group 1 is unknown since nothing is mentioned in the questionnaire regarding the vote of other shareholders or the pivotality of any shareholder.

	Group 1	Group 3	Group 5
	Unknown power to affect the outcome	No power to affect the outcome	No power to affect the outcome
	no information about peers	All peers vote in favor	All peers vote against
% of votes "against"	61.1%	37.0%	83.7%
	(95)	(100)	(98)

	Group 2	Group 4	Group 6
	Full power to affect the results,	Full power to affect the results,	Full power to affect the results,
	no information about peers	All peers vote in favor	All peers vote against
% of votes "against"	72.4%	57.3%	79.6%
	(98)	(96)	(98)

Table 5: Studies and group statistics

The three studies involved the three different questionnaires that we ran on the M-Turk platform. Study 1 comprised only Groups 1, 3 and 5, which differed in terms of the information participants received regarding the putative vote of all their peers. Study 2 comprised the entire six groups, in interaction of 2x3: the power to affect the outcome (no power or full power) and information about the vote of peers (no information, all peers voted in favor of the proposal, and all peers voted against); see Table 1. Study 3 was similar to Study 2, but the proposed nomination, presented to participants across all groups, alluded to self-interest.

	Study 1	Study 2	Study 3
N	147	591	584
Female (%)	43%	47%	51%
Age (years)	35.0	35.3	36.5
Years of education	15.1	15.4	15.5
Excluded observations	5 (3.3%)	11 (1.8%)	17 (2.8%)

	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
N	246	199	246	196	237	198
Female (%)	48.4%	51.8%	54.5%	46.4%	44.7%	42.9%
Age (years)	36.5	35.9	35.7	35.9	35.4	35.3
Years of education	15.6	15.2	15.4	15.3	15.6	15.2

Table 6: The effect of voting power on the probability of a vote against the proposal

The table presents logistic regressions; the dependent variable is the "against" vote (1=against, 0=in favor). Columns 1–4 include observations from all 3 studies. Columns 5 and 6 include observations only from Study 3, in which the voter's judgment was swayed by self-interest. VP stands for voting power; SELF stands for self-interest. The asterix symbols *, ** and *** stand for significance at the 10, 5, and 1 percent levels, respectively.

	All observations				Only self-interested	
	(1)	(2)	(3)	(4)	(5)	(6)
Voting power	0.385***	0.423***	0.555***	0.791***	0.50***	0.722***
	(0.13)	(0.138)	(0.143)	(0.25)	(0.189)	(0.219)
Peers vote		0.431**	0.471**	0.658***	0.888***	1.319***
against		(0.186)	(0.191)	(0.239)	(0.247)	(0.335)
Peers vote for		-0.999**	-1.072***	-1.079***	-0.886***	-0.893***
		(0.158)	(0.164)	(0.165)	(0.218)	(0.22)
Self-interest			-1.207***	-1.158***		
			(0.145)	(0.187)		
Voting power x				-0.207		
self-interest				(0.32)		
VP x Peers				-0.664		-0.901**
against				(0.479)		(0.438)
VP x Peers				0.304		
against x SELF				(0.523)		
Age		0.031***	0.036***	0.036***	0.043***	0.044***
		(0.007)	(0.007)	(0.007)	(0.009)	(0.009)
Education		0.046	0.057**	0.057*	0.045	0.042
		(0.029)	(0.03)	(0.03)	(0.039)	(0.039)
Female		-0.118	-0.063	-0.065	0.008	0.004
		(0.138)	(0.143)	(0.143)	(0.192)	(0.193)
Constant	0.945***	-0.533	-0.324	-0.387)	-1.779**	-1.855***
	(0.083)	(0.512)	(0.528)		(0.711)	(0.716)
N	1322	1297	1297	1297	583	583
Pseudo R^2	0.006	0.082	0.133	0.135	0.116	0.121

Table 7: Respondent summary statistics

Institution Type (N=34)	**N**	**percentage**
Old pension fund	4	12%
Insurance company	7	21%
Investment house	14	41%
Mutual fund	4	12%
Employers / labor union owned fund	3	9%
Hedge fund	2	6%
Assets Under Management (N=34)		
Less than NIS 100 m	4	12%
NIS 100 m – 500 m	6	18%
NIS 500 m – 1b	5	15%
NIS 1b – 50b	11	32%
More than NIS 50b	8	24%
Holding Period (N=34)		
Short – less than 2 years	1	3%
Medium – 2-5 years	18	53%
Long – more than 5 years	15	44%
% of assets actively managed (N=26)		
0%- 25%	5	19%
26%-50%	6	23%
51%-75%	9	35%
76%-100%	6	23%
Individual respondent		
Sex (N=36)		
Male	32	89%
Female	4	11%
Position (N=35)		
Board of directors	1	3%
Senior management	4	11%
Investment committee	8	23%
Analysts	9	26%
Portfolio/Investment managers	13	37%

Table 8: Strategic voting

The answers are taken from Part D of the questionnaire, where the question was **how often are the following statements true in describing your decision-making regarding voting in shareholders' meeting?** The possible answers are on the scale of 1-7, when 1 means "almost never true (less than 10% of the votes)", 4 means "occasionally true (40-60%), and 7 stands for "almost always true (more than 90% of the votes)". The asterix symbols *, ** and *** stand for significance at the 10, 5, and 1 percent levels, respectively.

Panel A: strategic considerations

	Strategic considerations (Q D5)		"Counting on my vote not counting" (Q D14)		Different vote for different majority requirement (Q D20)	
	N	**%**	**N**	**%**	**N**	**%**
Not true (answers 1-3)	16	64%	22	88%	19	76%
Neutral (answer=4)	7	28%	2	8%	4	16%
True (answers 5-7)	2	8%	1	4%	2	8%
Total N	28		28		28	
mean	2.75		2.29		2.68	
H0: mean score=4	***		***		***	
Voting power = 0	2.91		2.91		2.73	
Voting power = 1	2.65		1.88		2.65	
H0: diff = 0			***			

Panel B: consistent voting

	Consistently against management in compensation proposals		Consistently against self-related controlling shareholders transactions		Vote for management to keep good relations		Consistent for or against in most issues,		"Just say no" consistent vote against		"Always yes" consistent vote for management	
	N	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**
Not true (answers 1-3)	22	76%	9	32%	24	86%	16	59%	26	90%	26	90%
Neutral (answer=4)	6	21%	9	32%	3	11%	5	19%	3	10%	1	3%
True (answers 5-7)	1	3%	10	36%	1	3%	6	22%	0	0%	2	7%
Total N	29		28		28		27		29		29	
mean	2.76		4.0		2.25		3.15		1.90		2.07	
H0: mean score=4	***				***		**		***		***	
H0: mean score<4	***				***		**		***		***	
Mean, Voting power = 0	2.83		4.09		2.82		3.36		2.25		2.92	
Mean, Voting power = 1	2.71		3.94		1.88		3		1.65		1.47	
H0: diff = 0					**				(>0)**		***	

Table 9: Negotiating proposals

Columns 1-3 are taken from Part D of the questionnaire, where the question was **how often are the following statements true in describing your decision-making regarding voting in shareholder's meeting?** The possible answers are on the scale of 1-7, when 1 means "almost never true (less than 10% of the votes)", 4 means "occasionally true (40-60%), and 7 stands for "almost always true (more than 90% of the votes)". Column 4 is taken from Part C of the questionnaire, where the questions ask "**how likely you are to consider the following factor in your voting decision"** answers are on the scale of 1: "extremely unlikely to 7: "extremely likely". The asterix symbols *, ** and *** stand for significance at the 10, 5, and 1 percent levels, respectively.

	Discuss expected vote with management		Try to negotiate the proposal with management		Discuss the proposal with other institutional investors		the fact that I was an active member in the negotiations, or if I was absent will affect my vote.	
	N	**%**	**N**	**%**	**N**	**%**	**N**	**%**
Not true (answers 1-3)	8	30%	5	19%	13	46%	4	13%
Neutral (answer=4)	3	11%	12	44%	9	32%	10	32%
True (answers 5-7)	16	59%	10	37%	6	21%	17	55%
Total N	27		27		28		31	
mean	4.26		4.19		3.32		4.58	
H0: mean score=4					**		**	
H0: mean score>4					(<4)**		***	

Table 10: institution characteristics and strategic vote

Ordered logistic and OLS regressions. Dependent variables are ordered on the scale of 1-7, when 1 means "almost never true (less than 10% of the votes)", and 7 stands for "almost always true (more than 90% of the votes)". The Asterix symbols *, ** and *** stand for significance at the 10, 5, and 1 percent levels, respectively. Power is a dummy variable equals 1 if the respondent was assigned pivotal in part B of the survey, AUM is an ordered variable on the scale of 1-5, when 1 stands for "less than NIS 100m", and 5 stands for "more than NIS 50b". Actively managed rate varies between 0-100. Holding period is an ordered variable on the scale of 1-3, when 1 stands for "short term (up to 2 years)", and 3 stands for "long term (more than 5 years)".

	Trust the board decisions		Vote for management to keep good relations	Strategic vote for (bad proposal)	"Just say no" consistent vote against		"Always yes" consistent vote for management	
	Ordered Logit	OLS			Ordered Logit	OLS	Ordered Logit	OLS
Power		-0.74*			Negative***	-0.7*		-0.73***
AUM	Negative***	-0.91***			Negative***	-0.59***		-0.11
Actively managed rate	Negative**		Negative**	Negative**		0.01	Negative***	-0.01**
Holding period		0.87				0.63		-0.07
CHI^2/F test	***	***	**	**	**	*	***	***
(Pseudo/Adjusted) R^2	0.26	0.40	0.09	0.16	0.27	0.26	0.31	0.57

Figure 1: Proportion of votes against the proposal, according to the information about the peers' vote

The proportion of participants who voted against the proposal. The three figures differ in terms of the information participants received about the vote of the other shareholders in the meeting. In the figures, red indicates participants from Study 3, who had a personal interest in the proposed nomination. Squares stand for participants that had no power or low power to affect the outcome, while triangles – for those with the full power to do so. Vertical lines in every group depict the 95% confidence interval, calculated using the normal approximation.

Figure 1A: No information about the vote of peers

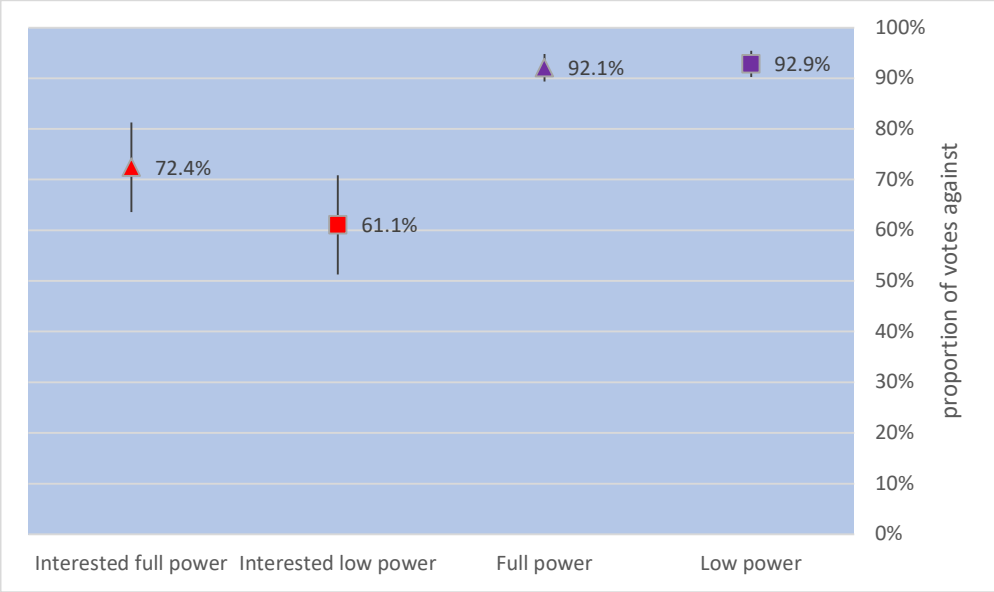


Figure 1B: All the peers have voted in favor of the proposal

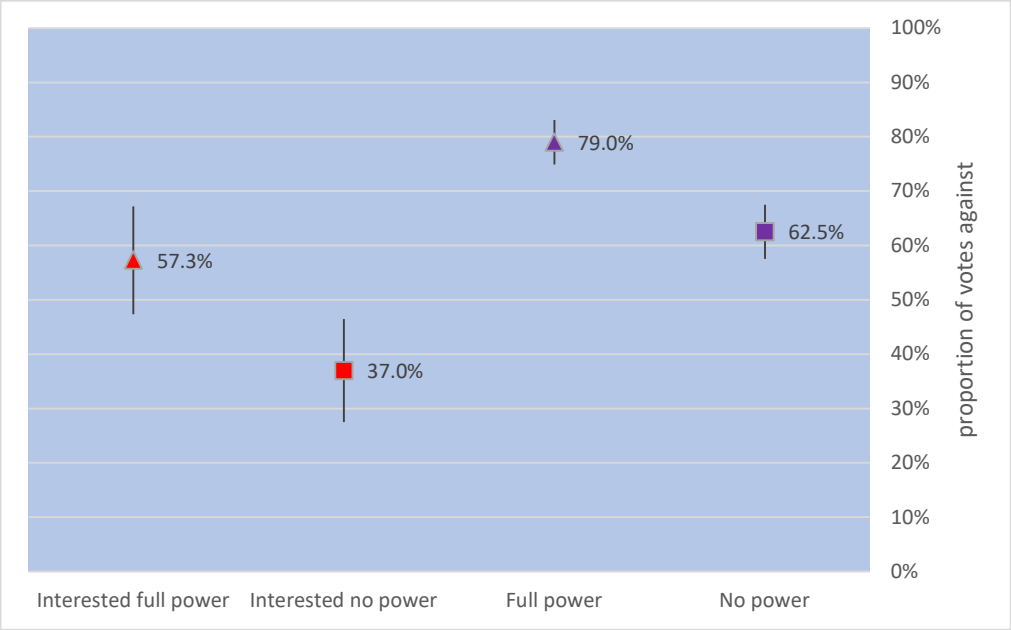
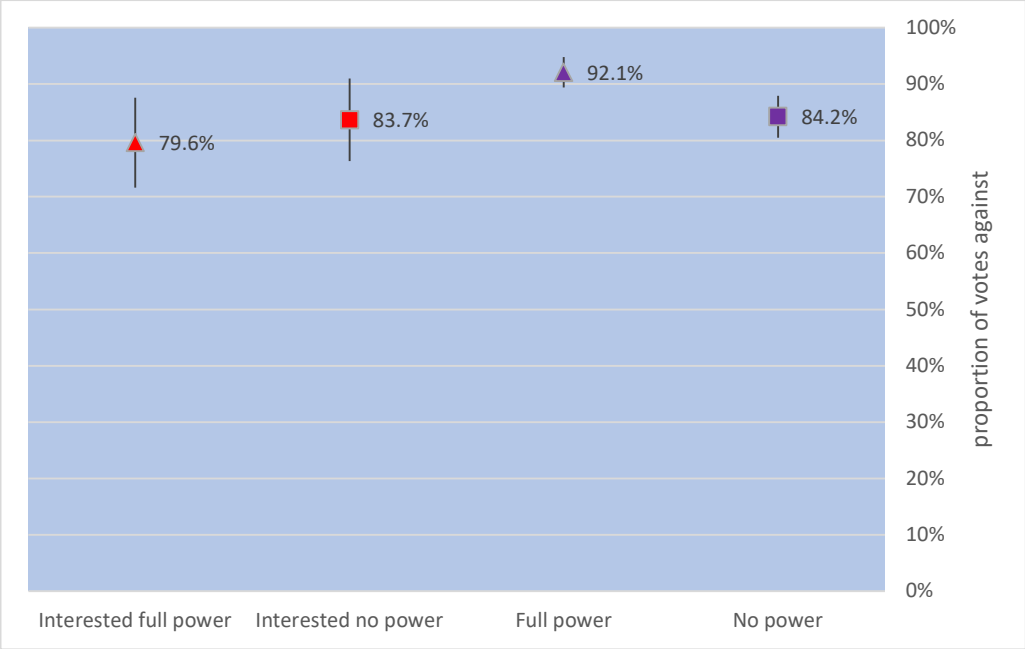


Figure 1C: All the peers have voted against the proposal



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Appendix A: M-Turk questionnaire

We are asking you to participate in a research study. This form will give you some information about the study. Please read the form carefully and feel free to ask any questions that you may have.

Project Description

In this study, you will be asked to participate in a hypothetic situation that ends with your vote.

The estimated time to complete this study is approximately 5 minutes.

The research is being conducted with the goal of publication in academic journals and presentation at academic conferences.

Risks and Benefits

Your participation in this study does not involve any physical risk or emotional risk to you beyond the risks of daily life.

You have the right to withdraw your consent or discontinue participation at any time for any reason. Your decision to withdraw will not involve any penalty or loss of benefits to which you are entitled.

The potential benefit of the study is a better scientific understanding of people's voting behavior.

Compensation

You will receive 25 cents for your participation.

Confidentiality

To secure the confidentiality of your responses, your M-Turk worker ID will be kept in a separate dataset from the dataset which will include your responses. A limited number of research team members will have access to the data. All data will be kept in a password protected computer that is kept secure. Your privacy will be maintained in all published and written data resulting from this study. All data collected will be analyzed in aggregate form. Your name or other identifying information will not be used in our reports or published papers.

Contacts

If you have any questions or concerns about this study or rights as a participant in this research, you may contact Efrat Dressler at efrat.dressler@mail.huji.ac.il

Subject rights

Participation in this study is voluntary, and you are free to leave the study at any time without penalty. **Do you agree to participate?**

○ Yes (1)

○ No (2)

Series A: Power and peer conditions, no self-interest:

Imagine you are a shareholder in a big corporation (you own some of its stocks).

The company is about to elect a new CEO (a senior manager).

The Chairman of the Board suggests the appointment of a candidate whom you do not know, apart from some outstanding CV details that were mentioned.

The salary suggested for the new CEO is four times larger than the salary of the former CEO.

You are troubled by this increase in salary and suspect that the Chairman (who has initiated the proposal) has some other connections with this candidate but you are unsure.

*In order to make the appointment, the corporation must get the approval of its **9** shareholders.*

All shareholders must vote, either for or against this proposal.

Note that all the votes, including your own, will be disclosed to the public.

A1. Control condition, not pivotal:

The voting is now taking place. Each shareholder votes by raising his/her hand. How would you vote?

- ○ I would vote in favor of the appointment (1)
- ○ I would vote against the appointment (2)

A2. Power condition full power to affect the results:

The voting is now taking place. Each shareholder votes by raising his/her hand. Since you own more stocks in the company than the other shareholders, your vote is pivotal and will determine the outcome. Thus, if you vote against the proposal, it will be rejected, and if you vote for it, it will be approved. How would you vote?

- ○ I would vote in favor of the appointment (1)
- ○ I would vote against the appointment (2)

A3. Peer effect (in favor) condition, no power to affect the results:

The voting is now taking place. Each shareholder votes by raising his/her hand. You see that the eight other shareholders have voted in favor of the appointment. Thus the appointment is going to be approved regardless of your vote. How would you vote?

- ○ I would vote in favor of the appointment (1)
- ○ I would vote against the appointment (2)

A4. Peer effect (in favor) condition, full power to affect the results:

The voting is now taking place. Each shareholder votes by raising his/her hand.
You see that the eight other shareholders have voted in favor of the appointment.
Since you own more stocks in the company than the other shareholders, your vote is pivotal and will determine the outcome. Thus, if you vote against the proposal, it will be rejected, and if you vote for it, it will be approved. How would you vote?

- ○ I would vote in favor of the appointment (1)
- ○ I would vote against the appointment (2)

A5. Peer effect (against) condition, no power to affect the results:

The voting is now taking place. Each shareholder votes by raising his/her hand. You see that the eight other shareholders have voted against the appointment. Thus the appointment is going to be denied regardless of your vote. How would you vote?

- ○ I would vote in favor of the appointment (1)
- ○ I would vote against the appointment (2)

A6. Peer effect (against) condition, full power to affect the results:

The voting is now taking place. Each shareholder votes by raising his/her hand.
You see that the eight other shareholders have voted against the appointment.
Since you own more stocks in the company than the other shareholders, your vote is pivotal

and will determine the outcome. Thus, if you vote against the proposal, it will be rejected, and if you vote for it, it will be approved. How would you vote?

- ○ I would vote in favor of the appointment (1)
- ○ I would vote against the appointment (2)

Why did you vote the way you did? (One sentence is fine)

_____

_____

Series B repeated all six groups of series A, but with self-interest, expressed in the following sentence:

You know that the proposed CEO intends to hire your good friend, whom you care deeply about, as a personal assistant.

Part c: verifying questions

C1. What is the vote about?

- ○ Changing the company's product line (1)
- ○ Giving a pay raise for longtime employees (2)
- ○ Hiring and paying a higher salary to a new CEO (3)

C2. How many shareholders are participating the vote (including yourself)?

- ○ 1 (1)
- ○ 9 (2)
- ○ 12 (3)
- ○ I do not remember (4)

Part D: general questions

Sex

- ○ Female (1)
- ○ Male (2)

Age (in years)

_____

Years of education (please enter a number)

_____

General Comments on this section (optional)

_____

Appendix B: the survey questionnaire (English and Hebrew)

Consent

We are a team of researchers from the Hebrew University of Jerusalem, we study the voting patterns presented by institutional investors in a concentrated ownership environment. We would be happy to have your response on this survey.

The survey is aiming to reach employees in institutional investors who manage investors' funds, analysts, investment committee members, participants in shareholders meeting, and board of directors' members in an institutional investor. If you choose to participate in this study you will be asked to answer several questions regarding your voting behavior in shareholder's meeting on various issues and situations, as an institutional investor. These tasks will take approximately 10-12 minutes in total.

Participation is voluntary. You may skip a question or withdraw from the study at any time. Only a click on the "submit" button will cause your answers to be kept. The dataset that will be gathered in this survey **will remain confidential and anonymous**. No identifiable information will be stored with the data set. The answers you will provide in this survey will be used for research purposes only.

After the conclusion of this survey, you and your institution will have an option to receive a report that will summarize the results of the survey, for your benefit. The report will not include data specific for each institutional investor, but the summary statistics and conclusions that can be drawn from the data that was gathered.

If you have any questions regarding the study, please contact the research staff:

Efrat Dressler: efrat.dressler@mail.huji.ac.il

Yevgeny Mugerman: Y.Mugerman@mail.huji.ac.il

Part A: General information on the Institution you work for:

1. My institution belongs to the following category:

   - ☐ Insurance company
   - ☐ Investment house
   - ☐ Old Pension Fund
   - ☐ Employees owned fund
   - ☐ Hedge Fund
   - ☐ Mutual Fund
   - ☐ Other. Specify:_____

2. My institution's Assets Under Management (AUM) are:

   - ☐ Less than 100 m NIS
   - ☐ Between 100 m and 500 m NIS
   - ☐ Between 500m and 1 bn NIS
   - ☐ Between 1 bn and 50 bn NIS
   - ☐ More than 50 bn NIS

3. My institution's average holding period for investments in our portfolio is:

- long term (5 years or longer)
- medium term (between 2 and 5 years)
- short term (we sell after 1-2 years)

4. What is the fraction of assets actively managed in your institution? _____

5. In the following questions, please mark the box indicating to what extent do you agree or disagree to the following statement

Strongly disagree	**disagree**	**Tend to disagree**	**neutral**	**Tend to agree**	**agree**	**Strongly agree**

a. When buying a stock, we care about the company's environmental policy
b. We usually follow a stock index, therefore buy every new stock in the index
c. We usually avoid becoming a significant shareholder (who holds more than 5%) in a company
d. If we buy foreign stocks, it is always according to some well-known index (for example S&P500)
e. The people who make the voting decision in the institution make so for all the funds managed within the institution
f. When buying a stock, we consider the company's impact on the society (for example, its compliance with employees' rights, good governance etc.)

Part B: The following questions are part of a hypothetical scenario. Imagine you are representing your institution in the shareholder meeting and have to vote.

"Imagine you are a shareholder in a big corporation (you own some of its stocks). The company is about to elect a new CEO (a senior manager). The Chairman of the Board suggests the appointment of a candidate whom you do not know, apart from some outstanding CV details that were mentioned. The salary suggested for the new CEO is 50% higher than the salary of the former CEO. You are troubled by this increase in salary and suspect that the Chairman (who has initiated the proposal) has some other connections with this candidate but you are unsure.

In order to make the appointment, the corporation must get the majority of its shareholders."

Control condition, not pivotal:

B1. The voting is now taking place. Each shareholder votes by raising his/her hand. How would you vote?

- ☐ I would surely vote in favor of the appointment.
- ☐ I would most probably vote in favor of the appointment
- ☐ I tend to vote in favor of the appointment
- ☐ Not sure / I don't know
- ☐ I tend to vote against the appointment
- ☐ I would most probably vote against the appointment
- ☐ I would surely vote against the appointment.

Control condition, pivotal:

B2. Your vote is pivotal and will determine the outcome. Thus, if you vote against the proposal, it will be rejected, and if you vote for it, it will be approved.

The voting is now taking place. Each shareholder votes by raising his/her hand. How would you vote?

- ☐ I would surely vote in favor of the appointment.
- ☐ I would most probably vote in favor of the appointment
- ☐ I tend to vote in favor of the appointment
- ☐ Not sure / I don't know
- ☐ I tend to vote against the appointment
- ☐ I would most probably vote against the appointment
- ☐ I would surely vote against the appointment.

Self-interest condition, not pivotal:

B3. You know that the proposed CEO intends to hire your good friend, whom you care deeply about, as a personal assistant.

The voting is now taking place. Each shareholder votes by raising his/her hand. How would you vote?

- ☐ I would surely vote in favor of the appointment.
- ☐ I would most probably vote in favor of the appointment
- ☐ I tend to vote in favor of the appointment
- ☐ Not sure / I don't know
- ☐ I tend to vote against the appointment
- ☐ I would most probably vote against the appointment
- ☐ I would surely vote against the appointment.

Self-interest condition, pivotal:

B4. You know that the proposed CEO intends to hire your good friend, whom you care deeply about, as a personal assistant.

Your vote is pivotal and will determine the outcome. Thus, if you vote against the proposal, it will be rejected, and if you vote for it, it will be approved.

The voting is now taking place. Each shareholder votes by raising his/her hand. How would you vote?

- ☐ I would surely vote in favor of the appointment.
- ☐ I would most probably vote in favor of the appointment
- ☐ I tend to vote in favor of the appointment
- ☐ Not sure / I don't know
- ☐ I tend to vote against the appointment
- ☐ I would most probably vote against the appointment
- ☐ I would surely vote against the appointment.

B5. Now consider that you are obligated to cast a vote in every proposal of any of the companies in your portfolio. You have a limited time and manpower for the purpose of negotiation. If you had the opportunity to negotiate the management-sponsored proposal before the vote, would you negotiate it? (your pivotality remains the same as in previous question).

- ☐ There is a very low probability that I would negotiate the proposal (less than 10%)
- ☐ I would most probably not negotiate the proposal (10-25%)
- ☐ There is some probability that I would negotiate the proposal (25-40%)
- ☐ I might negotiate the proposal (40-60%)
- ☐ There is a good probability that I would negotiate the proposal (60-75%)
- ☐ I would most probably negotiate the proposal (75-90%)
- ☐ There is a very high probability that I would negotiate the proposal (90-100%)

Part C: Using the scale below, mark the box to the right that best describes how likely you are to consider the following factor in your voting decision on issues that require the majority of minority shareholders according to the corporate law:

Extremely Unlikely	Moderately Unlikely	Somewhat Unlikely	Not Sure	Somewhat Likely	Moderately Likely	Extremely Likely
Less than 10%	10% -25%	25% - 40%	40%-60%	60% - 75%	75% - 90%	More than 90%

1. Firm size
2. Accounting profitability measures of the company (for example ROE, ROA, CF, leverage)
3. The quality of the risk management in the company
4. When voting on compensation proposals: Competitors' CEO compensation level
5. Local proxy adviser's recommendation (Entropy or other similar firms)
6. Foreign proxy adviser's recommendation (ISS)
7. Firms quality of corporate governance
8. My ability to affect the results of the vote
9. The relative weight of the shares in my portfolio
10. My holdings in firm's bonds
11. Other connections with the management or with the controlling shareholders
12. If there were negotiations before the proposal – the fact that I was an active member in the negotiations, or if I was absent will affect my vote.

Part D: Using the scale below, mark the box to the right that best describes how often are the following statements true in describing your decision-making regarding voting in shareholder's meeting:

Almost Never True	Usually Not True	Rarely True	Occasionally True	Often True	Usually True	Almost Always True
Less than 10% of votes	10% -25%	25% - 40%	40%-60%	60% - 75%	75% - 90%	More than 90% of votes

1. I trust the board of directors, if they approved the transaction, I vote in favor of the proposal.
2. I vote against management-sponsored proposals on compensation issues.
3. I vote against self-dealing transactions with controlling shareholders
4. I vote in favor of management-sponsored proposals – to keep good relations
5. I take into account strategic considerations and not only directly related considerations. For example, the probability that the proposal will be approved regardless of my vote.
6. I purchase the proxy adviser recommendations, and always follow it in a special majority required votes.
7. I purchase the proxy adviser recommendations, but in most proposals, I do not follow it.
8. If the proxy adviser recommends voting against a proposal, I always follow
9. My institution analyses all proposals by portfolio companies and produces a vote recommendation, which I follow
10. My institution engages companies' management before votes and announce them about our expected vote.
11. My institution tries to negotiate proposed transactions before the vote, in favor of all minority shareholders
12. If the engagement resulted in dissident opinions with management, we will vote against the proposal.
13. In some cases, I might vote in favor of a bad management-sponsored proposal, because I think it might help me in the future.

14. In some cases, I might vote against a good management-sponsored proposal, if I know it will be approved, for strategic reasons.
15. I discuss the proposals with other institutional shareholders before the vote
16. I vote in a similar way to my peers – they might know something that I don't know about the transaction
17. I vote the same way (either in favor or against) in the vast majority of the votes' issues, and only invest in researching a small portion, mainly in one issue
18. Some issues are less important, so I don't invest time in learning the proposal, and just vote against it.
19. Some issues are less important, so I don't invest time in learning the proposal and just vote for it.
20. My voting behavior is different when the majority rule is different

General Information about the person who answers this questionnaire

What is your age?

____Under 30

____30-35

____35-45

____45-55

____55+

What is your gender?

___ Male

___ Female

What is your position in the institutional you work for?

____ Portfolio manager

____ Analyst

____ CIO / CFO / CEO

____ board of directors' member

____Investment committee member

____ other: specify _____

Any other remarks that you might have regarding the voting of institutional investors at shareholder meeting, or regarding this questionnaire

_____

(optional) If you specify your email address or the name of the institution you work for, a summarizing report of the survey will be sent to you.

Thank you very much for participating in this survey!