Stewardship Code and Shareholder Voting

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Abstract

This study analyzes the influence of dissenting votes by institutional investors on firm value, distinguishing between signatories and non-signatories of the Korea Stewardship Code (KSC). Using event study and switching regression methods, we find that the dissenting votes by KSC signatories lead to a significant decrease in the value of the target firm within three trading days, while votes by non-signatories have no significant effect. We also examine the subtle effects of dissent on different resolutions. The market reacts positively when KSC signatories oppose charter amendments, reflecting a preference for protecting shareholder value. However, the market reacts negatively when KSC signatories oppose the appointment of outside directors, reflecting concerns about the independence of candidates and oversight of management. These findings underscore the need for an understanding of the complex interactions in institutional investor behavior in the context of stewardship codes and corporate governance regulations. The research also has practical implications for market participants, corporate managers, and policy makers navigating the complexities of corporate governance.

Keywords: stewardship code, shareholder voting, corporate governance, self-selection bias, switching regression

JEL classification: G30, G32, G34, G38, D72

1. Introduction

Shareholders have the voting right for the board of directors and other important issues. Their votes (for, against, or abstention) can be a signal to market participants or corporate managers.

According to the existing literature, market participants pay more attention to "*votes against"* rather than *votes for*, in that "*votes against"* are regarded as monitoring the corporate management (Kim and Yon, 2014; Yi, 2019).

In Korea, the Korea Stewardship Code (KSC) changes the opposite voting ratio of institutional investors.[1] The rate of negative votes by domestic institutional investors have doubled after the adoption of the KSC.[2] In addition, the percentage of *dissenting votes* by institutional investors who are KSC signatories is higher than that of investors who are not signatories.[3] From this, it is possible to infer that the KSC has an influence on the voting behavior or voting patterns of institutional investors.

This study investigates the effect of negative votes by domestic institutional investors on market responses. Some papers argue that adverse voting by institutional investors at the shareholder meetings affects firm value (Kim and Yon, 2014; Yi, 2019; Ko and Kim, 2020). To expand the existing literature, we explore another approach by categorizing two groups: 1) institutional investors who are KSC signatories, and 2) institutional investors who are not KSC signatories. We also explore which group increases (or decreases) corporate value in exercising dissenting votes. Considering that the KSC is a soft law that institutional investors can sign as according to their needs, it is also up to institutional investors to decide whether or not to vote against the KSC based on their investment strategy. Thus, the decision of institutional investors to adopt KSC and *vote against* it causes self-selection bias. To alleviate this concern, we employ the switching regression model.

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[1] *See Appendix A*

[2] *See Appendix B*

[3] *See Appendix C*

From our empirical analyses, we find that the effect of adverse voting on the firm value depends on the KSC signatories. When the KSC signatories exercise their negative votes at the annual meeting, the firm value in their target firms decrease in the event windows of (0,3) trading days, which is statistically significant at the 5% level. In the cluster analysis using event date (also known as annual meeting date), it shows the same results and is statistically significant at the 10% level. On the contrary, target firms' firm value increase, but it was statistically insignificant when non-KCS signatories *vote against* management proposals.

Further, we examine the effect of negative votes on the firm value depending on the item types. The results show different signs of the coefficient on the different item types. Concerning the charter amendment, when the KSC signatories express their negative view, the domestic market reacts positively, and its coefficient value is statistically significant in all windows used under the robust setting. Even if the market reacts positively before the vote, its coefficient and statistical significance increase after the vote. The corporate charter (or the article of incorporation) sets forth the aims and values of a company or business and plays an important role in governing a corporation. If the charter amendment is detrimental to shareholder value, investors are possible to send a negative signal by *voting against* the item. The market will pay more attention to the negative response and it is possible that negative signals prevents firms to damage shareholder values. Namely, it is possible that market players interpret the negative votes as a sign in favor of shareholder value, which leads to an increase in the firm value.

However, when KSC signatories vote against the election of outside directors, the market reacts negatively. Its coefficient value is statistically significant only in the windows used in the cluster analysis with event date. The role of outside directors is to monitor the management and they are responsible for oversight of board of directors. If the candidates are not sufficiently independent and do not fully serve the roles, investors are likely to *vote against* the candidates. It may send a negative sign to the market.

Our study contributes to the literature in two aspects. It is the first study to examine the effect of negative voting by KSC signatories on firm value. Furthermore, this study

finds that adverse voting by KSC signatories affect corporate value and the effect is limited to certain resolutions.

The remainder of this paper is organized as follows: Section II develops the hypotheses and discusses the related literature. We explain Korea's Stewardship Code (KSC), mandatory voting disclosure regulation, and the rate of dissenting votes by domestic institutional investors in Section III. Section IV and Section V describe the data research design and the empirical results, respectively. Section VI concludes the study. The Appendices provide details mentioned in Section III.

2. Hypothesis Development

Many studies in shareholder voting focus on the voting behavior of institutional investors and the influence of proxy advisory firms (Bethel and Gillan, 2002; Malenko and Shen, 2016; MaCahery et al., 2016; Iliev and Lowry, 2015). Another recent trend in the literature analyzes investors' characteristics and voting patterns (Bolton et al., 2020; Matvos and Ostrovsky, 2010). In the existing literature on stewardship code, Nakagawa (2017) examines the limited effect of stewardship code in Japan due to its insufficient coverage. Tsukioka (2020) confirms that Japan's stewardship code promotes the voting activities of institutional investors. Lu (2018) and Routledge (2020) investigate the relationship between the stewardship code and accounting information.

Most literature related to shareholder voting in Korea examines the relationship between adverse voting with market responses (Kim and Yon, 2014; Yi, 2019). Some papers expand existing literature related to national pension fund and KSC. Ko and Kim (2020) study the National Pension Service (NPS) pre-meeting vote disclosure impact by focusing on the short-term market reaction. Ra et al. (2021) investigate how NPS' disclosing voting outcome before the shareholder meeting affects the voting behavior of domestic institutional investors. Kim et al. (2020) find the determinants of stewardship code adoption in Korea.

Our approach differs in that we first attempt to focus on the adoption of the KSC and

explore the effect of negative voting on firm value, assuming that institutional investors with KSC signatories may increase (or decrease) the firm value or investors with non-KSC signatories may increase (or decrease) the firm value.

This competing conceptual assumption makes our study more interesting and provides a setting to investigate which type of investors affect the firm value. The asset under management (AUM) of domestic institutional investors who sign up to the KSC is larger than non-KSC signatories (Kim, 2020). Additionally, the KSC signatories are likely to have experienced in-house staff in charge of voting to increase their monitoring intensity for their target firms. This allows the signatories to access information and makes the KSC signatories more informative. Thus, the domestic market may be reliable to their decision. Furthermore, negative voting by the KSC signatories is likely to impact the corporate value. However, negative votes by non-KSC signatories may affect the firm value more than the KSC signatories do. It is likely that the market regards their position as surprise behavior and pays more attention to it.

3. Korea's Stewardship Code and Shareholder Voting

3.1 Korea Stewardship Code

The stewardship code includes principles on the stewardship responsibilities of institutional investors. The stewardship code aims to provide guidelines on fulfilling institutional investors' stewardship duties and accomplishing their shareholder responsibilities to increase their investee firms' value in the mid-and long-term. The KSC was introduced on December 16, 2016 and became effective from December 19, 2016. The code sets out seven principles and encourages institutional investors to actively improve corporate governance for their stewardship responsibilities (*See Appendix A*). The KSC is not mandatory and is not legally binding. According to the Korea Institute of Corporate Governance Sustainability (KCGS), 136 institutional investors mandated the code as of December 31, 2020. There are 3 pension funds, 46 asset management firms, 5

insurers, 3 securities firms, 2 banks, 2 investment advisory firms, 4 service firms, 42 private equity funds, 29 others.

3.2 Mandatory Voting Disclosure

Disclosing voting outcomes is mandatory so that the collective investment business entities disclose their voting decision. Financial Investment Services and Capital Market Acts *(Article 87 (Voting Rights))* stipulates that each collective investment business entity exercises its voting rights of the stocks. The Enforcement Decree of Financial Investment Services and Capital Markets Act *(Article 91 (Public Disclosure, etc. of Exercise of Voting Rights)* prescribes that the collective investment business entity is required to disclose its voting rights to the public. Based on *Article 91*, the collective investment business entities should disclose their voting decision between 1 April of the previous year and 3 March by 30 April.

3.3 The Rate of *Votes Against* by Domestic Institutional Investors

Domestic institutional investors (asset managers, insurance companies, banks, securities, etc.) show different voting behavior before and after the implementation of Korea's Stewardship Code (KSC). Before the enforcement of the KSC, the rate of *votes against* remained at about 1%. After adopting the KSC, domestic institutional investors tend to vote against the management proposals. The rate of adverse voting increases two times and records high at the 2020 annual shareholder meeting. Among the institutional investors, the rate of *votes against* by KSC signatories is higher than that of Non-KSC Signatories (*See Appendix B,C*).

4. Methodology

4.1 Sample Construction and Data Sources

Our empirical sample consists of votes cast by domestic institutional investors at the shareholders' meetings of the Korea Exchange (KRX) from 2018 to 2020. The domestic

institutional investors include asset management companies, insurance companies, securities companies, and banks. In our sample, votes cast by asset management account for 82.14%, followed by insurance companies (12.30%).

The initial data include 70,650 votes cast by domestic institutional investors from 2018 to 2020. We drop bundle items, non-voting items, withdrawn items, and shareholder proposals. We eliminate a sample of firms in financial industry and firms with no financial information. From this, we get 55,719 votes in our final sample. For each vote, we collect information on the company's name, meeting date and type (annual versus extraordinary), resolution item type, institutional investors' name, institutional investors' type, and voting direction (*for* versus *against*). Financial data are obtained from the Data Guide and the list of Korea Stewardship Code signatories are obtained from the Korea Institute of Corporate Governance and Sustainability (KCGS).

4.2 Definition of Variables

Table 1 defines the variables used in this study. The cumulative average abnormal returns (CAARs), an independent variable, are calculated by aggregating cumulative average returns (CARs) across companies and dividing by the total number of companies. The explanatory variables are *Stewardship*, *Voting Direction*, and $Stewardship \times Voting\ Direction$. *Stewardship* is a dummy variable, which takes a value of 1 if an institutional investor signs up to the Korea Stewardship Code (KSC), 0 otherwise. *Voting Direction* is also a dummy variable, which equals 1 if an institutional investor *votes against* management, 0 otherwise.

The existing literature (Kim and Yon, 2014) controls firm-level variables. We also employ these control variables. The control variables include *Firm Size* (natural log of the total asset), *Inside Ownership* (the fraction of voting shares owned by the firm's controlling shareholder and its related parties), *Debt Ratio* (total debt/total asset), ROE (net income/total capital), *Dividend* (cash dividend/total capital), *Operating Expenses Ratio* (sales a general administrative expenses/sales), *Asset Turnover Ratio* (total

asset/sales), *Chaebol Dummy* (equal to 1 if a firm belongs to the large business group), *Age* (present year-listing year). *Gov Dummy* represents public ownership; the dummy is used as an instrumental variable. It takes a value of 1 if the ownership of national institutions (e.g., National Pension Service (NPS), Korea Development Bank (KDB) is more than 5% in firms and 0 otherwise. In Table 2, we provide descriptive statistics for the control variables.

Insert <Table 1> about here

Insert <Table 2> about here

5 Research Design

5.1 Firm Value Estimates

An event study is used to examine the market response for a sample of firms experiencing events (e.g., spin-off, M&A). This study uses daily stock returns and employ the market model approach (Brown and Warner, 1985) to estimate the expected return and examine the effect of opposition votes by institutional investors in KSC signatories on corporate value. We define the event date, denoted as $t = 0$, as annual shareholder meeting date and consider short event windows of (-1,0), (0,1), (0,3) trading days in our analysis. Formally,

$$\mathrm{R}_{it} = \alpha_{i+}\beta_i \mathrm{R}_{mt} + u_{it}$$

where R_{it} is the realized daily return on stock i and at time *t* during the event period, where R_{mt} is the realized market (*Kospi and Kosdaq*) return of day *t*, α_i and β_i are regression coefficients estimated over 220 days ending on day -20 relative to the event date, and u_i is a residual error term representing the abnormal return. Abnormal return for stock i on day t (AR_{it}) is calculated as the observed return associated with the event minus the return expected had the event not occurred:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt})$$

Cumulative abnormal returns (CARs) show total incremental value added to the company by the event and are formed by aggregating abnormal returns over the desired event window:

$$CAR(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it}$$

Where t_1 and t_2 are the number of days before and after the event date, respectively, as included in the event study to compose the window of the event. The cumulative average abnormal returns (CAARs) are calculated by aggregating CARs across all companies and dividing by the total number of companies. This value indicates the average cross-sectional effect over the event window.

5.2 Model Specification: The Switching Regression Model

The KSC is a soft law and therefore the adoption of the KSC is the choice of the institutional investors. *Voting against* is also up to institutional investors' strategic decision. This setting causes self-selection bias.

The Heckman Selection Model (1976,1979) has been widely used to control self-selection bias in empirical analyses (Shehata, 1991; Holmen and Nivorozhkin, 2009). The Heckman Selection Model is estimated by a maximum likelihood estimator (also known as Full Information Maximum Likelihood (FIML)) or Heckman two-step estimator. The Heckman two-step estimator is less sensitive to distributional assumption placed on the error terms than employing the FIML estimator (Bushway et al.,2007).

Considering this, we use the Heckman Switching Regression Model, an extended version of two-step Heckman Selection model. The Heckman Switching Regression Model consists of two stages: 1) selection model, and 2) outcome model. The probability of institutional investors' KSC adoption is estimated using the probit analysis in the first

stage. The probability of their exercising dissenting votes at the annual shareholder meetings is also estimated in the same way. Kim et al. (2020) find that institutional investors belonging to asset managers, a financial group, and a diversified group highly tend to adopt the KSC. Kim (2020) reports that institutional investors with high ownership of investee companies tend to vote against management. We use these determinants as independent variables in the probit model to estimate the *inverse Mills ratio*. The estimated *inverse Mills ratios* are added to the outcome equation.

The conceptual framework used in this study can be expressed as:

(1) $SC: \quad Z_{1,i}\gamma_1 + \eta_{1,i} > 0$

(2) $NSC: \quad Z_{1,i}\gamma_1 + \eta_{1,i} \leq 0$

(3) $For: \quad Z_{2,i}\gamma_2 + \eta_{2,i} > 0$

(4) $Against: \quad Z_{2,i}\gamma_{12} + \eta_{2,i} \leq 0$

We consider four cases and set up equations as above. Z_1 and Z_2 are a vector of factors influencing the choice of adopting the KSC and voting against. γ_1 and γ_2 are a vector of probit coefficients to be estimated. $\eta_{1,i}$ and $\eta_{2,i}$ is an error term assumed to be normally distributed with zero means. The selection model is specified using a probit model. *SC* is a binary variable which takes the value of 1 if institutional investors adopt the KSC and 0 otherwise. *Votes against* is also a binary variable, which equals 1 if institutional investors exercise their voting right negatively and 0 otherwise.

(5) $E(Y_i|NSC, Against)$

$= X_i\beta + \pi_1 E(\eta_{1,i}|\eta_{1,i} \leq -Z_{1,i}\gamma_1) + \pi_2 E(\eta_{2,i}|\eta_{2,i} \leq -Z_{2,i}\gamma_2)$

(6) $E(Y_i|SC, Against)$

$= X_i\beta + \pi_1 E(\eta_{1,i}|\eta_{1,i} > -Z_{1,i}\gamma_1) + \pi_2 E(\eta_{2,i}|\eta_{2,i} \leq -Z_{2,i}\gamma_2)$

(7) $E(Y_i|NSC, For)$

$= X_i\beta + \pi_1 E(\eta_{1,i}|\eta_{1,i} \leq -Z_{1,i}\gamma_1) + \pi_2 E(\eta_{2,i}|\eta_{2,i} > -Z_{2,i}\gamma_2)$

(8) $E(Y_i|SC, For)$

$= X_i\beta + \pi_1 E(\eta_{1,i}|\eta_{1,i} > -Z_{1,i}\gamma_1) + \pi_2 E(\eta_{2,i}|\eta_{2,i} > -Z_{2,i}\gamma_2)$

Equations (5) to (8) represent expected performance (corporate value) upon the selections. *X* includes the dummies for *SC* and *votes against* and other characteristics that affect performances. The dummies' coefficients are our main interest. *Z* includes the characteristics that affect the choice of *SC* or *votes against*.

To use the Heckman setting ("switching regression"), we assume that the error terms in main and choice regressions are multivariate normal. To formulate the models with Heckman terms, we employ:

(9) $E(Y_i|NSC, Against) = X_i\beta + \pi_1\lambda_{NSC}(Z_{1,i}\gamma_1) + \pi_2\lambda_{NO}(Z_{2,i}\gamma_2)$

(10) $E(Y_i|SC, Against\ ) = X_i\beta + \pi_1\lambda_{SC}(Z_{1,i}\gamma_1) + \pi_2\lambda_{NO}(Z_{2,i}\gamma_2)$

(11) $E(Y_i|NSC, For) = X_i\beta + \pi_1\lambda_{NSC}(Z_{1,i}\gamma_1) + \pi_2\lambda_{YES}(Z_{2,i}\gamma_2)$

(12) $E(Y_i|SC, For) = X_i\beta + \pi_1\lambda_{SC}(Z_{1,i}\gamma_1) + \pi_2\lambda_{YES}(Z_{2,i}\gamma_2)$

We run two-stage regression by estimating lambdas in the first stage (equation (13) ~ (16)). When estimating lambdas, we employ control variables used in the second stage. Next, we plug the estimated lambdas to the equations above ((equation (9) ~ (12)) to run the second-stage regression. We also add year and firm fixed effect.

(13) $\lambda_{SC} = \phi(Z_{1,i}\gamma_1)/\Phi(Z_{1,i}\gamma_1)$

(14) $\lambda_{NSC} = -\phi(Z_{1,i}\gamma_1)/(1 - \Phi(Z_{1,i}\gamma_1))$

(15) $\lambda_{For} = \phi(Z_{2,i}\gamma_2)/\Phi(Z_{2,i}\gamma_2)$

(16) $\lambda_{Against} = -\phi(Z_{2,i}\gamma_2)/(1 - \Phi(Z_{2,i}\gamma_2))$

λ is the conditional expectation of η given the choices about *SC* and *Votes against*. Namely, the *inverse Mills ratios* term (λ) is employed in the model to adjust for self-selection.

6 Empirical Results

6.1 KSC Participation and *Votes Against*

Signing up to the KSC is not mandatory and institutional investors vote (Vote *for or* Vote *against*) based on their investment strategy, which may cause self-selection bias. To mitigate this, we estimate the probability of institutional investors adopting the KSC using the probit analysis. We also measure the possibility of dissenting votes by institutional investors at the annual shareholder meetings using the same method.

This study uses *Gov Dummy* as the instrumental variable. Shiferaw (2014) explains "the traditional IV treatment effect models with one selection and outcome equation assumes that the impact can be represented as a simple parallel shift with respect to the outcome variable." The switching regression relaxes this assumption by estimating two separate equations (Di Falco et., 2011). In the probit model, we find that institutional investors belonging to asset managers, a financial group, and the diversified group are more likely to adopt the KSC, although this is not reported. We also confirm that the more institutional investors own their shares in investee companies, the more they vote against management proposals.

7 Results for Switching Regression Analysis

Table 2 shows descriptive statistics for the variables used in the switching regression. Table 3 presents the estimates of the switching regression model. We employ the switching regression model by regressing CAR on each *Heckman term* (*SC* or *Against*), $SC \times Against$, and control variables.

Insert <Table 3> about here

Then, we conduct the switching regression analyses by regressing CAR on *each Heckman term (SC or Against), their interaction* ($SC \times Against$), and *control variables*.

However, the interaction terms disappear in this analysis in that two Heckman terms, and their interaction term are binary variables. Panel A of Table 4 presents the result using the *Heckman term* (*SC*). Panel A shows the estimates of the analysis with firm and year fixed effect and without the clustering effect. The coefficient of the variable of *votes against* when investors are the KSC signatories (*Switching SC=1*) is statistically significant and positive. Panel B of Table 4 shows the result using another Heckman term (*Against*). Panel B shows the estimates of the analysis with firm and year fixed effect and without the clustering effect. The coefficient of the variable of the KSC signatories when they vote against the management proposal (*Switching Against=1*) is statistically significant and positive in a two-day window of (0,1). In a four-day window of (0,3), the coefficient of the KSC signatories when the vote for the management proposal (*Switching Against=0*) is statistically significant and negative. However, there is no statistical significance when clustered standard errors are used in our regression model (unreported). This problem may result from sample overlapping. A year - a firm - an item is one unit for analysis in our sample. Since our dependent variable, CARs, is measured at the firm level and a firm receives votes from multi-institutional investors, it creates repeated observation in the process of analysis.

Insert <Table 4> about here

8 Management Proposals Rejected

Since the adoption of the KSC, domestic institutional investors are more likely to vote against management proposals. The increased rate of *votes against* may lead to the rejection of management proposals at the shareholder meeting. In Korea, the rejected management proposals remain at under 1%. However, it is noteworthy that the percentage of management rejected has been rising (2018: 0.332%, 2019: 0.528%, 2020: 0.868%). Rejection by shareholders may send a negative signal to the market and affect the firm value. Hence, we add a *reject* variable which equals 1 if the management proposal is not

passed and 0 otherwise. We then conduct the switching regression analyses by regressing CAR on *each Heckman term (SC or Against), reject, their interaction, and control variables*.

Table 5 presents the descriptive statistics for the variables used in the switching regression model adding a *reject* variable. Panel A of Table 5 shows the results from *SC* and Panel B shows the results from *Against*. Tables 6 shows the estimates of the switching regression model. We use the *reject* variable and two Heckman terms so that the interaction term$Against \times Reject,\ SC\ \ Adoption \times Reject)$ does not disappear in this analysis.

Insert <Table 5> about here

Table 6 shows the result using the Heckman term (*SC*). Panel A shows the estimates of the analysis with firm and year fixed effect and without the clustering effect. Panel B and C show the estimates of the analyses with the clustering effect (*event date, firm, and investor*). Before adding the clustering effect, the coefficient of the interaction term $(Against \times Reject)$ with non-KSC institutional investors (*Switching SC=0*), the coefficient of the interaction term $(Against \times Reject)$ is statistically significant and positive in all windows used. When adding the clustering effect using event date, the coefficient of the interaction term $(Against \times Reject)$ with non-KSC participants (*Switching SC=0*) is statistically significant and positive in a two-day window of (-1,0). In contrast, the coefficient of the interaction term coefficient $(Against \times Reject)$ with KSC participants (*Switching SC=1*) is statistically significant and negative in a four-day window of (0,3). In the two-way clustering analysis (*firm and investor*), the coefficient of the interaction term $(Against \times Reject)$ is no longer statistically significant in all windows used.

Insert <Table 6> about here

Table 7 presents the result using another Heckman term (*Against*). Panel A shows the estimates of the analysis without the clustering effect. Panel B and C are the analysis results with clustering effect (*event date, firm and investor*). The result from Panel A show that in case the institutional investors vote for the management proposal (*Switching Against=0*), the coefficient of the interaction term ($SC\ Adoption \times Reject$) is statistically significant and positive in all windows used. When adding event date to clustering, the coefficient of the interaction term ($SC\ Adoption \times Reject$) when institutional investors vote for the management proposal (*Switching Against=0*) in a two-day window of (-1,0) is statistically significant and positive. In contrast, the coefficient on the interaction term $(SC\ Adoption \times Reject)$ when institutional investors vote against the management proposal (*Switching Against=1*) is statistically significant and negative in a four-day window of (0,3). In the analysis using two-way clustering (*firm and investor*), the coefficient of the interaction term $(SC\ Adoption \times Reject)$ when institutional investors do not vote against the management proposal is statistically significant and positive in a two-day event window of (0,1) and a four-day event window of (0,3).

Insert <Table 7> about here

Considering the low percentage of the rejected management proposals, it may not be desirable to translate the above result. Instead, only the result is reported in this section.

9 Sub-Sample Results for Switching Regression: Item Types

In our unreported empirical analyses with Table 4, the coefficients are not statistically significant after adding the clustering effect. Considering that the coefficients are statistically significant before adding the clustering effect, it may infer that the coefficient can be statistically significant by analyzing sub-sample, such as each item type.

Therefore, we further investigate the sub-sample analyses employing the switching regression method to investigate whether the coefficients are statistically significant depending on the item type. Usually, a firm puts forward items at the shareholder meeting. These include financial statements, charter amendments, the election of directors (inside directors and outside directors), audit committee members' election, and approval of director's upper pay limit.

Table 8 presents the results using the Heckman term (*SC*) and two different clustering effects (*event date, firm and investor*). Based on the charter amendment item (Panel A), the coefficient of the variable of *votes against* when investors are KSC signatories (*Switching SC=1*) is statistically significant and positive in all windows used. The corporate charter includes the aims and values of a company or business and it is a private order in governing the company. If a firm changes its charter in a way that is disadvantageous to shareholders, investors may *vote against* it. If active investors express their negative opinion, market players will pay more attention to the voting outcome and the negative action of investors will act as a way not to decrease shareholder value. This expectation will result in an increase in the firm value as shown in Panel A. Concerning the election of outside directors (Panel B), the main coefficient of the variable *votes against* when investors are non-KSC signatories (*Switching SC=0*) is statistically significant and negative. However, the coefficient is statistically insignificant when using a two-way clustering (*firm and investor*). Given that outside directors are responsible for monitoring the management and board of directors, the independence of outside directors' matters. Exercising negative votes by KSC investors implies that the candidates recommended by management lack independence. It may send a negative signal to the market and lead to a decrease in firm value as shown in Panel B. Regarding the approval of director's upper pay limit (Panel C), the coefficient of the variables of *votes against* when investors are non-KSC signatories (*Switching SC=0*) is statistically significant at the 10% level and negative only in a two-day window of (0,1). Besides the item types mentioned above, we do not find that the main coefficient is statistically significant.

Insert <Table 8> about here

Table 9 presents the results using the Heckman term (*Against*) and two different clustering effects (*event date*, *firm and investor*). Panel A (an item for the charter amendment) shows that the coefficient of the variables of KSC signatories when voting against (*Switching Against=1*) is statistically significant at the 1% level and negative only in a four-day window of (0,3) when using the clustering effect with event date. Panel B (an item for the election of inside directors) indicates that the coefficient of the variables of KSC signatories when voting against (*Switching Against=1*) is statistically significant at the 10% level and negative in windows of (0,1) and (0,3) when using the clustering effect with the event date. Concerning the election of outside directors (Panel C), the coefficient of the variables of KSC signatories when voting against (*Switching Against=1*) is statistically significant at the 10% level and positive in a two-day window of (0,1). However, the statistical significance disappears when using a two-way clustering (*firm and investor*). Panel D (an item for the approval of director's upper pay limit) shows that the coefficient of the variables of KSC signatories when voting against (*Switching Against=0*) is statistically significant and negative at the 5% level. However, the statistical significance disappears when using a two-way clustering (*firm and investor*). We do not report the results when the main coefficient is statistically insignificant depending on items.

Insert <Table 9> about here

Tables 8 and 9 imply that dissenting votes effect on firm value depends on the KSC characteristic of institutional investors. The effect is limited to certain items. For example, when KSC signatories vote against the change in the articles of association, the market reaction is positive and the coefficient value is statistically significant. However, when non-KSC signatories vote against the same resolution, market reaction is positive but statistically insignificant. When non-KSC signatories vote against the election of outside

directors, market reaction is negative, and its coefficient is statistically significant. When non-KSC signatories vote against the approval of the director's upper pay limit, the market reacts negatively, and its coefficient is statistically significant.

We also apply the same test described above by adding the variable of rejected management proposals. The rate of rejected management proposals is so low that we find it challenging to translate the result. Instead, we report it in *Appendices D* and *E*.

10 Counterfactual State Simulation

We conduct the counterfactual state simulation based on Tables 4, 6, and 7. Tables 10 and 11 show the results. They show the change in firm value if institutional investors do not become KSC signatories and if they vote against. For instance, if the KSC investors (*SC=1*) would not become the KSC participants (*SC=0*), what would the change in firm value be? This effect is called *the treatment effect*. We estimate *the treatment effect* by counterfactual state simulation. The expected outcome in equation is given as:

$$E[y_i|SC = 1] - E[y_i|SC = 0]$$

$$= x'_i(\beta_{sc=1} - \beta_{sc=0}) + \lambda_{SC=1}(w'_i\gamma)(\beta_{sc=1} - \beta_{sc=0})$$

Similarly, if institutional investors who voted against do not exercise their voting right negatively, what would the change in corporate value be? This effect can also be measured in the same way. The equation's expected outcome is given as:

$$E[y_i|Against = 1] - E[y_i|Against = 0]$$

$$= x'_i(\beta_{Against=1} - \beta_{Against=0}) + \lambda_{Against=1}(w'_i\gamma)(\beta_{Against=1} - \beta_{Against=0})$$

For a better understanding of the equation mentioned above, we define SC (1,1), SC (0,0), SC (1,0), SC (0,1). SC (1,1) represents the firm value when institutional investors sign up to the KSC. SC (0,0) means the firm value when institutional investors are not KSC signatories. SC (1,0) explains the firm value if KSC signatories would not sign up to the KSC. SC (0,1) represents the firm value if the non-KSC signatories become KSC

signatories. In this case, treatment effect is SC (1,1) - SC (1,0) or SC (0,0) - SC (0,1). We can also define "*Against*" in the same logic.

For example, Panel A-1 of Table 10 shows the result of counterfactual simulation analysis in a two-day window of (0,1). First, the value of SC (1,1) – SC (1,0) is 0.176. Second, the value of SC (0,0) – SC (0,1) is 0.764. Third, the value of Against (1,1) – Against (1,0) is 0.157. Fourth, the value of Against (0,0) – Against (0,1) is 0.921. In this way, we can estimate the treatment effects. The main coefficient is not statistically significant in full sample analysis, so we find it difficult to measure and translate the counterfactual state simulation difficult. Instead, we only report them in Tables 10 and 11.

Insert <Table 10> about here

Insert <Table 11> about here

11. Conclusion

This study explores the effect of dissenting votes by domestic institutional investors on firm value. We use two heterogeneous groups (KSC signatories versus non-KSC signatories) to examine the change in the firm value. Then, we test which investors increase (or decrease) firm value in exercising dissenting votes. We find that the effect of adverse voting on the firm value relies on the KSC characteristic of institutional investors. When the KSC investors *votes against* items, the firm value in their target firms decreases in the event windows of (0,3) trading days, which is statistically significant at the 5% level. In the cluster analysis using event, it shows the same results and is statistically significant at the 10% level. On the contrary, target firms' firm value increase but was statistically insignificant when non-KCS signatories *vote against* management proposals.

In the analysis of item types, the effect of negative votes on the firm value shows different signs of the coefficient upon the item types. Namely, when KSC signatories vote against the charter amendment, the market reaction is positive, and its coefficient is statistically significant in all windows used under the strong, robust analysis. It provides a

crucial implication for investors in that exercising dissenting votes by KSC signatories can be used to discipline target firms. The limitations of this study are as follows. First, we analyze the voting pattern by domestic institutional investors except the National Pension Service (NPS). Considering the NPS is the largest and has enormous power over other institutional investors, it may be necessary to examine the impact of negative voting by the NPS and domestic institutional investors may be necessary. Second, we focus on the short-term market responses rather than long-term valuation. Suppose that the enforcement of the stewardship code is long enough to investigate to long-term valuation, it is possible to examine the effect of the stewardship code and shareholder voting on firm value in the long run. We leave them for future studies to back up these limitations.

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<Table 1> Definition of variables

Variables	Explanation
Stewardship Code (*SC*)	Dummy equal to 1 if an institutional investor signs to the Korea stewardship code
Voting Direction	1) ***For***: It equals to 1 if domestic institutional investors vote <u>for</u> management proposals 2) ***Against***: It equals to 1 if domestic institutional investors vote <u>against</u> management proposals
Firm Size	Natural log of total asset
Ownership	The fraction of voting shares owned by the firm's controlling shareholder and its related parties (including relatives, officers, and affiliated firms)
Debt Ratio	Total Debt /Total Asset
ROE	Net Income/Total Capital
Dividend	Cash Dividend/Total Capital
Operating Expenses Ratio	Sales a general administrative expenses/Sales
Asset Turnover Ratio	Total Asset/Sales
Chaebol Dummy	Dummy equal to 1 if a firm belongs to the large business groups (set by Fair Trade Commission), 0 otherwise
Age	Present Year – Listing Year
Gov Dummy	Dummy equal to 1 if the ownership of national institutions (e.g NPS, KDB etc) is more than 5% in firms
Reject variable	Dummy equal to 1 if the management proposal does not go through, and 0 otherwise.

<Table 2> Descriptive Statistics

This table shows the descriptive statistics of control variables used in this study.

Variable	n	Mean	S.D.	Mdn	Min	Max
Firm Size	55,719	21.854	2.326	21.805	16.451	26.588
Inside Ownership	55,623	36.169	16.028	33.418	0	89.99
Debt Ratio	55,719	0.272	0.172	0.239	0	0.872
ROE	55,719	0.06	0.221	0.061	-15.723	5.461
Dividend	55,719	0.021	0.025	0.015	0	0.396
Operating Expense Ratio	55,719	0.441	2.412	0.102	-.029	46.993
Asset Turnover Ratio	55,719	3.52	17.773	1.376	.236	403.816
Chaebol Dummy	55,719	0.351	0.477	0	0	1
Age	55,719	19.891	14.034	18	0	64
Gov Dummy	55,719	0.590	0.492	1	0	1
Reject Dummy	55,719	0.006	0.762	0	0	1

* dropped not available information

<Table 3> Part1. Means of Selected Variables

This table reports the descriptive statistics by *Stewardship Code* (SC) adoption in Panel A and *Votes Against* in Panel B, respectively.

Panel A. *Stewardship Code* (SC) Adoption

VARIABLES	(1) OLS Full Sample	(2) OLS Full Sample	(3) Switching SC=1	(4) Switching SC=0
SC	0.452	0.452		
	(0.498)	(0.498)		
Against	0.04	0.04	0.064	0.019
	(0.195)	(0.195)	(0.246)	(0.137)
Firm Size		21.854	22.001	21.734
		(2.326)	(2.13)	(2.471)
Inside Ownership		36.169	36.091	36.234
		(16.028)	(15.649)	(16.335)
Debt Ratio		0.272	0.278	0.267
		(0.172)	(0.176)	(0.169)
ROE		0.06	0.06	0.061
		(0.221)	(0.148)	(0.267)
Dividend		0.021	0.021	0.021
		(0.025)	(0.025)	(0.025)
Operating Expense Ratio		0.441	0.305	0.553
		(2.412)	(1.596)	(2.913)
Asset Turnover Ratio		3.52	2.624	4.258
		(17.773)	(12.124)	(21.304)
Chaebol Dummy		0.351	0.353	0.349
		(0.477)	(0.478)	(0.477)
Age		19.891	20.643	19.272
		(14.034)	(13.516)	(14.418)
Inverse Mill's Ratio		1.012	0.596	1.356

			(0.662)	(0.442)	(0.614)
	Observations	55,719	55,719	25,173	30,546

Standard deviations in parentheses

Panel B. ***Voting Against***

VARIABLES	(1) OLS Full Sample	(2) OLS Full Sample	(3) Switching Against=1	(4) Switching Against=0
Against	0.04	0.04		
	(0.195)	(0.195)		
SC Adoption	0.452	0.452	0.064	0.019
	(0.498)	(0.498)	(0.246)	(0.137)
Firm Size		21.854	22.001	21.734
		(2.326)	(2.13)	(2.471)
Inside Ownership		36.169	36.091	36.234
		(16.028)	(15.649)	(16.335)
Debt Ratio		0.272	0.278	0.267
		(0.172)	(0.176)	(0.169)
ROE		0.06	0.06	0.061
		(0.221)	(0.148)	(0.267)
Dividend		0.021	0.021	0.021
		(0.025)	(0.025)	(0.025)
Operating Expense Ratio		0.441	0.305	0.553
		(2.412)	(1.596)	(2.913)
Asset Turnover Ratio		3.52	2.624	4.258
		(17.773)	(12.124)	(21.304)
Chaebol Dummy		0.351	0.353	0.349
		(0.477)	(0.478)	(0.477)
Age		19.891	20.643	19.272

			(14.034)	(13.516)	(14.418)
Inverse Mill's Ratio			2.174	2.166	2.181
			(0.144)	(0.129)	(0.155)
Observations	55,719		55,719	25,173	30,546

Standard deviations in parentheses

<Table 4> Part1. Switching Regression

This table reports the results of the switching regression using the Heckman term (*SC*). in Panel A and Heckman term (*Vote Against*) in Panel B. We include a full set of control variables (See Table 3) but do not report their coefficients to save space. ***, **, and * indicates significance at 1%, 5%, and 10% levels, respectively. Coefficients statistically significant at the 10% level are highlighted in **bold**.

Panel A. **Switching Regression: Results for estimation of Stewardship Code Adoption**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC						
Against	0.146	0.102	**0.535*** **	0.247	**0.408***	0.264
	(0.151)	(0.223)	**(0.193)**	(0.295)	**(0.241)**	(0.365)
Controls	YES	YES	YES	YES	YES	YES
Observations	23,494	27,193	23,607	27,193	23,607	27,193
R-squared	0.634	0.643	0.639	0.621	0.689	0.693
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel B. **Switching Regression: Results for estimation of *Vote Against***

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against						
SC Adoption	0.550	-0.021	**0.838***	-0.097	0.579	**-0.161***
	(0.380)	(0.057)	**(0.458)**	(0.073)	(0.556)	**(0.091)**
Controls	YES	YES	YES	YES	YES	YES
Observations	2,041	48,646	2,049	48,751	2,049	48,751
R-squared	0.693	0.606	0.725	0.596	0.772	0.664
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

<Table 5> Part2. Means of Selected Variables with the 'reject' variables

This table reports the descriptive statistics by ***Stewardship Code* (SC) Adoption** in Panel A and ***Voting Against*** in Panel B, respectively. We add a *reject* variable in this analysis, which equals 1 if the management proposal does not go through, and 0 otherwise.

Panel A. ***Stewardship Code* (SC) Adoption**

VARIABLES		(1) OLS Full Sample	(2) OLS Full Sample	(3) Switching SC=1	(4) Switching SC=0
SC		0.452	0.452		
		(0.498)	(0.498)		
	Against	0.04	0.04	0.064	0.019
		(0.195)	(0.195)	(0.246)	(0.137)
	Reject	0.006	0.006	0.006	0.006
		(0.076)	(0.076)	(0.078)	(0.075)
	Firm Size		21.854	22.001	21.734
			(2.326)	(2.13)	(2.471)
	Inside Ownership		36.169	36.091	36.234
			(16.028)	(15.649)	(16.335)
	Debt Ratio		0.272	0.278	0.267
			(0.172)	(0.176)	(0.169)
	ROE		0.06	0.06	0.061
			(0.221)	(0.148)	(0.267)
	Dividend		0.021	0.021	0.021
			(0.025)	(0.025)	(0.025)
	Operating Expense Ratio		0.441	0.305	0.553
			(2.412)	(1.596)	(2.913)
	Asset Turnover Ratio		3.52	2.624	4.258
			(17.773)	(12.124)	(21.304)
	Chaebol Dummy		0.351	0.353	0.349
			(0.477)	(0.478)	(0.477)
	Age		19.891	20.643	19.272

		(14.034)	(13.516)	(14.418)
Inverse Mill's Ratio		1.012	0.596	1.356
		(0.662)	(0.442)	(0.614)
Observations	55,719	55,719	25,173	30,546

Standard deviations in parentheses

Panel B. ***Voting Against***

VARIABLES	(1) OLS Full Sample	(2) OLS Full Sample	(3) Switching Against=1	(4) Switching Against=0
Against	0.452	0.04		
	(0.498)	(0.195)		
SC Adoption	0.04	0.452	0.734	0.44
	(0.195)	(0.498)	(0.442)	(0.496)
Reject	0.006	0.006	0.035	0.005
	(0.076)	(0.076)	(0.185)	(0.068)
Firm Size		21.854	21.588	21.865
		(2.326)	(2.077)	(2.336)
Inside Ownership		36.169	37.416	36.118
		(16.028)	(16.197)	(16.019)
Debt Ratio		0.272	0.255	0.273
		(0.172)	(0.164)	(0.173)
ROE		0.06	0.072	0.06
		(0.221)	(0.123)	(0.224)
Dividend		0.021	0.021	0.021
		(0.025)	(0.025)	(0.025)
Operating Expense Ratio		0.441	0.236	0.449
		(2.412)	(0.579)	(2.458)
Asset Turnover Ratio		3.52	2.37	3.567
		(17.773)	(5.884)	(18.095)

Chaebol Dummy		0.351	0.304	0.352
		(0.477)	(0.46)	(0.478)
Age		19.891	19.458	19.909
		(14.034)	(12.644)	(14.088)
Inverse Mill's Ratio		2.174	2.137	2.176
		(0.144)	(0.12)	(0.145)
Observations	55,719	55,719	2,209	53,510

Standard deviations in parentheses

<Table 6> Part2. Switching Regression with 'reject' variables: Results for estimation of *Stewardship Code Adoption*

This table reports the results of the switching regression using the Heckman term (*SC*)We add a *reject* variable in this analysis, which equals 1 if the management proposal does not go through, and 0 otherwise. Panel A shows the results without the clustering effects. Panel B and Panel C shows the results with two different clustering effects (event date (Panel B), firm and investor (Panel C). We include a full set of control variables (See Table 3) but do not report their coefficients to save space. ***, **, and * indicates significance at 1%, 5%, and 10% levels, respectively. Coefficients statistically significant at the 10% level are highlighted in **bold**.

***Panel A.* No Clustering**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC						
Against	0.039	0.006	0.356*	0.040	0.240	0.054
	(0.153)	(0.225)	(0.195)	(0.298)	(0.245)	(0.369)
Reject	3.091***	2.224***	7.339***	3.989***	9.004***	3.673***
	(0.635)	(0.430)	(0.785)	(0.568)	(0.982)	(0.704)
Against*Reject	0.963	**3.052****	-1.368	**7.091*****	**-3.109****	**7.411*****
	(1.049)	**(1.486)**	(1.258)	**(1.963)**	**(1.574)**	**(2.433)**
Controls	YES	YES	YES	YES	YES	YES
Observations	23,494	27,193	23,607	27,193	23,607	27,193
R-squared	0.635	0.643	0.641	0.622	0.690	0.694
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel B. **Clustering: Event Date**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC						
Against	0.039	0.006	0.356	0.040	0.240	0.054
	(0.184)	(0.271)	(0.355)	(0.309)	(0.376)	(0.329)
Reject	3.091*	2.224***	7.339*	3.989***	9.004**	3.673**
	(1.749)	(0.731)	(4.007)	(1.369)	(4.051)	(1.519)
Against*Reject	0.963	3.052	-1.368	7.091	**-3.109***	7.411
	(1.164)	(2.284)	(1.622)	(5.057)	**(1.802)**	(5.005)
Controls	YES	YES	YES	YES	YES	YES
Observations	23,494	27,193	23,607	27,193	23,607	27,193
R-squared	0.635	0.643	0.641	0.622	0.690	0.694
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel C. **Clustering: Firm & Investor**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC						
Against	0.039	0.006	0.356	0.040	0.240	0.054
	(0.205)	(0.416)	(0.292)	(0.725)	(0.344)	(0.754)
Reject	3.091***	2.224***	7.339***	3.989***	9.004***	3.673***
	(1.158)	(0.616)	(2.541)	(1.149)	(2.782)	(1.170)
Against*Reject	0.963	3.052	-1.368	7.091	-3.109	7.411
	(1.869)	(3.609)	(3.420)	(8.105)	(3.708)	(7.779)
Controls	YES	YES	YES	YES	YES	YES
Observations	23,494	27,193	23,607	27,193	23,607	27,193
R-squared	0.635	0.643	0.641	0.622	0.690	0.694
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
S.E. Cluster	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

<Table 7> Part2. Switching Regression adding the 'reject' variables: Results for estimation of *Vote Against*

This table reports the results of the switching regression using the Heckman term (*Vote Against*). We add the variable of reject in this analysis. Panel A shows the results without the clustering effects. Panel B and Panel C shows the results with two different clustering effects (event date (Panel B), firm and investor (Panel C). We include a full set of control variables (See Table 3) but do not report their coefficients to save space. ***, **, and * indicates significance at 1%, 5%, and 10% levels, respectively. Coefficients statistically significant at the 10% level are highlighted in **bold**.

***Panel A.* No Clustering**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against						
SC Adoption	0.479	-0.024	0.718	-0.111	0.447	-0.178*
	(0.382)	(0.057)	(0.459)	(0.073)	(0.559)	(0.091)
Reject	6.218***	2.280***	11.356***	3.486***	11.208***	3.646***
	(1.956)	(0.472)	(2.348)	(0.613)	(2.859)	(0.763)
SC Adoption* Reject	-0.660	**1.845****	**-4.425***	**5.127*****	-4.110	**5.872*****
	(2.117)	**(0.753)**	**(2.515)**	**(0.959)**	(3.062)	**(1.195)**
Controls	YES	YES	YES	YES	YES	YES
Observations	2,041	48,646	2,049	48,751	2,049	48,751
R-squared	0.698	0.606	0.733	0.597	0.777	0.665
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel B. **Clustering: Event Date**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against						
SC Adoption	0.479	-0.024	0.718	-0.111	0.447	-0.178
	(0.382)	(0.057)	(0.470)	(0.124)	(0.571)	(0.146)
Reject	6.218***	2.280***	11.356**	3.486***	11.208**	3.646***
	(1.956)	(0.472)	(4.547)	(1.078)	(4.759)	(1.254)
SC Adoption* Reject	-0.660	**1.845****	-4.425	5.127	-4.110	**5.872***
	(2.117)	**(0.753)**	(2.807)	(3.325)	(2.648)	**(3.006)**
Controls	YES	YES	YES	YES	YES	YES
Observations	2,041	48,646	2,049	48,751	2,049	48,751
R-squared	0.698	0.606	0.733	0.597	0.777	0.665
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel C. **Clustering: Firm & Investor**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against						
SC Adoption	0.479	-0.024	0.718	-0.111	0.447	-0.178
	(0.679)	(0.122)	(1.074)	(0.155)	(1.165)	(0.198)
Reject	6.218**	2.280***	11.356**	3.486***	11.208**	3.646***
	(2.445)	(0.630)	(5.285)	(1.162)	(5.140)	(1.185)
SC Adoption* Reject	-0.660	1.845	-4.425	**5.127***	-4.110	**5.872***
	(3.037)	(1.411)	(6.212)	**(3.063)**	(6.028)	**(3.247)**
Controls	YES	YES	YES	YES	YES	YES
Observations	2,041	48,646	2,049	48,751	2,049	48,751
R-squared	0.698	0.606	0.733	0.597	0.777	0.665
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
S.E. Cluster	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

<Table 8> Part3. Switching Regression (sub-sample): Results for estimation of *Stewardship Code Adoption*

This table reports the results of the switching regression using the Heckman term (*SC*) depending on each item. Panel A limits the sample to charter amendment. Panel B limits the sample to election of outside directors. Panel C limits the sample to approval of director's upper pay limit. We include a full set of control variables (See Table 3) but do not report their coefficients to save space. ***, **, and * indicates significance at 1%, 5%, and 10% levels, respectively. Coefficients statistically significant at the 10% level are highlighted in **bold.**

***Panel A*. Charter Amendment**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC												
Against	**1.349***	0.823	**3.216****	3.095	**2.995****	2.122	**1.349***	0.823	**3.216****	3.095	**2.995****	2.122
	(0.772)	(1.007)	(1.435)	(1.913)	(1.397)	(2.061)	(0.795)	(1.341)	(1.432)	(2.679)	(1.487)	(2.738)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,721	2,947	2,743	2,947	2,743	2,947	2,721	2,947	2,743	2,947	2,743	2,947
R-squared	0.745	0.820	0.778	0.847	0.821	0.867	0.745	0.820	0.778	0.847	0.821	0.867
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

***Panel B*. Election of Outside Directors**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC												
Against	**-0.544****	**-1.027****	-0.175	**-1.634****	-0.590	**-2.132*****	-0.544	-1.027	-0.175	-1.634	-0.590	-2.132
	(0.257)	**(0.476)**	(0.344)	**(0.656)**	(0.392)	**(0.765)**	(0.453)	(0.926)	(0.625)	(1.759)	(0.693)	(1.709)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3,945	4,337	3,971	4,337	3,971	4,337	3,945	4,337	3,971	4,337	3,971	4,337
R-squared	0.745	0.763	0.809	0.787	0.785	0.788	0.745	0.763	0.809	0.787	0.785	0.788
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel C. **Approval of Director's Upper Pay Limit**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC												
Against	0.643	-0.929	0.048	-2.646	0.413	-1.763	0.643	-0.929	0.048	**-2.646***	0.413	-1.763
	(0.432)	(0.800)	(0.288)	(1.657)	(0.618)	(1.326)	(0.566)	(0.859)	(0.699)	**(1.353)**	(0.860)	(1.248)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3,480	4,287	3,491	4,287	3,491	4,287	3,480	4,287	3,491	4,287	3,491	4,287
R-squared	0.595	0.592	0.575	0.581	0.646	0.656	0.595	0.592	0.575	0.581	0.646	0.656
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

<Table 9> Part3. Switching Regression (sub-sample): Results for estimation of *Vote Against*

This table reports the results of the switching regression using the Heckman term (*vote against*) depending on each item. Panel A limits the sample to charter amendment. Panel B limits the sample to election of inside directors. Panel C limits the sample to election of outside directors. Panel D limits the sample to approval of director's upper pay limit. We include a full set of control variables (See Table 3) but do not report their coefficients to save space. ***, **, and * indicates significance at 1%, 5%, and 10% levels, respectively. Coefficients statistically significant at the 10% level are highlighted in **bold.**

***Panel A*. Charter Amendment**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												
SC Adoption	-0.000	0.069	-0.000	0.084	**-0.000*** **	-0.075	-0.000	0.069	-0.000	0.084	-0.000	-0.075
	(.)	(0.064)	(0.000)	(0.125)	**(0.000)**	(0.145)	(0.000)	(0.127)	(0.000)	(0.186)	(0.000)	(0.203)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	202	5,466	202	5,488	202	5,488	202	5,466	202	5,488	202	5,488
R-squared	1.000	0.764	1.000	0.801	1.000	0.830	1.000	0.764	1.000	0.801	1.000	0.830
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel B. **Election of Inside Directors**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												
SC Adoption	-1.153	0.059	**-2.120***	0.006	**-2.372****	0.029	-1.153	0.059	-2.120	0.006	-2.372	0.029
	(0.933)	(0.076)	**(1.174)**	(0.110)	**(1.118)**	(0.131)	(1.109)	(0.142)	(1.851)	(0.201)	(1.906)	(0.231)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	193	7,668	193	7,684	193	7,684	193	7,668	193	7,684	193	7,684
R-squared	0.937	0.728	0.913	0.704	0.944	0.765	0.937	0.728	0.913	0.704	0.944	0.765
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel C. **Election of Outside Directors**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												

SC Adoption	-0.085	0.059	**0.658***	-0.073	0.465	0.165	-0.085	0.059	0.658	-0.073	0.465	0.165
	(0.342)	(0.094)	**(0.372)**	(0.152)	(0.428)	(0.183)	(1.001)	(0.147)	(1.626)	(0.188)	(1.624)	(0.246)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	457	7,825	460	7,848	460	7,848	457	7,825	460	7,848	460	7,848
R-squared	0.824	0.737	0.843	0.787	0.880	0.770	0.824	0.737	0.843	0.787	0.880	0.770
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Clustered at	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

***Panel D*. Approval of Director's Upper Pay Limit**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												
SC Adoption	0.260	-0.104	1.939	-0.153	1.908	**-0.313****	0.260	-0.104	1.939	-0.153	1.908	-0.313
	(1.339)	(0.090)	(2.481)	(0.127)	(1.953)	**(0.150)**	(1.605)	(0.137)	(2.744)	(0.171)	(2.442)	(0.212)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	246	7,521	246	7,532	246	7,532	246	7,521	246	7,532	246	7,532
R-squared	0.887	0.546	0.884	0.534	0.921	0.614	0.887	0.546	0.884	0.534	0.921	0.614
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

Clustered at	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

<Table 10> Simulation Analysis (1)

***Panel A-1*. Clustering: Event Date**

CAR (0,1)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	3.444	-1.469	3.268	-2.233	0.176	0.764
Against	3.397	-1.609	3.240	-2.531	0.157	0.921

***Panel A-2*. Clustering: Firm & Investor**

CAR (0,1)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	3.444	-1.469	3.268	-2.233	0.176	0.764
Against	10.490	-1.731	3.060	3.031	7.430	-4.762

***Panel B-1*. Clustering: Event Date**

CAR (0,3)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	7.147	-3.285	8.020	-2.830	-0.873	-0.456
Against	6.962	-3.509	7.851	-3.135	-0.889	-0.374

***Panel B-2*. Clustering: Firm & Investor**

CAR (0,3)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	7.147	-3.285	8.020	-2.830	-0.873	-0.456
Against	17.346	-3.423	6.790	7.074	10.556	-10.497

<Table 11> Simulation Analysis (2)

***Panel A-1*. Clustering: Event Date**

CAR (0,1)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	3.369	-1.450	3.267	-2.376	0.102	0.925
Against	-2.748	0.583	-1.224	0.044	-1.524	0.540

***Panel A-2*. Clustering: Firm & Investor**

CAR (0,1)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	3.369	-1.450	3.267	-2.376	0.102	0.925
Against	5.541	0.493	-1.849	6.447	7.390	-5.954

Panel B-1. **Clustering: Event Date**

CAR (0,3)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	7.065	-3.331	7.953	-2.993	-0.888	-0.339
Against	-2.971	1.658	-2.895	1.365	-0.076	0.292

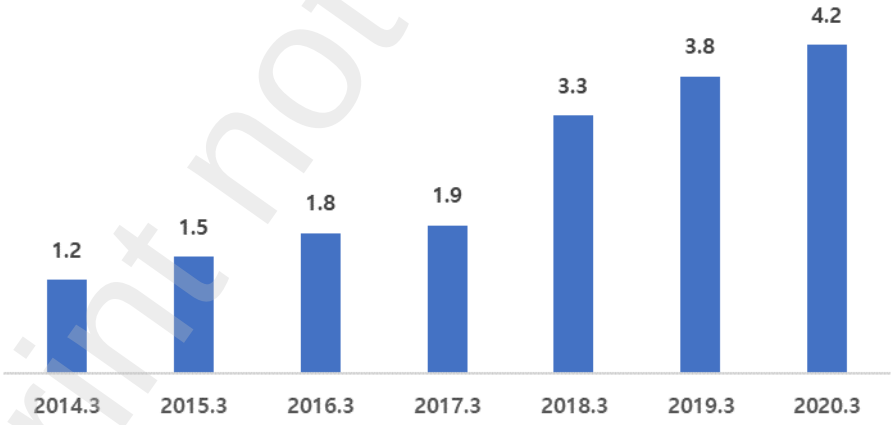
Panel B-2. **Clustering: Firm & Investor**

CAR (0,3)	(1)	(2)	(3)	(4)	(1)-(3)	(2)-(4)
	(1,1)	(0,0)	(1,0)	(0,1)		
SC Adoption	7.065	-3.331	7.953	-2.993	-0.888	-0.339
Against	8.793	1.319	-3.489	11.812	12.281	-10.493

<Appendix A> 7 Principles of the Korea Stewardship Code

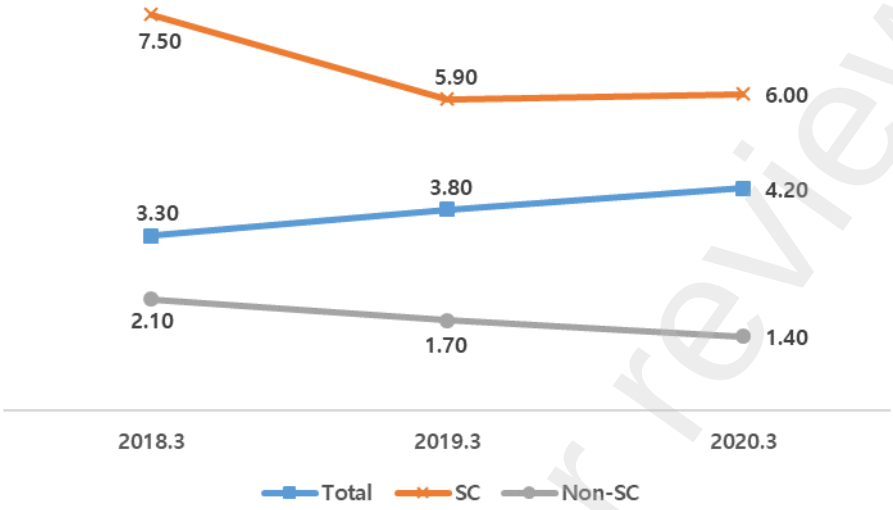
1	Institutional investors, as a steward of assets entrusted by their clients, beneficiaries, etc, to take care of and manage, should formulate and publicly disclose a clear policy to faithfully implement their responsibilities.
2	Institutional investors should formulate and publicly disclose an effective and clear policy as to how to resolve actual or potential problems arising from conflicts of interest in the course of their stewardship activities.
3	Institutional investors should regularly monitor investee companies in order to enhance investee companies' mid- to long-term value and thereby protect and raise their investment value.
4	While institutional investors should aim to form a consensus with investee companies, where necessary, they should formulate internal guidelines on the timeline, procedures, and methods for stewardship activities.
5	Institutional investors should formulate and publicly disclose a voting policy that includes guidelines, procedures, and detailed standards for exercising votes in a faithful manner, and publicly disclose voting records and the reasons for each vote so as to allow the verification of the appropriateness of their voting activities.
6	Institutional investors should regularly report their voting and stewardship activities to their clients or beneficiaries.
7	Institutional investors should have the capabilities and expertise required to implement stewardship responsibilities in an active and effective manner.

<Appendix B> the rate of *votes against* by domestic institutional investor



* The annual shareholder meeting in 2017 is the first year of holding annual shareholder meeting after the adoption of the KSC. There is no KSC signatories at that time.

<Appendix C> the rate of *votes against* by different group (SC versus Non-SC Signatories)



<Appendix D> Switching Regression (sub-sample): (1) Results for estimation of SC Adoption (considering management proposals rejected)

***Panel A*. Financial Statements**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC												
Against	-0.871	-0.796	-0.581	-0.326	-0.520	-1.543	-0.871	-0.796	-0.581	-0.326	-0.520	-1.543
	(0.605)	(0.963)	(0.706)	(1.342)	(0.604)	(1.874)	(0.796)	(0.883)	(0.788)	(1.626)	(1.090)	(1.653)
Reject	-3.593	-1.475	28.600***	3.175	47.903***	-2.218	-3.593***	-1.475*	28.600***	3.175***	47.903***	-2.218*
	(2.278)	(3.101)	(2.799)	(3.346)	(4.603)	(5.000)	(0.896)	(0.757)	(1.038)	(0.906)	(1.443)	(1.221)
Against*Reject			**-32.407*** (4.196)**		**-41.762*** (5.843)**				**-32.407*** (4.750)**		**-41.762*** (5.025)**	
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3,465	4,238	3,480	4,238	3,480	4,238	3,465	4,238	3,480	4,238	3,480	4,238
R-squared	0.587	0.596	0.578	0.584	0.647	0.661	0.587	0.596	0.578	0.584	0.647	0.661
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

***Panel B*. Election of Outside Directors**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC												
Against	-0.544**	-1.027**	-0.200	-1.634**	-0.590	-2.132***	-0.544	-1.027	-0.200	-1.634	-0.590	-2.132
	(0.257)	(0.476)	(0.350)	(0.656)	(0.393)	(0.765)	(0.454)	(0.926)	(0.633)	(1.759)	(0.702)	(1.709)
Reject	-2.008		-0.078		20.881		-2.008		-0.078		20.881***	
	(3.240)		(13.216)		(12.701)		(1.829)		(7.993)		(7.424)	
Against*Reject			2.055		-21.166				2.055		**-21.166*** **	
			(13.203)		(13.440)				(8.020)		**(7.392)**	
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3,945	4,337	3,971	4,337	3,971	4,337	3,945	4,337	3,971	4,337	3,971	4,337
R-squared	0.745	0.763	0.809	0.787	0.786	0.788	0.745	0.763	0.809	0.787	0.786	0.788
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel C. **Election of Audit Committee Members**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0	(1) Switching SC=1	(2) Switching SC=0
SC												
Against	-0.066	-0.459	0.080	-0.367	-0.274	-0.473	-0.066	-0.459	0.080	-0.367	-0.274	-0.473
	(0.349)	(0.448)	(0.357)	(0.417)	(0.604)	(0.543)	(0.484)	(0.680)	(0.427)	(0.529)	(0.610)	(0.852)
Reject	0.325	7.103	-1.609	14.907	7.626*	10.409	0.325	7.103	-1.609	14.907	7.626***	10.409
	(1.118)	(6.964)	(4.781)	(11.018)	(4.391)	(11.817)	(0.625)	(7.510)	(2.324)	(12.293)	(2.879)	(13.051)
Against*Reject	-0.259	0.453	2.486	0.366	**-8.905***	0.464	-0.259	0.453	2.486	0.366	**-8.905*****	0.464
	(1.221)	(0.446)	(5.202)	(0.417)	**(4.498)**	(0.540)	(0.798)	(0.678)	(2.395)	(0.528)	**(3.048)**	(0.849)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,848	2,914	2,867	2,914	2,867	2,914	2,848	2,914	2,867	2,914	2,867	2,914
R-squared	0.763	0.778	0.840	0.856	0.810	0.829	0.763	0.778	0.840	0.856	0.810	0.829
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

<Appendix E> Part4. Switching Regression (sub-sample): (2) Results for estimation of Against (considering management proposals rejected)

***Panel A*. Financial Statements**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												
SC Adoption	0.490	0.013	-0.390	-0.031	0.907	-0.184	0.490	0.013	-0.390	-0.031	0.907	-0.184
	(2.644)	(0.081)	(1.534)	(0.112)	(3.803)	(0.146)	(3.587)	(0.136)	(2.557)	(0.174)	(5.096)	(0.212)
Reject		-1.423		2.962		-1.063		-1.423***		2.962***		-1.063
		(2.474)		(2.513)		(4.229)		(0.439)		(0.512)		(0.681)
SC Adoption*Reject		-0.953		**26.913*** **		**49.548*** **		**-0.953***		**26.913*** **		**49.548*** **
		(0.978)		**(1.948)**		**(2.744)**		**(0.512)**		**(0.565)**		**(0.770)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	160	7,543	162	7,556	162	7,556	160	7,543	162	7,556	162	7,556
R-squared	0.833	0.553	0.877	0.541	0.830	0.623	0.833	0.553	0.877	0.541	0.830	0.623
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel B. **Charter Amendment**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												
SC Adoption	0.000	0.055	-0.000	0.011	-0.000	-0.176	-0.000	0.055	0.000	0.011	0.000	-0.176
	(0.000)	(0.069)	(0.000)	(0.152)	(0.000)	(0.175)	(0.000)	(0.112)	(0.000)	(0.137)	(0.000)	(0.161)
Reject	29.808***	7.700*	21.395	12.788*	30.636***	12.229	29.808***	7.700***	21.395***	12.788***	30.636***	12.229***
	(0.000)	(3.898)	(0.000)	(7.471)	(0.000)	(8.543)	(0.000)	(2.040)	(0.000)	(4.175)	(0.000)	(4.377)
SC Adoption*Reject	-0.000	**5.903***	0.000	**13.353****	0.000	**15.910****	-0.000	**5.903***	-0.000	**13.353***	-0.000	**15.910****
	(0.000)	**(3.056)**	(0.000)	**(6.218)**	(0.000)	**(6.205)**	(0.000)	**(3.330)**	(0.000)	**(7.293)**	(0.000)	**(7.080)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	202	5,466	202	5,488	202	5,488	202	5,466	202	5,488	202	5,488
R-squared	1.000	0.779	1.000	0.829	1.000	0.849	1.000	0.779	1.000	0.829	1.000	0.849
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Panel C. **Election of Inside Directors**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												
SC Adoption	-1.153	0.059	-2.120*	0.007	-2.372**	0.031	-1.153	0.059	-2.120	0.007	-2.372	0.031
	(0.933)	(0.076)	(1.174)	(0.109)	(1.118)	(0.131)	(1.109)	(0.142)	(1.851)	(0.201)	(1.906)	(0.231)
Reject		2.645*		1.261		7.207*		2.645		1.261		7.207
		(1.507)		(1.443)		(3.846)		(2.285)		(1.015)		(6.611)
SC Adoption*Reject		-3.186		**33.143*** **		**45.438*** **		-3.186		**33.143*** **		**45.438*** **
		(2.851)		**(3.435)**		**(7.142)**		(2.367)		**(1.194)**		**(6.814)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	193	7,668	193	7,684	193	7,684	193	7,668	193	7,684	193	7,684
R-squared	0.937	0.728	0.913	0.705	0.944	0.766	0.937	0.728	0.913	0.705	0.944	0.766
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

***Panel D*. Approval of Director's Upper Pay Limit**

	CAR (-1,0)		CAR (0,1)		CAR (0,3)		CAR (-1,0)		CAR (0,1)		CAR (0,3)	
VARIABLES	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0	(1) Switching Against=1	(2) Switching Against=0
Against												
SC Adoption	0.260	-0.107	1.939	-0.162	1.908	-0.321**	0.260	-0.107	1.939	-0.162	1.908	-0.321
	(1.339)	(0.089)	(2.481)	(0.126)	(1.953)	(0.150)	(1.605)	(0.137)	(2.744)	(0.171)	(2.442)	(0.213)
Reject		-1.828		2.528		-2.044		-1.828***		2.528***		-2.044***
		(2.571)		(2.435)		(4.447)		(0.435)		(0.494)		(0.673)
SC Adoption*Reject		9.078		**20.508****		22.094		9.078		**20.508*****		22.094
		(7.739)		**(7.898)**		(18.040)		(8.065)		**(5.798)**		(17.159)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	246	7,521	246	7,532	246	7,532	246	7,521	246	7,532	246	7,532
R-squared	0.887	0.546	0.884	0.535	0.921	0.614	0.887	0.546	0.884	0.535	0.921	0.614
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
S.E. Cluster	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	Eventdate	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor	firm&investor

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0